Municipalities Financial Recovery Act

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

As Filed with the City Clerk June 11, 2004

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Table of Contents

Appendices

A. Multi-Year Revenue and Expenditure Projections
B. Debt Service Schedules
C. Major Assumptions
D. Summary of Initiatives

1. Executive Summary

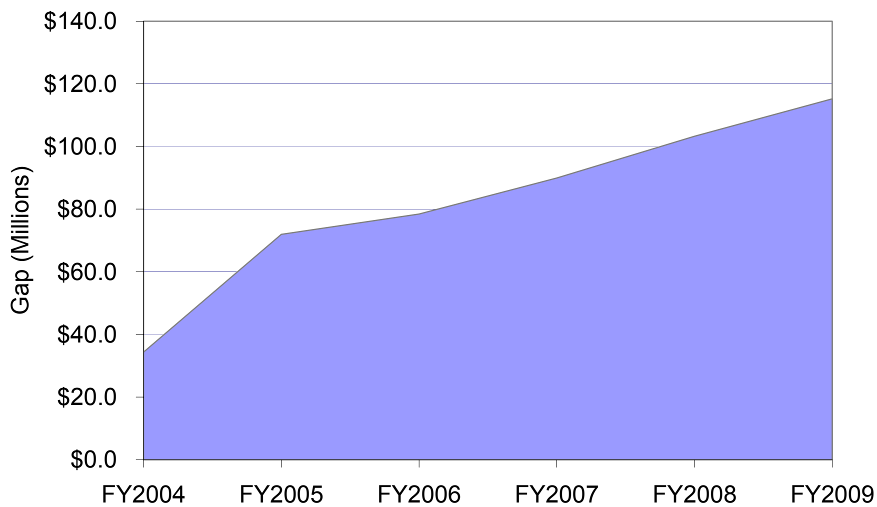
Executive Summary

The City of Pittsburgh, already in fiscal distress, now stands on the precipice of full-blown crisis. In August 2003, the City laid off 446 employees, including nearly 100 police officers. City recreation centers and public swimming pools were closed, and services from police mounted patrol to salt boxes were eliminated. In October and November 2003, the City's credit ratings were downgraded repeatedly, leaving Pittsburgh as the nation's only major city to hold below-investment-grade "junk bond" ratings. With the City's most recent independent audit questioning the City's ability to continue as a going concern, a looming cash shortfall now threatens pension payments and payroll later this year.

In response, the City has filed for and been determined to qualify for distressed status in accordance with the Municipalities Financial Recovery Act, Act 47 of 1987 ("Act 47"), triggering the requirement to develop this Recovery Plan. Working concurrently and equally with the Intergovernmental Cooperation Authority for Cities of the Second Class ("ICA"), an important vehicle for change formed by Act 11 in February 2004, the team selected to develop this Recovery Plan has confirmed the severity of the current crisis.

Absent corrective action, Pittsburgh will strain to pay its bills through the end of 2004, and will essentially exhaust its remaining reserves. As shown in the table and graph below, mounting annual deficits would then grow from approximately $72 million in 2005 to nearly $115 million for FY2009 alone.

Budget Gap FY2004-FY2009



Fiscal Year	2004	2005	2006	2007	2008	2009
Revenues	365,975	365,126	376,666	384,913	392,624	403,474
Expenditures	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)

While these projected deficits are indeed daunting, they are by no means insurmountable. Despite decades of population decline, the Commonwealth's second-largest city remains the hub for Allegheny County and southwestern Pennsylvania. Pittsburgh is home to 330,000 residents, sustains a strong and active business community, and is home to world class educational, healthcare, and cultural institutions.

By adopting a balanced approach, Pittsburgh can not only regain budgetary stability, but also harness the growing energy generated by the transformation of the former steel city into an economically diverse and technologically innovative engine for regional growth. Accordingly, the major elements of this Recovery Plan, including dozens of revisions based on broad community input during a formal public comment period, include the following:

- Scores of changes to the way the City does business. In tough times, the City simply cannot keep asking taxpayers to bear an ever-growing burden without also aggressively demonstrating commitment to more efficient, more effective, and less expensive government.
  - 15 percent cuts in the budgets of the Mayor's Office, City Council and Clerk, and City Controller;
  - Fire department restructuring;
  - Police civilianization;
  - Elimination of cable TV production;
  - Elimination of a separate Engineering and Construction Department, with economies captured as functions are allocated to the Department of Public Works;
  - Reductions to the City's take-home fleet;
  - Targeted elimination of multiple programs and positions;
  - Across-the-board reductions in materials, supplies, and miscellaneous services; and,
  - Highly limited restorations of services central to quality of life – for example, recreation centers and pools – at levels more moderate and sustainable than in the past.

- 29 intergovernmental cooperation initiatives, including increased cooperation with Allegheny County, the Pittsburgh School District, and other regional public sector entities.
  - 911 call center merger;
  - Consolidation of purchasing;
  - Transfer of arson investigation to the County;
  - Transfer of pet licensing to the County;
  - Potential joint facility management;
  - Potential joint information technology management; and,
  - Potential consolidation of tax collection.

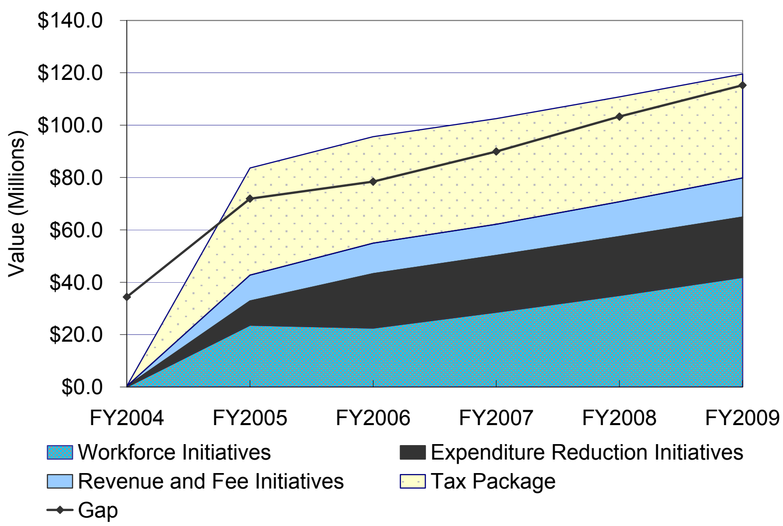
- Multiple outsourcing and managed competition initiatives to ensure that the City operates efficiently and focuses its very limited resources on the direct provision of core services.
  - Fleet maintenance competition;
  - Asphalt plant sale;
  - Outsourced EMS billing and collections;
  - Managed competition for trash collection;
  - Potential outsourcing of parking ticket collection;
  - Potential outsourcing of custodial services; and,
  - Competitive contracting for animal control services.

- Containment of fast-growing employee compensation, applied to non-represented managers and union workers alike.
  - A two year wage and step freeze;
  - Health benefits restructuring, including a 15 percent employee contribution to monthly premiums;
  - Overtime and premium pay reductions;
  - Enhanced workers' compensation controls; and,
  - Changes in benefits for future hires, such as the elimination of City-funded retiree health benefits, which will improve long-term fiscal health.

- Strengthened financial management practices and strategic investment in long-term fiscal health;
  - Establishment of pay-as-you-go capital funding to reduce reliance on debt;
  - Capitalization of a Productivity Bank to finance City government efficiency investments;
  - Best practices in municipal budgeting, such as enhanced interim reporting and target budgets;
  - Appointment of a professional Risk Manager to oversee claims management and loss control;
  - More timely payment of pension obligations so as to reduce long-term liabilities;
  - Pursuit of State legislative reforms to pension assistance programs;
  - Exploration of the long-term potential for a Community Foundation to endow City services;
  - Formalization of a Fund Balance policy and the gradual rebuilding of prudent reserves; and,
  - Coordination of a new, consensus economic and community development strategy for the City and region, capitalizing on new Commonwealth initiatives.

Overall, the Act 47 team has identified over 200 non-tax initiatives, with quantified measures ranging from $5,000 to over $10 million per year. In the aggregate, expenditure measures will eliminate more than half of the City's projected FY2009 deficit. To close the remaining gap, the Act 47 team has developed two alternative revenue generation approaches.

Gap and Gap-Closing Initiatives



Category	2005	2006	2007	2008	2009
Workforce Initiatives	$24 million	$23 million	$29 million	$35 million	$42 million
Expenditure Reduction Initiatives	$9 million	$21 million	$22 million	$22 million	$23 million
Revenue and Fee Initiatives	$10 million	$12 million	$12 million	$14 million	$16 million
Tax Package	$41 million	$41 million	$40 million	$40 million	$40 million
Total	**$84 million**	**$96 million**	**$103 million**	**$112 million**	**$120 million**

- Both proposed revenue options include:
  - enhanced local user charge rates and collection;
  - a more entrepreneurial approach to non-tax revenue generation;
  - an increased local realty transfer tax from 1.5 percent to 2.0 percent;
  - a reduced parking tax from 50 to 30 percent, the highest such tax in the nation; and,
  - higher payments of at least $6 million annually from tax-exempt institutions.

- In addition, the "preferred" package features new State-authorized taxes and local tax changes designed to update the City's tax structure with increased equity and fairness:

  – An increase in the Occupational Privilege Tax to $145 per year in 2005, with an increase in the exemption floor from $1,000 to $12,000 per year;
  – A revised suite of business taxes balancing reductions in the Business Privilege Tax (BPT) and Mercantile Tax with a new Payroll Tax featuring per head and gross payroll components; or
  – An alternative tax package that might be developed by the General Assembly and Governor meeting the Plan's goals of financial and economic sustainability, for example, via a larger Payroll Tax so as to enable complete elimination of the current BPT and Mercantile Tax.

The Act 47 team believes that this preferred revenue package is fair, equitable, and achievable. However, the Pennsylvania legislature through Act 47 requires that this Recovery Plan be balanced with revenues that the City currently controls, or with other revenues within the purview of the Coordinator. Because some of the recommended changes – including an increased Occupational Privilege Tax and a new Payroll Tax – would require approval by the General Assembly and the Governor before they could be implemented, this Recovery Plan is required to include an alternative revenue package that includes only items that can be put into place by the City with or without the intervention of the Act 47 Coordinator.

- This alternative "safety net" tax package is based on high-impact property tax and commuter earned income tax (EIT) increases.

  – Petition the Allegheny County Court of Common Pleas to raise the EIT rate from 1.0 to 1.37 percent for City residents and from 1.0 percent to 1.27 percent for non-residents; and
  – Increase the local real property tax to 11.34 mills.

If this Recovery Plan is approved, but the Coordinator, the City, and others are unsuccessful in persuading the Legislature and the Governor to authorize the preferred revenue package, the safety net alternative will become the source of necessary revenue to fund the remaining financial gap. In such an event, this alternative revenue package will generate adequate short-term resources, however, it will unfortunately not ensure long-term fiscal stability. Not only would this alternative package further erode the City's already weakened economic competitiveness, but it would also be based on a higher EIT that would evaporate once Act 47 distressed status is eventually lifted. Moreover, this tax requires annual reauthorization by the County's Court of Common Pleas, and home rule suburban jurisdictions can effectively capture the revenue themselves by raising their EIT to match Pittsburgh's non-resident rate.

For these reasons, the Act 47 team strongly urges enactment of the preferred revenue alternative and the Recovery Plan as a whole at the earliest opportunity. With a statutory timetable indicating City Council and Mayoral action before the end of June, and serious threats to cash flow during the second half of the year, the urgency of beginning to rebuild the City's fiscal foundation requires swift action.

Given the challenges at hand, regaining sustained fiscal health for the City of Pittsburgh will be neither simple nor painless. But given the fundamental strengths of the City and its people, working together, recovery is fully achievable. It is the sincere hope of the Act 47 team that this Recovery Plan will help to guide the City back to a more positive direction.

2. Introduction

Introduction

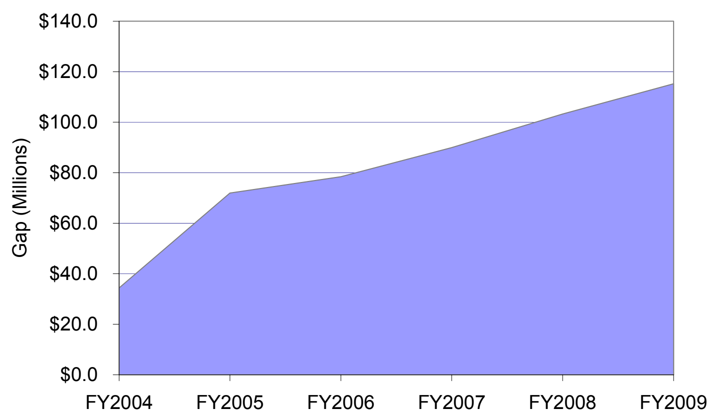
The City of Pittsburgh faces a critical turning point. In one direction, the City's future includes continued fiscal crisis, further slashing of core public services, crippling local tax increases, and massive employee layoffs. In the other direction, a balanced approach to fiscal recovery offers hope for establishing a fiscally stable local government as the cornerstone for regional economic regeneration.

While the choice of the path ahead has yet to be determined, the City's direction over the past year has been decidedly negative. After nearly a decade of papering over underlying structural deficits through a series of asset sales, debt extensions, and accounting maneuvers, the severity of Pittsburgh's financial condition has emerged in sharp relief. In August 2003, the City laid off 446 full and part-time employees, including nearly 100 police officers. 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 ratings were downgraded repeatedly, leaving Pittsburgh as the nation's only major city to hold below-investment-grade "junk bond" ratings. The City's most recent independent audit has even questioned Pittsburgh's ability to continue as a going concern.

In response, as further described below, the City filed for distressed status in accordance with the Municipalities Financial Recovery Act, Act 47 of 1987 ("Act 47"). Following a detailed review of the City's finances and recurring deficits, in December 2003, the Commonwealth's Secretary of Community and Economic Development found the City of Pittsburgh did qualify as financially "distressed" under Act 47, triggering the requirement to develop this Recovery Plan.

Based on a comprehensive analysis of the City's finances, the team selected to develop this Recovery Plan has confirmed the severity of the current crisis. Absent corrective action, Pittsburgh will strain to pay its bills through the end of 2004, and will essentially exhaust its remaining reserves. Then, mounting annual deficits would grow from approximately $72 million in 2005 to nearly $115 million for FY2009 alone.

Budget Gap FY2004-FY2009



While these projected deficits are indeed daunting, they are by no means insurmountable. Despite decades of population decline, the Commonwealth's second-largest city remains the hub for Allegheny County and southwestern Pennsylvania. Pittsburgh is home to 330,000 residents, sustains a strong and active business community, and is home to world class educational, healthcare, and cultural institutions.

Through the following balanced approach, Pittsburgh can not only regain budgetary stability, but also harness the growing energy generated by the transformation of the former steel city into an economically diverse and technologically innovative engine for regional growth. Accordingly, the major elements of this Recovery Plan include the following:

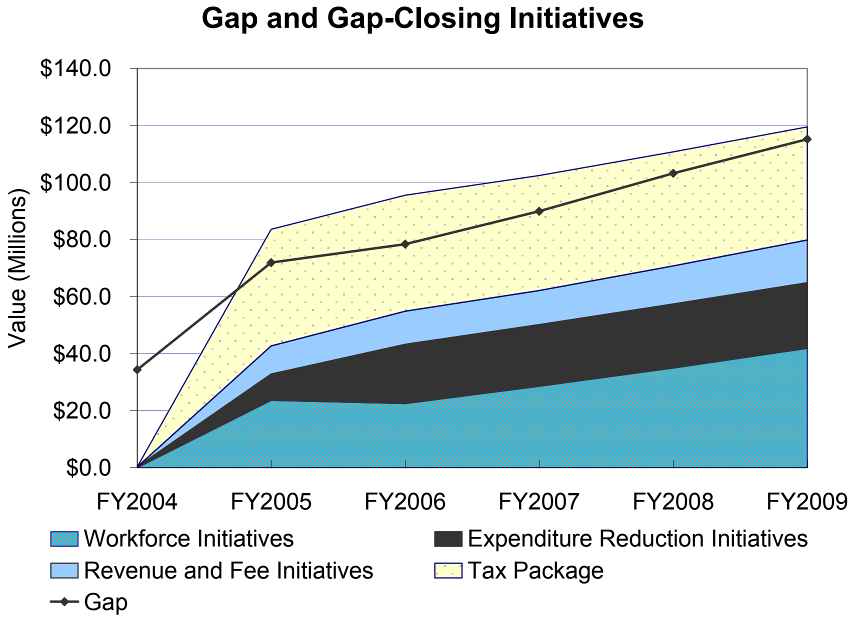
- Streamlined operations, focusing on core services and fiscal restraint, for example:
  - 15 percent across-the-board cuts in the budgets for the Mayor, City Council and Clerk, and the City Controller;
  - Significant staffing reductions and station closures in the Fire Bureau to reflect the City's current population and fire protection needs;
  - Managed competition for service areas across City government, including fleet maintenance, trash collection, and ambulance fee billing and collections;
  - Unprecedented intergovernmental cooperation with Allegheny County and other regional governments, including 29 initiatives such as joint purchasing, merger of 911 call center operations, and the transfer of functions ranging from arson investigation to pet licensing; and,
  - Multiple targeted service cuts – from cable TV production to elimination of a separate Engineering and Construction Department – along with government-wide reductions in materials, supplies, and miscellaneous contracts.

- Containment of fast-growing employee compensation, applied to non-represented managers and union workers alike, for example:
  - A two year wage and step freeze;
  - Health benefits restructuring, including establishment of a 15% employee contribution to monthly premiums;
  - Overtime and premium pay reductions;
  - Enhanced workers' compensation controls; and,
  - Changes in benefits for future hires, such as the elimination of City-funded retiree health benefits, to improve long-term fiscal health.

- Strengthened financial management practices and strategic investment in long-term fiscal health;
  - Establishment of pay-as-you-go capital funding to reduce reliance on debt;
  - Capitalization of a Productivity Bank revolving loan fund to finance government efficiency projects;
  - Adoption of best practices in municipal budgeting, including enhanced interim reporting and mid-year controls;
  - Strengthened, more proactive risk management tools; and
  - Formalization of a Fund Balance policy toward the gradual rebuilding of prudent reserves.

- Development of new revenue streams to close the remaining gap
  - Enhanced local fee and fine rates and collection;
  - Adoption of a more entrepreneurial approach to non-tax revenue generation;
  - Increased payments of at least $6 million annually from tax-exempt institutions; and,
  - Either a "preferred" package of approximately $40 million in new State-authorized taxes designed to update the City's tax structure with increased equity and fairness…
  - Or a safety net tax package based on high-impact property tax increases and commuter earned income tax increases.

In the aggregate, as shown in the following chart and table, full and effective implementation of the measures outlined above will restore Pittsburgh to ongoing budgetary balance and provide for the gradual rebuilding of prudent fund balance reserves:



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The sections of this Introduction that follow begin with an overview of the Act 47 process to date and the statutory requirements of this Recovery Plan. Next, longer-term economic trends underlying the City's fiscal position are highlighted, along with other more recent drivers of budgetary strain. Following this background analysis, current, multi-year budget projections are detailed. Thereafter, each of the major strategies for fiscal recovery are outlined in turn: streamlined operations; workforce cost containment; financial reforms; and strengthened revenue streams. Finally, next steps in the Act 47 process are addressed, including ongoing coordination with the work of the Intergovernmental Cooperation Authority for Cities of the Second Class ("the ICA"), an important vehicle for change formed by Act 11 in February 2004 to help ensure the City's financial recovery.

Given the challenges at hand, regaining sustained fiscal health for the City of Pittsburgh will be neither simple nor painless. But given the fundamental strengths of the City and its people, working together, recovery is fully achievable. It is the sincere hope of the Act 47 team that this Recovery Plan will help to guide the City back to a more positive direction.

Act 47 Recovery Plan

This Recovery Plan is prepared in accordance with Act 47, as amended, and the accompanying regulations of the Commonwealth's Department of Community and Economic Development (the "Department" or "DCED").

In a filing executed on November 7, 2003, the Mayor of the City of Pittsburgh requested that the Department determine the City's eligibility as a distressed municipality under Act 47. The Department contracted with Public Financial Management ("PFM") of Philadelphia, Pennsylvania to complete a consultative evaluation of the City's finances on behalf of the Department. On December 8, 2003, PFM issued its report, which found that the City met three of Act 47's criteria for distressed municipalities in that the City had maintained a deficit over a three-year period with a deficit of 1.0 percent or more in each of the previous fiscal years; expenditures had exceeded revenues for three years or more; and the City had accumulated and had operated for each of two successive years a deficit equal to 5.0 percent or more of its revenues. On December 9, 2003, the Department held a public hearing on the request which was attended by over 400 individuals. Based upon the findings in the consultative evaluation, by Department Order dated December 29, 2003, the Secretary of Community and Economic Development found that the City was indeed distressed pursuant to the criteria set forth in Act. 47.

Following the Department's issuance of a Request for Proposals and review of several responses, on January 28, 2004, Eckert Seamans Cherin & Mellott, LLC ("Eckert Seamans") and PFM were jointly appointed Coordinator for the City under Act 47. With this appointment, the two firms were charged with developing a multi-year Recovery Plan for the City. This Recovery Plan is required to balance revenues and expenditures, and to direct steps the City shall take to remain in financial balance going forward. On April 13, 2004, the Commonwealth and Eckert Seamans executed a contract setting forth the Coordinator's responsibilities.

This Recovery Plan is unprecedented in its size and scope, as Pittsburgh is the largest municipality ever to enter the Act 47 program. The Act 47 team, consisting of over 30 professionals from PFM and Eckert Seamans, has spent over 2,500 hours investigating and devising solutions for the City's financial crisis. Members of the Act 47 team have visited City facilities to confer with City managers and employees, met with officials of all nine City unions, and interacted regularly with members of City Council and senior Administration officials. Act 47 team members have also met individually and in groups with civic and community organizations, governmental and economic development agencies, and representatives of regional business and professional groups.

The Act 47 team has also worked closely with the ICA, beginning with a public presentation by the leaders of the Act 47 team to the newly appointed ICA members on March 3, 2004. Subsequently, the two groups have shared information and conferred frequently. Under the terms of Act 11, which created the ICA, the members of that body and the Act 47 team are directed to work "concurrently and equally" to restore the City's finances. Based on ongoing discussions, the Act 47 team believes that this Recovery Plan will address many of the critical initiatives identified as priorities by the ICA. In addition, the ICA has commissioned several studies by outside experts that are expected to provide important additional information for its own members and the Act 47 team. The Coordinator anticipates that when those studies – which cover the Fire Bureau, pension and health benefit issues, and the City's workers' compensation system – are complete and available, they will support the refinement of recommendations in this Recovery Plan. The Act 47 team expects to continue to work closely with the ICA to develop an effective, sustainable solution to the City's financial crisis.

On April 28 and May 5, 2004, the Coordinator held public meetings to obtain citizen input on the City's financial distress and recommendations for resolutions. Each meeting began with a presentation by DCED to explain Act 47, followed by a presentation by the Act 47 team. At the April 28 meeting, the presentation focused on City revenues, police, and parks and recreation, while the May 5 meeting centered on fire protection, emergency medical services, public works, intergovernmental cooperation, and economic development. Through these sessions, the Act 47 team heard from scores of individual citizens, providing important insight into the concerns and priorities of Pittsburgh residents. These public comments have been taken into full account in drafting this Recovery Plan.

The Act 47 team has also reviewed prior studies of the City's financial condition, including the 1996 report of the Competitive Pittsburgh Task Force led by Paul O'Neill, the PGH-21 report from 2002, the 2003 report of the Pittsburgh Financial Leadership Committee chaired by David Roderick and Elsie Hillman, and the May 2004 Five-Year Financial Forecast and Performance Plan released by Mayor Tom Murphy.

A preliminary version of this Recovery Plan was filed with the City Clerk on May 26, 2004, followed by a fifteen-day public comment period, including another public meeting held June 4, 2004. During this comment period, the Act 47 team also received literally hundreds of comments and suggestions from City elected officials and appointed managers, state legislators, municipal union officials, business and civic organizations, community leaders, and individual residents of the City and region. Comments were received via letter, e-mail, and multiple group and individual meetings. In addition, the Act 47 team received particularly thoughtful comments and input from members and staff of the ICA. As a result of this broad public input, several dozen technical and policy adjustments have been made.

This revised Recovery Plan was filed with the City Clerk on June 11, 2004

The Act 47 team expresses its appreciation to members of the public, City legislators, officials and staff, union leadership, the ICA, and the many others who have provided direct and indirect input into this document. At the same time, the Act 47 team takes sole responsibility for the analysis, findings, and recommendations herein.

Conditions Underlying Financial Distress

Demographics

Demographic trends in Pittsburgh over the last decade have been a major contributor to the City's financial difficulties. In many ways the City presents an archetypical case of the fiscal consequences of a long-term "hollowing out" of an urban core, in which a steady decline in population and economic activity results in a financially troubled City government.

The City of Pittsburgh has experienced a dramatic decline in population since 1960. As shown in the table below, the period between 1960 and 2000 saw the City's population drop by almost 45 percent.

Total and Percentage Change in Population by Decade 1960-2000

Year	Population	% Change from Previous Decade	Cumulative % Change
1960	604,332	n/a	n/a
1970	520,117	-13.94%	-13.94%
1980	423,938	-18.49%	-29.85%
1990	369,879	-12.75%	-38.80%
2000	334,563	-9.55%	-44.64%

Source: U.S. Census

One way to put Pittsburgh's population decline in perspective is to compare it with the population decline experienced by other large urban jurisdictions in Pennsylvania. Such a comparison, which appears in the following table, shows that even among the many Pennsylvania cities that have lost population since 1970, Pittsburgh's 35.68 percentage decline has been more severe than that experienced by any of the Commonwealth's other large municipalities during that timeframe.

Comparative Change in Population Among Large Pennsylvania Municipalities by Decade 1970-2000

Place Name	Primary County	2000 Population	1990 Population	1980 Population	1970 Population	10 Year (1990-2000) % Change in Population	30 Year (1970-2000) % Change in Population
Pittsburgh	**Allegheny**	**334,563**	**369,879**	**423,938**	**520,117**	**-9.55%**	**-35.68%**
Allentown	Lehigh	106,632	105,090	103,758	109,871	1.47%	-2.95%
Altoona	Blair	49,525	51,881	57,078	63,115	-4.54%	-21.53%
Bethlehem	Northampton	71,329	71,428	70,419	72,686	-0.14%	-1.87%
Chester	Delaware	36,854	41,856	45,794	56,331	-11.95%	-34.58%
Erie	Erie	103,725	108,718	119,123	129,265	-4.59%	-19.76%
Harrisburg	Dauphin	49,100	52,376	53,264	68,061	-6.25%	-27.86%
Lancaster	Lancaster	56,347	55,551	54,725	57,690	1.43%	-2.33%
Philadelphia	Philadelphia	1,517,550	1,585,577	1,688,210	1,948,609	-4.29%	-22.12%
Reading	Berks	81,201	78,380	78,686	87,643	3.60%	-7.35%
Scranton	Lackawanna	76,415	81,805	88,117	102,696	-6.59%	-25.59%
Wilkes-Barre	Luzerne	43,123	47,523	51,551	58,856	-9.26%	-26.73%
York	York	40,889	42,192	44,619	50,335	-3.09%	-18.77%
PA Large Cities (>35k) Median		**63,838**	**63,490**	**63,749**	**70,374**	**-4.42%**	**-20.64%**
PA Large Cities (>35k) Average		**186,058**	**193,531**	**204,612**	**233,763**	**-3.68%**	**-17.62%**
Commonwealth of Pennsylvania		**12,281,054**	**11,881,643**	**11,863,895**	**11,793,909**	**3.36%**	**4.13%**

Source: U.S. Census

As a result of its population loss, Pittsburgh has faced a dilemma shared with many other older, shrinking cities – how to deliver the appropriate level of services given uneven levels of change across the City concurrent with public expectations that individual facilities and programs will continue indefinitely.

Income & Wealth

As detailed in the chart of the following page -- despite a steady and relatively large decline in population – the City remains near the state's large-city average for several indicators of income and wealth, and the trend in these indicators for the City has been generally favorable. At $28,588 in 1999, median household income is between the average and median for large Pennsylvania cities, although below the $40,106 level for the Commonwealth overall. Likewise, 1999 per capita income of $18,816, while again below the statewide average, is the second-highest within this urban grouping. The latter statistic would appear to indicate a high level of employment among Pittsburgh residents, as discussed below.

The property tax is Pittsburgh's largest revenue source. Therefore, it is notable that the City's home values are well below statewide averages and also lower than those in other large Pennsylvania cities.

Comparative Change in Select Income and Wealth Characteristics Among Large Pennsylvania Municipalities
1989, 1999

Place Name	Primary County	1989 Median Household Income	1989 Per-Capita Income	1989 Median Home Value	1999 Median Household Income	1999 Per-Capita Income	1999 Median Home Value	10 Year (1989-1999) % Change in Median Income	10 Year (1989-1999) % Change in Per-Capita Income	10 Year (1989-1999) % Change in Median Home Value
Pittsburgh	**Allegheny**	**$20,747**	**$12,580**	**$40,500**	**$28,588**	**$18,816**	**$59,700**	**37.8%**	**49.6%**	**47.4%**
Allentown	Lehigh	$25,983	$12,822	$75,900	$32,016	$16,282	$76,900	23.2%	27.0%	1.3%
Altoona	Blair	$20,695	$10,398	$30,600	$28,248	$15,213	$58,000	36.5%	46.3%	89.5%
Bethlehem	Northampton	$28,375	$13,684	$89,800	$35,815	$18,987	$97,400	26.2%	38.8%	8.5%
Chester	Delaware	$20,864	$9,115	$37,800	$25,703	$13,052	$43,100	23.2%	43.2%	14.0%
Erie	Erie	$22,032	$10,715	$43,000	$28,387	$14,972	$65,900	28.8%	39.7%	53.3%
Harrisburg	Dauphin	$20,329	$11,037	$38,000	$26,920	$15,787	$56,900	32.4%	43.0%	49.7%
Lancaster	Lancaster	$22,210	$10,693	$58,300	$29,770	$13,955	$71,300	34.0%	30.5%	22.3%
Philadelphia	Philadelphia	$24,603	$12,091	$48,400	$30,746	$16,509	$59,700	25.0%	36.5%	23.3%
Reading	Berks	$22,112	$11,041	$37,300	$26,698	$13,086	$44,500	20.7%	18.5%	19.3%
Scranton	Lackawanna	$21,060	$11,108	$56,100	$28,805	$16,174	$78,200	36.8%	45.6%	39.4%
Wilkes-Barre	Luzerne	$19,525	$10,513	$43,600	$26,711	$15,050	$64,700	36.8%	43.2%	48.4%
York	York	$21,812	$10,485	$41,100	$26,475	$13,439	$56,500	21.4%	28.2%	37.5%
PA Large Cities (>35k) Median		**$21,922**	**$10,876**	**$43,300**	**$28,318**	**$15,132**	**$62,200**	**27.5%**	**39.2%**	**30.4%**
PA Large Cities (>35k) Average		**$22,467**	**$11,142**	**$49,992**	**$28,858**	**$15,209**	**$64,425**	**28.8%**	**36.7%**	**33.9%**
Commonwealth of Pennsylvania		**$29,069**	**$14,068**	**$69,100**	**$40,106**	**$20,880**	**$97,000**	**38.0%**	**48.4%**	**40.4%**

Source: U.S. Census

Employment

With respect to recent trends in its labor force, Pittsburgh has only lagged its larger metropolitan region and the state as a whole by a relatively narrow margin. For an older core city, these are relatively favorable results.

The table below shows that the size of Pittsburgh's resident labor force has been very stable in recent years at approximately 155,000. Given contemporaneous population decline, this reflects a drop in the unemployment rate among Pittsburghers from 5.08 percent to 3.74 percent over the period from 1997 to 2001. While this data fails to capture the full extent of the nationwide economic downturn from 2001 through 2003, it also does not include more recent economic resurgence. Key issues here include the relative resilience of the City's labor force relative to population trends, and the resulting importance of suburban commuter employees to the City's well-being.

Resident Civilian Labor Force Characteristics
1997, 1999, 2001

		1997	1999	2001	% Change, 1997-2001
Labor Force					
	Pittsburgh	163,300	159,400	160,600	-1.65%
	Pittsburgh MSA*	1,157,700	1,153,400	1,167,600	0.86%
	Pennsylvania	5,984,000	5,996,000	6,061,000	1.29%
Employment					
	Pittsburgh	155,000	154,000	154,600	-0.26%
	Pittsburgh MSA*	1,100,300	1,103,300	1,118,100	1.62%
	Pennsylvania	5,673,000	5,507,000	5,786,000	1.99%
Unemployment					
	Pittsburgh	8,300	5,400	6,000	-27.71%
	Pittsburgh MSA*	57,400	50,100	49,600	-13.59%
	Pennsylvania	313,000	262,000	275,000	-12.14%
Unemployment Rate					
	Pittsburgh	5.08%	3.39%	3.74%	-26.50%
	Pittsburgh MSA*	4.96%	4.34%	4.25%	-14.32%
	Pennsylvania	5.23%	4.37%	4.54%	-13.26%

*Pittsburgh MSA includes the counties of Allegheny, Beaver, Butler Fayette, Washington, and Westmoreland.
Sources: City of Pittsburgh; Pennsylvania Department of Labor and Industry

Another indicator of the growing economic interrelationship between city employment and suburban residents is the trend in the number of jobs located in the City versus the trend in the City's population. As shown in the table below, the City's analysis of Occupational Privilege Tax Receipts data indicates that the number of jobs in the City increased nearly 1.8 percent between 1990 and 2000. This increase stands in contrast to the 9.55 percent decrease in the City's population over the same time period.

Change in Population and the Number of Number of Jobs Located in the City of Pittsburgh 1990-2000			
	1990	2000	% Change, 1990-2000
Jobs in City	319,600	325,318	1.79%
Population	369,879	334,563	-9.55%
Ratio of Jobs in City to Population	0.86	0.97	12.53%

Sources: U.S. Census for population data; City of Pittsburgh for estimate of the number of jobs located in the City (City's estimate based on Occupational Privilege Tax Receipts data).

Data provided by the City indicates that the trend from 1990 to 2000 was predated by similar results in the 1970s and 1980s – a pattern of decline in the number of City residents with much more stable overall employment levels and "daytime population".

Budget Trends

Against these larger trends, the City of Pittsburgh's budget has been slower to react. Major revenue sources have experienced weak growth over the last decade, and, without significant modifications to the present revenue structure, this slow growth is likely to continue into the foreseeable future. At the same time, major expenditure categories – most notably for wages and benefits, especially health and pension benefits – have grown substantially. As a result, Pittsburgh's underlying budget picture has become destabilized, with relatively flat revenues contrasting starkly with escalating expenditures.

- Debt Service: The City's debt burden is high, representing nearly 23 percent of the 2004 Enacted Budget. In contrast, the Wall Street credit rating agency, Standard and Poor's has identified "moderate" ratios of debt service to operating expenditures to be around 10 percent, while categorizing ratios over 15 percent as "high". Because such debt service costs are generally fixed, overall budgetary flexibility becomes increasingly constrained when such expenditures rise as a percentage of total spending. As Standard & Poor's has further written, "a government is really limiting budget flexibility when debt service carrying charges comprise more than 20% of the total budget"[1] -- a level that Pittsburgh has now exceeded. Although it may be noted that a significant portion of this overall debt was incurred to fund previously existing pension obligations – effectively exchanging one fixed liability for another – the City's overall debt burden is nonetheless now severe and, as further addressed below, the City's pension plans also remain a fiscal pressure point.

- Employer Pension Obligations – Along with high, fixed debt service requirements, Pittsburgh's budgetary flexibility and long-term financial position are further constrained by pension funding challenges. The City's actuary, Mockenhaupt Associates, has indicated that the combined ratio of assets to the Actuarial Accrued Liability is just 40.8 percent as of January 1, 2003. This ratio is very low, with the credit rating agency FitchRatings citing a funding ratio below 60 percent as among a set of practices that "raise analysts' concern about an issuer's fiscal future."[2] The City's issuance of pension obligation bonds in 1996 and 1998 significantly improved the aggregate funding ratio from 18.2 percent in 1996 to 67.0 percent as of January 1, 2000. Over the three years beginning in January 2000 and ending December 2002, however, the City's Combined Pension Trust Funds experienced a decline in net assets of more than $155.1 million, from $467.6 million to $312.5 million. As a result of this drop, the City's funding ratio eroded to 59.3 percent in 2001, 50.7 percent in 2002, and the 40.8 percent level for 2003. Reflecting this weakening position, Pittsburgh's Minimum Municipal Obligation (MMO) for the City's pension plan contributions pursuant to Act 205 increased from $18.4 million in 2002 to $23.9 million in 2003 to a projected $31.6 million in 2004. Further, again

[1] Standard & Poor's, "Research: Anatomy of a Fiscal Crisis" (August 11, 1999)
[2] FitchRatings, November 21, 2002.

according to actuarial projections, the City's MMO is forecast to exceed $40 million annually in the years just ahead – and recent analysis commissioned by the ICA indicates that even greater contributions may be advisable.

- Other Personnel Costs: Recent City wage settlements have outpaced inflation, while the cost of City-funded employee health benefits coverage has skyrocketed. While Pittsburgh's self-insurance program and multiple cost containment efforts have held recent employee medical cost growth below the rates seen by many Western Pennsylvania employers, the City is still experiencing double-digit annual cost growth in this major expenditure category.

Baseline Financial Projection

The Act 47 team has prepared a baseline financial projection that estimates the City's budget position in 2004 and subsequent fiscal years through 2009. The principal function of the baseline financial projection is to show what will happen to the City's finances if no corrective action is taken. This forecast includes an FY2004 projection based on the Act 47 team's analysis of the Mayor's proposed budget and the final budget enacted by City Council, and includes a variety of modifications reflecting different revenue and expenditure assumptions. The goal of the baseline forecast is to determine the City's likely financial position if it does not successfully reduce costs, modify labor provisions, and generate increased and new revenues. The establishment of such a baseline allows the valuation and comparison of the impact of the various initiatives within the Recovery Plan itself.

The following are among the key revenue and cost assumptions in the Act 47 baseline projection for 2004 to 2009, again, *prior to corrective action*:

- Relatively flat revenues, based on the Coordinator's review of City and Pennsylvania Economy League ("PEL")[3] revenue estimates;
- Wage increases at the levels contained in current contracts, followed by a status quo assumption of 3.0 percent annual increases thereafter;
- Health benefit cost increases of 15% per year;
- Significant pension cost increases in 2004 and 2005 based on poor market results in the early part of the decade, and subsequently due to the reduction in state pension contribution based on the number of current employees; and,
- Extremely high annual debt service costs, roughly level throughout the Plan period.

The baseline revenues and expenditures resulting from these assumptions show a significant and growing annual deficit from FY2004 through FY2009 ($000):

Fiscal Year	2004	2005	2006	2007	2008	2009
Revenues	365,975	365,126	376,666	384,913	392,624	403,474
Expenditures	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)**

Strategies for Restoring Financial Stability

As a result of this baseline analysis, this Recovery Plan targets to fill a gap of approximately $100 million in the out years of the Plan financial projections. The Recovery Plan also recognizes the need to begin

[3] Under contract with the City, PEL develops an annual projection of current year revenue and does the same for future budget years. The multi-year history of the development of consensus revenue estimates by PEL, a non-profit civic organization, and the City, provides Pittsburgh with an unusually reliable revenue projection for a municipality of its size.

rebuilding a 5.0 percent to 15.0 percent annual fund balance to provide the City with sufficient working capital.[4] Given Pittsburgh's annual expenditures in the $400 million range, this would indicate a fund balance of $20 million to $60 million.

Streamlined Operations

This Recovery Plan presumes that the City can achieve significant savings from operating initiatives and workforce changes. The Coordinator found numerous opportunities to control costs and downsize Pittsburgh's government. It is critical that the City immediately take advantage of these opportunities if it is to regain financial health. Accordingly, this Recovery Plan includes:

- 29 intergovernmental cooperation initiatives, including increased cooperation with Allegheny County, the Pittsburgh School District, and other government bodies. Over recent decades, much of the population lost from Pittsburgh has moved to surrounding Allegheny County. As the two governments have become more balanced in size, opportunities for cooperation, collaboration, and outright merger of services have become increasingly attractive, for example:
  - 911 call center merger;
  - Consolidation of purchasing;
  - Transfer of arson investigation to the County;
  - Transfer of pet licensing to the County;
  - Potential joint facility management;
  - Potential joint information technology management;
  - Potential consolidation of tax collection

- Multiple outsourcing initiatives to ensure that the City focuses its very limited resources on the direct provision of core services. In recent decades cities around the country have learned that competitive pressures dictate that they can no longer serve the same social support and employment role that they once did. Instead, municipal governments in the United States have begun focusing on their core services, allowing the private sector or specialized contractors to provide support services. At the same time, the Act 47 team did not approach the development of this Recovery Plan with a presumption as to whether in-house or contracted service provision was preferable, and recognizes the success of in-house reforms implemented via managed competition in cities such as Indianapolis.
  - Managed competition for fleet maintenance;
  - Asphalt plant sale;
  - Outsourced EMS billing and collections;
  - Managed competition for trash collection;
  - Potential outsourcing of parking ticket collection;
  - Potential outsourcing of custodial services; and,
  - Competitive contracting for animal control services.

- Scores of additional changes to the manner in which the City does business. In tough times, the City simply cannot ask for taxpayers to bear an ever-growing burden if it is not also aggressively demonstrating its commitment to more efficient, more effective, and less expensive government. As

[4] In 2002, the Committee on Governmental Budgeting and Fiscal Policy of the Government Finance Officers Association (GFOA) issued a recommended practice calling on local governments to establish formal policies on the level of unreserved fund balance necessary to support ongoing operations. While it cautioned that each situation is unique, the GFOA recommended "…*at a minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance of five to 15 percent of regular general fund operating revenues."

noted earlier, the City of Pittsburgh has seen a significant decline in population in recent decades. While the City continues to be home to a large daytime commuter population, and remains the Commonwealth's second-largest City, it can no longer afford to maintain facilities and provide the amount of services it did when it had a much larger resident population. Consequently, this Recovery Plan mandates:

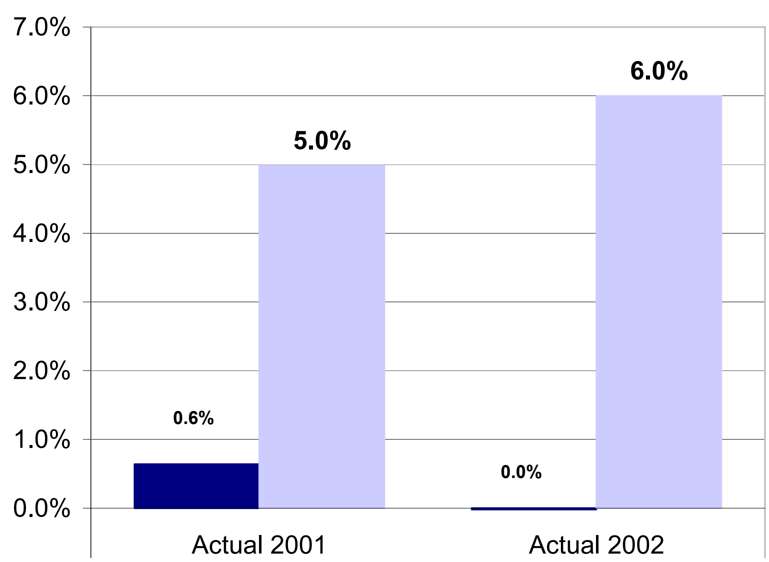
- 15 percent cuts in the budgets of the Mayor's Office, City Council and Clerk, and City Controller;
- Fire department restructuring;
- Police civilianization;
- Elimination of cable TV production;
- Elimination of a separate Engineering and Construction Department, with economies captured as functions are allocated to other existing departments;
- Reductions to the City's take-home fleet;
- Targeted elimination of multiple programs and positions;
- Across-the-board reductions in materials, supplies, and miscellaneous services; and,
- Highly limited restorations of services central to quality of life – for example, recreation centers, pools, and capital funding – at levels more moderate and sustainable than in the past.

In the aggregate, the Act 47 team has identified over 200 non-tax initiatives, with quantified measures ranging from $5,000 to over $10 million per year.

Employee Compensation Cost Containment

The single largest expense of the City of Pittsburgh is employee wages and benefits, totaling approximately two-thirds of overall General Fund expenditures. Over recent years, growth in personnel expenditure has outpaced revenue growth by a wide margin.

Revenue vs. Personnel Cost Growth FY2001- 2002



While the Act 47 team understands and acknowledges the key role played by public employees, and has sought both to minimize individual sacrifices and to maintain a competitive overall City compensation package going forward, the City must contain its workforce spending to achieve recovery.

Recovery Plan workforce initiatives are structured to achieve the following goals:

- To moderate wage increases to account for financial constraints – including a two-year wage and step freeze – after years of across-the-board increases in excess of inflation and other benchmark employers;

- To restructure the City's health benefits plan to contain skyrocketing costs while continuing to provide quality coverage – including establishment of a 15 percent employee contribution toward monthly premiums and a cap on future City contribution rate growth;

- To reform Pittsburgh's workers' compensation program to improve workplace safety, minimize opportunities for fraud and abuse, and return employees to work more quickly when injuries do occur;

- To capture other opportunities to contain workforce costs without eroding core wages and benefits – from eliminating provisions that drive unnecessary overtime, to reducing paid holidays to ten per year, to instituting a freeze on longevity pay increments and reducing other extra pay premiums;

- To improve flexibility in job assignments, use of alternative resources, and other work practices important to achieve efficient service delivery; and,

- To begin to address the long-term cost pressures associated with pensions and post-retirement health benefits – for example, by eliminating retiree health benefits for future uniformed hires.

Many of the new labor provisions will be effective for FY2005, and others will become effective as new collective bargaining agreements take effect.

Financial Management Reforms

While immediate budget cuts and revenue initiatives are essential tactics for restoring the City to near-term budgetary balance, the achievement of long-term and sustainable fiscal health will also require a series of management reforms and strategic investments. The following are among many initiatives intended to ensure that the City's recovery is not only rapid, but also lasting:

- Establishment of pay-as-you-go capital funding to reduce reliance on debt;
- Capitalization of a Productivity Bank revolving loan fund to finance City government technology upgrades and other efficiency projects
- Adoption of best practices in municipal budgeting, such as enhanced interim reporting and target budget development;
- Appointment of a professional Risk Manager, charged with development of comprehensive claims management and loss control programs;
- More timely payment of pension obligations so as to reduce long-term liabilities;
- Pursuit of State legislative reforms to pension assistance programs;
- Exploration of the long-term potential for a Community Foundation to endow City services;
- Formalization of a Fund Balance policy and the gradual rebuilding of prudent reserves; and,
- Coordination of a new, consensus economic and community development strategy for the City and region, capitalizing on new Commonwealth initiatives.

Revenue Strength

Even with the literally hundreds of initiatives highlighted above, the City of Pittsburgh cannot regain financial stability solely by reducing its labor costs and cutting other expenditures. The lack of revenue growth in the past several years and the strong evidence that, without corrective action, such growth will be limited during the foreseeable future would make it difficult for any government to manage. The presence of large fixed costs in Pittsburgh's budget mean that a substantial portion of its solution must come from new revenue sources that will grow over time, or from enhanced levels for existing revenues.

There has been much debate – and in fact much consensus – about revenues for Pittsburgh. In preparing the revenue initiatives in this Recovery Plan, the Coordinator reviewed recent debates and reports prepared by various constituencies, and proposes a multi-faceted plan that focuses on fairly and equitably generating sufficient revenue for the City both now and in the future.

The Coordinator has been impressed by the common viewpoints expressed by diverse groups about certain dimensions of the revenue debate:

- Many groups feel that the City's overall tax structure is inequitable and lacks balance;
- The Occupational Privilege Tax, unchanged since it was instituted in 1965, should be raised;
- The Business Privilege Tax and the Mercantile Tax are problematically calculated solely against gross revenues, not profit, and apply to only some commercial enterprises. Business taxes generally should be shared more widely; and
- While non-profit and tax-exempt organizations provide important jobs and services and are vital to the life of the City, the high percentage of tax-exempt property and quasi-business enterprises held by non-profits is a source of concern to many.

In crafting its revenue recommendation, the Coordinator has sought to recognize these issues while remaining fair to the many individuals and entities that pay taxes in the City. It has applied revenue evaluation criteria that include: revenue generation capacity; legal process considerations; distributional and equity impacts; competitiveness with and practice in other jurisdictions; collection and administrative costs; reliability and stability; economic and other policy effects; and, acceptance and feasibility

Using these criteria, the Act 47 team is recommending a balanced package of revenue initiatives as follows:

- An increase in the Occupational Privilege Tax to $145 per year in 2005, with an increase in the exemption floor from $1,000 to $12,000 per year;

- A revised suite of business taxes balancing reductions in the Business Privilege Tax and the Mercantile Tax with the imposition of a new Payroll Tax with per head and gross payroll components;

- A reduction in the Parking Tax from 50 to 30 percent in 2005, beginning to address the highest such tax among any major city in the nation;

- An increase in the Realty Transfer Tax from 1.5 percent to 2.0 percent;

- Broad increases in user charge rates, with the establishment of multiple new fees across the government; and

- Revenue from a variety of other sources including market-based opportunities for advertising and leasing City space; a permanent contribution from the School District for school crossing guard funding; and expanded contributions from non-profit institutions.

The current "recommended" revenue option, including local measures, is summarized in the following table:

Estimated Net New Revenue: Preferred Revenue Initiatives
FY2004 to FY2009

Revenue Initiative	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Occupational Privilege Tax	$0	$35,635,969	$35,814,149	$35,993,220	$36,173,186	$36,354,052
Business Privilege Tax Reduction	$0	($14,531,548)	($14,894,836)	($15,341,681)	($15,801,932)	($16,275,990)
Mercantile Tax Reduction	$0	($2,540,991)	($2,580,095)	($2,619,800)	($2,660,117)	($2,672,622)
Payroll Tax - Per Capita	$0	$10,297,919	$10,349,408	$10,401,155	$10,453,161	$10,505,427
Payroll Tax - Rate on Gross Payroll	$0	$22,362,865	$22,484,762	$22,607,268	$22,730,387	$22,854,121
Real Estate Transfer Tax	$0	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016
Parking Tax Reduction	$0	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)
Total	**$0**	**$40,929,327**	**$40,695,184**	**$40,376,494**	**$40,043,439**	**$39,724,084**

During the public comment period for this Recovery Plan, the Act 47 team received support from some segments of the civic and business community for the preferred business tax proposal outlined above. At the same time, the Coordinator also heard from others who prefer the complete elimination of the BPT and the mercantile tax to be fully replaced by a payroll tax on gross revenue. To raise the same level of revenue as would the primary recommendation in this Plan (approximately $15 million per year), a gross payroll tax would need to be set at 0.85 percent.

In assessing the relative merits of each option, the Coordinator believes that <u>either</u> would yield preferable results to the "safety net" option available within existing Act 47 and local statutory authority as described below. Indeed, there are very likely multiple tax policy alternatives within the purview of the Commonwealth that would more favorably impact the fiscal and economic sustainability goals of the Plan than those options available under current law. Among the many key factors to be considered when refining such a business tax package include: balance and equity; improving competitiveness in support of business attraction and retention, and adequacy and timeliness of revenue generation to help address the City's fiscal crisis.

The Act 47 team believes that the revenue approach outlined above is fair, equitable, and achievable. However, the Pennsylvania legislature through Act 47 requires that the Coordinator's Recovery Plan be balanced with revenues that the City currently controls, or with other revenues within the purview of the Coordinator. Several of the revenue changes recommended in this Plan – including an increased Occupational Privilege Tax and a new Payroll Tax – require approval by the General Assembly and the Governor before they could be implemented by the City.

Therefore, this Recovery Plan is required to include an alternative revenue package that includes only items that can be implemented by the City with or without the intervention of the Act 47 Coordinator. If this Plan is approved but the Coordinator, the City and others are unsuccessful in persuading the Legislature and the Governor to make the necessary changes allowing the City to collect the recommended revenues, the alternative revenue package shall become the source of necessary revenue to fund the remaining financial gap.

This "safety net" revenue package includes many elements from the recommended package, including the real estate transfer tax, fee increases, and market-based revenues. However, because these sources would only generate a portion of what is needed, the package must also include increases to the resident and non-resident earned income tax and the property tax. Therefore, if the safety net revenue package is necessary, the City shall:

- Petition the Allegheny County Court of Common Pleas to raise the earned income tax rate from 1.0 percent to 1.37 percent for City residents and from 1.0 percent to 1.27 percent for non-residents; and
- Increase the local real property tax to 11.34 mills.

Because of growth trends in the earned income tax base, the earned income tax rate would be reduced by 0.01 percent each year, stabilizing yield and reflecting its role as a transitional tax under Act 47.

Estimated Net New Revenue: Alternative Revenue Initiatives
FY2004 to FY2009

Revenue Initiative	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Real Property Tax	$0	$5,958,547	$6,282,011	$6,358,621	$6,435,230	$6,512,763
Earned Income Tax	$0	$46,045,284	$45,757,773	$45,417,597	$44,836,010	$44,200,228
Real Estate Transfer Tax	$0	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016
Parking Tax Reduction	$0	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)
Total	**$0**	**$41,708,944**	**$41,561,580**	**$41,112,551**	**$40,419,994**	**$39,672,087**

It is important to note that the City's long-term future cannot be assured by imposition of this alternative revenue package. Already, the City charges more in many major tax categories than most other Allegheny County municipalities. The higher EIT, far from being a preferred solution, is a highly unreliable revenue source that will evaporate once Act 47 distressed status is eventually lifted. Moreover, this tax requires annual reauthorization by the County's Court of Common Pleas, and home rule suburban jurisdictions can effectively capture the revenue themselves by raising their EIT to match Pittsburgh's non-resident rate.

For these reasons, the Act 47 team strongly urges enactment of the preferred revenue alternative as soon as possible.

Results of the Recovery Plan

If implemented promptly and properly, the many workforce initiatives, expenditure reductions, and revenue initiatives will bring the City's finances back to balance. However, this will produce a tenuous balance. As shown in the table below, the many changes recommended in this Recovery Plan will produce annual net operating balances that do not exceed $10.1 million and go as low as $206,663. If the City ends FY2004 with a fund balance of zero, this Recovery Plan will produce a modest fund balance of only $22.5 million by the end of FY2009.

	BASELINE 2004	Projected FY2005	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009
BUDGET GAP (Structural)	($34,363,260)	($71,928,640)	($78,413,164)	($89,944,208)	($103,272,533)	($115,233,438)
WORKFORCE INITIATIVES	$0	$23,648,486	$22,516,282	$28,576,439	$34,956,504	$41,856,273
EXPENDITURE REDUCTIONS	$290,159	$9,182,245	$20,755,486	$21,635,264	$22,496,865	$23,045,670
INVESTMENTS	$0	($11,250,000)	($7,500,000)	($5,000,000)	($5,000,000)	($5,000,000)
Revenue Initiatives	$0	$9,875,000	$11,637,613	$11,906,994	$13,302,343	$14,948,710
Fee Initiatives	$0	$232,847	$410,134	$556,539	$865,364	$865,364
Tax Package	$0	$40,929,327	$40,695,184	$40,376,494	$40,043,439	$39,724,084
Net Operating Balance	**($34,073,101)**	**$689,264**	**$10,101,534**	**$8,107,522**	**$3,391,981**	**$206,663**

Thus, this Recovery Plan is only a start. Pittsburgh's return from financial disarray will take time and will require civic creativity and dedication even beyond the strong measures outlined here. Over the coming years, additional ways to provide services, save money and generate revenue will have to be successfully developed in order to use this Recovery Plan as a catalyst for long-term financial stability.

Next Steps

With the filing of this revised Recovery Plan on June 11, 2004, it is now submitted to City Council. If approved by Council, the Recovery Plan will then be forwarded to the Mayor for approval. Based on the filing date, it is anticipated that these next steps may be completed prior to the end of June 2004.

While these statutory deadlines are short, the urgency of beginning to rebuild the City's fiscal foundation requires swift and timely action. At the same time, there is another important reason to move quickly. For some time, Pittsburgh has operated with the threat of a cash deficit, flirting with running out of money most recently in December of 2003 and January of 2004. While the City is relatively liquid during the first half of the year – when the bulk of property taxes are paid – very soon it will again face the threat of having too little cash available to pay its bills. Public discussions in recent months have focused on the likelihood that the City could run out of money in December 2004. However, under a variety of scenarios, it could hit bottom much sooner.

In late August the City must transfer $38.7 million to a trustee to cover its September 1, 2004 debt service payment. After that point, the City will have only $27 million in the bank, or a bit more than three weeks of cash. This situation is likely to be exacerbated by the requirement that the City begin making contributions to an escrow account for next year's Workers' Compensation payments, a potential expense not included in recent cash flow estimates. Because most Pittsburgh cash flow projections are calculated on a monthly basis, the presentation masks the possibility that the City could run short for a day or two during the month, especially after a payroll is paid.

Allowing this situation to occur would be irresponsible. With no margin for error, as the year wears on the City will become increasingly vulnerable to contingencies. A negative cash balance could occur easily under a variety of circumstances. In addition to meaning deferred payments to vendors and possibly deferred paychecks for police officers, firefighters and other City employees, it could weaken the City's ability to appeal to vendors for advance credit during an emergency.

Accordingly, the Coordinator recommends that the preferred revenue package be structured so that a portion of the new revenues be collected in FY2004. In particular, the OPT seems well suited for rapid implementation. Collecting one-half of the increase in FY2004, for example, reflecting the months from July through December, would provide the City with a modest cash infusion of almost $17 million this year. While not reaching the 5-15 percent of operating revenue recommended for a working capital reserve by the Government Finance Officers Association, this amount would most likely enable the City to meet its obligations for the remainder of the year without a cash shortfall.

Because the City does not yet have final audited financial results for FY2003, it has been difficult to accurately estimate the effect of this Recovery Plan and alternatives of Pittsburgh's fund balance. Based on preliminary data, however, it seems likely that the City will end FY2003 with a fund balance of approximately $30.0 million, and FY2004 with a fund balance close to zero, if not in the red. In this scenario, early implementation of a tax package would be particularly important to provide the City with a greater margin for 2004. Perhaps even more important, given the critical nature of the City's cash shortfall, prompt enactment of new taxes would also benefit the City's cash flow, which has been the primary near-term focus of the Act 47 team.

Looking toward the longer-term, this Recovery Plan has been developed with a goal of placing Pittsburgh back on a forward path. The Plan begins with detailed and extensive expenditure reductions and workforce reforms. These changes are critical to helping the City work more efficiently and effectively. The implementation of these changes, supervised by the Act 47 team, will create an environment in which the revenue enhancements needed to close the final part of the fiscal gap can be implemented.

While far from ideal from any single perspective, this Recovery Plan is balanced across Pittsburgh's many stakeholders as a whole– asking residents, businesses, City union employees and managers, non-residents who work in the City, nonprofit institutions, any many others to come together in contributing to Pittsburgh's recovery.

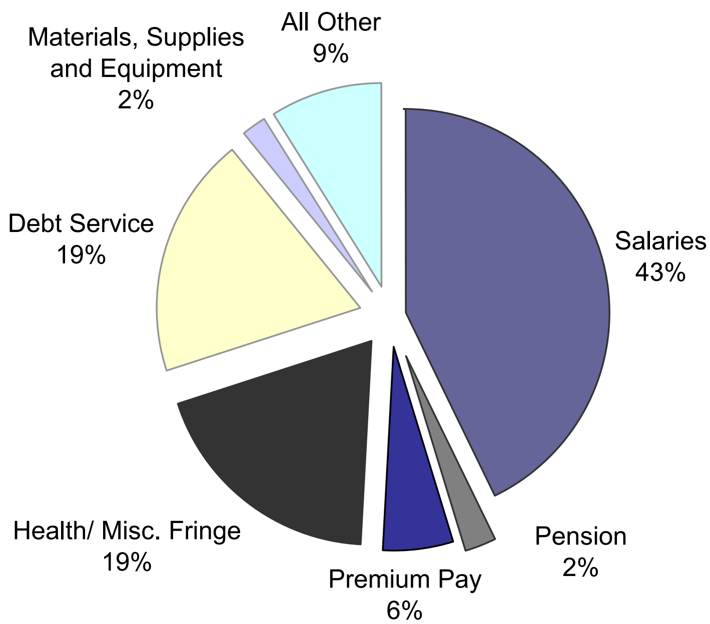
The time has arrived for the City and its regional neighbors to move forward to take on new challenges of growth and opportunity in tandem. Resolving the current financial crisis with the adoption and implementation of this Recovery Plan will represent a critical next step in this positive direction.

3. Workforce and Collective Bargaining

Workforce and Collective Bargaining

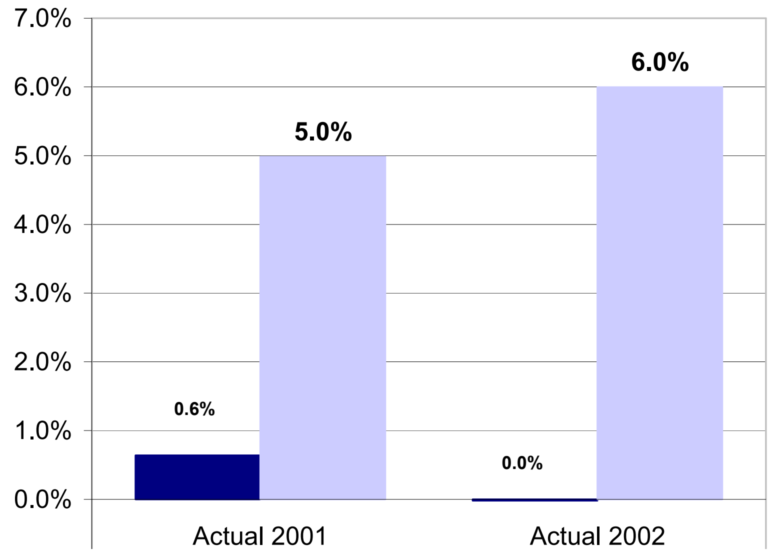
The single largest expense of the City of Pittsburgh is employee wages and benefits, totaling approximately two-thirds of overall General Fund expenditures – or $241.1 million – in FY2003. Like most local governments, the City is a labor-intensive enterprise, requiring trained and professional workers to prevent and investigate crime, to maintain safe and clean streets, to respond to fire and medical emergencies, and to deliver the many other important services of municipal government effectively. The Act 47 team recognizes and respects this critical role of public employees, and has sought both to minimize individual sacrifices and to maintain a competitive overall City compensation package going forward. At the same time, given the major impact of workforce expenditures as a share of the overall City budget, this Recovery Plan must take personnel costs into account.

FY2003 Estimated Actual Expenditures



Over recent years, growth in personnel expenditure has outpaced revenue growth by a wide margin. Based on the City's most recent actual results, personnel expenditures – which include salaries, premium pay, fringe benefits, uniforms and employer pension contributions– grew by 5.0-6.0 percent annually in FY2001 and FY2002, in contrast to revenue growth below 1.0 percent. Further, even with significant layoffs in FY2003, preliminary estimates indicate that personnel expenditure growth still outpaced revenue gains for last year (albeit by a smaller margin). With FY2004 tax rate increases and annualization of workforce cuts, current projections are that revenue growth will surpass personnel expenditure growth for the current year – but not continue into FY2005 and beyond unless corrective action is taken. Sustainable structural balance in this key area has not yet been achieved. The following chart shows the mismatch between revenues and personnel expenditures for FY2001 and FY2002.

Revenue vs. Personnel Cost Growth FY2001- 2002



To achieve recovery in an era of slow growth in revenues, the City must contain its workforce spending. In preparing this chapter of the Recovery Plan, the Act 47 team met with representatives of the affected bargaining unit employees, representatives of the Administration and members of City Council. While these various groups bring their own distinct perspectives to this challenge, all have clearly demonstrated sincere concern for the ongoing health of Pittsburgh's finances and the quality of services delivered to the public. The many ideas and considerations presented by these various stakeholders, both before and after filing of the Act 47 team's original draft Plan for public comment, have informed and improved this Recovery Plan's workforce recommendations, which focus on the following seven major themes:

I. Streamlining the size of the overall workforce where excessive staffing levels and/or new productivity gains present opportunities for enhanced efficiency;

II. Moderating wage increases to account for financial constraints, after years of across-the-board increases in excess of inflation and other benchmark employers;

III. Restructuring the City's health benefits plan to contain skyrocketing costs while continuing to provide quality coverage;

IV. Reforming Pittsburgh's workers' compensation program to improve workplace safety, minimize opportunities for fraud and abuse, and return employees to work more quickly when injuries do occur;

V. Capturing other opportunities to contain workforce costs without eroding core wages and benefits – from eliminating provisions that drive unnecessary overtime to streamlining extra pay premiums;

VI. Improving flexibility in job assignments, use of alternative resources, and other work practices important toward achieving efficient service delivery; and,

VII. Beginning to address the long-term cost pressures associated with pensions and post-retirement health benefits.

In addressing these critical issues, it is important to recognize that nearly nine out of ten City workers are unionized. The following chart details the allocation of full-time General Fund employees by group as of March 18, 2004 (some positions on other Funds not included).

Employee Group	Covered Positions	No. of Employees	Contract Term
FOP, Lodge 1	All Sworn Police Officers, including Detectives, Sergeants and Captains	902	1/1/03-12/31/04
IAFF, Local No. 1	All Firefighters, Lieutenants and Chiefs	816	1/1/02-12/31/05
AFSCME, Local No. 2719	Misc. white collar employees not included in other unions (Clerks, Inspectors, Analysts, Accountants)	426	1/1/01-12/31/04
Pittsburgh Joint Collective Bargaining Council (PJCBC)	Misc. blue collar employees (Painters, Maintenance Specialists, Custodians, Plumbers, Misc. Operators)	401	1/1/03-12/31/06
Teamsters Local 249	All Refuse Drivers and Co-Drivers, Laborers and Helpers	200	1/1/99-12/31/03
SEIU Local No. 192-B	Regular and Substitute School Crossing Guards	166	1/1/01-12/31/03
International Assoc. of Professional Paramedics	All Paramedics, Crew Chiefs and EMS	167	1/1/01-12/31/05
AFSCME, Local 2037	First-level blue collar supervisors	56	1/1/01-12/31/04
SEIU, Local No. 585	Recreation Program Coordinators, Athletic Instructors, Other Recreation Facility employees	28	1/1/01-12/31/04
Non-Represented	Executive, management, confidential	495	N.A.
Total	**N.A.**	**3,657**	**N.A.**

As a consequence, the challenge of controlling the cost and managing the effectiveness of the City workforce can only be addressed through contract negotiations and effective labor management relations, combined with consistent cost containment measures for non-represented employees.

Again, given the labor-intensive nature of the public sector, the City of Pittsburgh's circumstances are not unique. In multiple other cases of municipal distress, personnel cost containment has been central to recovery – for example:

- In 1992, the City of Philadelphia reached labor agreements through both negotiations and police/firefighter arbitrations that included a two-year wage freeze, elimination of 4 holidays (from 14 to 10), lowered police and fire starting pay by $6,000 (20 percent), reduced employer health benefit contributions, restructured longevity pay, civilianization of 169 sworn police positions, comprehensive work rule reforms, and disability and sick leave benefit restructuring.

- During its 1995 fiscal crisis, the District of Columbia imposed multiple compensation changes including 6 percent wage cuts in the middle of a negotiated contract term, 6 unpaid furlough days in FY95, and 6 more unpaid days in FY96.

- Pursuant to Johnstown, Pennsylvania's mid-1990s Act 47 recovery plan, FOP Total Average Cost Per Hour Worked (cash compensation + benefits costs / scheduled hours – paid leave) was reduced to 86% of prior levels in year one, with subsequent increases held to 3 percent annually. For firefighters under an existing award at the time of the first plan issuance, a subsequent Amended Plan included a wage freeze, elimination of two holidays, reduction in sick leave from 36 calendar days to 13 work days, and change to a more affordable health benefit plan. For civilians represented by the United Steelworkers, changes included a three-year freeze in wages.

- Also under Act 47, the City of Scranton, Pennsylvania, reached a four-year clerical employee settlement in late 2002 that froze City health care costs, eliminated longevity for new hires, and provided no base wage increases (lump sum bonuses only). Pursuant to a prior City Recovery Plan, Scranton also reduced the size of its firefighter bargaining unit by approximately 25 percent and eliminated post-retirement medical benefits for future hires.

- With most states experiencing what the National Governors Association termed "the worst fiscal crisis since the Second World War," the National Association of State Budget Officers reported that 15 states laid off employees in FY2002 and 16 imposed layoffs in FY2003. At the same time, many state governments, including next-door Ohio, froze both general wages and step payments for state employees in FY2004.

- Likewise, in 2003 settlements affecting over 60,000 state employees, the Commonwealth of Pennsylvania and its multiple civilian units agreed to a two-year wage freeze (including a one-year pay progression step freeze) and the establishment of employee contributions toward medical benefit premiums along with significant healthcare plan redesign. Similar cost containment measures have also been included in subsequent 2004 arbitration awards for Commonwealth Act 111 law enforcement bargaining units (Game Conservation Officers, Park Police).

While such workforce changes can be difficult in the short run, long-term spending must become aligned with revenue growth. Without a fiscally stable local government, future labor negotiations will always be about how to divide a shrinking pie. Further, as outlined below, the compensation package for Pittsburgh City workers now features multiple opportunities for cost containment via adjustment and restraint that will still leave municipal employees with a competitive, quality compensation package.

I. Workforce Size

Viewed simply, total workforce costs are a function of the number of City employees multiplied by the average compensation cost per employee. Consequently, reductions in the size of the Pittsburgh workforce can be an important contributor to fiscal recovery, so long as this goal can be achieved without severe, adverse service impacts.

As summarized in the chart below and detailed on a department-by-department basis in the chart at the end of this chapter, the City implemented a net workforce reduction of 510 positions during 2003 – approximately one-eighth of the City's total personnel – with much of this overall reduction occurring via the layoff of 446 full- and part-time employees in August 2003.

City of Pittsburgh Employees By Department Ten-Year History (1994-2003)
Headcount as of December 31st for all years

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Change 1994-2003
4498	4216	4206	4109	4034	4063	4144	4191	4142	3632	(866)

Prior to the August 2003 layoffs, the City's headcount had been relatively steady over the past decade following a prior round of reductions in the early 1990's. Of course, staffing levels are an imprecise proxy for service delivery levels, and increased use of technology, productivity, and/or changing service demands may enable staffing reductions without adverse service impacts. For example, the City's Department of Public Works reports improved route design for trash collection using GIS technology that has enabled fewer people to maintain core service levels. Likewise, in some functional areas, the City's long-term population loss and/or other changing conditions may make some cutbacks appropriate. Nonetheless, the abrupt reduction in Pittsburgh's headcount during 2003 is an indicator of significant change.

Going forward, this Recovery Plan incorporates multiple additional initiatives expected to result in a lower, aggregate municipal government headcount through improved efficiency and/or adjustments to service-levels without compromising core responsibilities. Recommended measures include, but are not limited to, the following:

- Fire Department realignment, eliminating a minimum of 168 positions [see Fire Department Chapter]
- Expanded Police civilianization and use of technology to strengthen on-street policing while minimizing the need for overall staff increases [see Police Department Chapter];
- Managed competition for City fleet management and other municipal services [see Fleet Management Chapter];
- Fifteen percent across-the-board budget cuts in the Office of the Mayor, City Council, and Office of the City Controller [see Elected Officials Chapter]; and,
- Increased intergovernmental coordination, with staffing from multiple functions such as purchasing, arson investigation, and pet licensing transferred to Allegheny County [see Intergovernmental Cooperation Chapter].

Again, however, municipal governments are inherently labor-intensive. Even with ongoing efforts to "right-size", Pittsburgh will still require a large workforce – and likely a majority of its budget – to adequately staff basic functions. If truly draconian layoffs and service cutbacks are to be avoided, then the cost of compensation on a "per employee" basis must also be addressed.

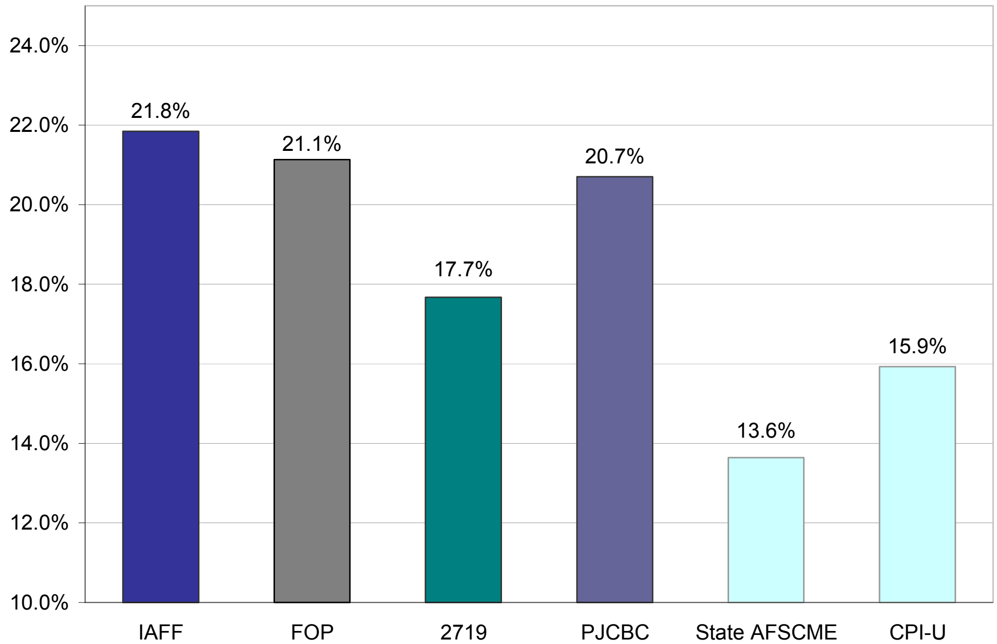
II. Wages

The largest component of employee compensation is salaries and wages. While this Plan does not recommend permanent reversals of base wage levels as already negotiated for most on-board employees, current labor market factors combined with the City's history of pay increases above the rate of inflation now make it possible to limit future wage growth while maintaining pace with long-term cost-of-living changes.

Over the past few years, inflation has been low, while the downturn in the U.S. economy has depressed overall labor market wage gains. In 2002, the typical U.S. worker's pay check rose just 1.7 percent, actually declining by 0.5 percent in real, inflation-adjusted dollars. Similarly, in 2003, U.S. median usual weekly earnings growth remained sluggish at 2.0 percent in current dollars.

For the City of Pittsburgh, the table and chart below show wage increases from FY1999 – FY2004 for the four largest municipal unions in comparison to the largest Commonwealth of Pennsylvania bargaining unit (AFSCME) and growth in the CPI-U (FY2004 data based upon annual projection by the Federal Reserve bank of Philadelphia Survey of Professional Forecasters, Second Quarter release). For each City bargaining unit, the compounded six-year total substantially exceeds inflation and the state increases across the same time period. Even without merit promotions, individual City workers may also have received automatic pay progression step increases, and members of some unions (including police and fire) received further longevity increments and other premium increases, over and above the across-the-board raises shown below.

Compounded 6-Year Increase Unions (IAFF, FOP, AFSCME 2719, PJCBC) vs. CPI-U



Bargaining Unit	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	Compounded 6-Year Increase
IAFF	6.19%	0.39%	6.19%	4.00%	0.00%	3.50%	21.85%
FOP	3.00%	3.50%	3.00%	4.00%	4.00%	2.00%	21.14%
AFSCME 2719	2.00%	2.00%	3.50%	3.00%	3.00%	3.00%	17.67%
PJCBC	2.81%	2.93%	3.04%	3.13%	4.20%	3.00%	20.70%
State AFSCME	*3.00%*	*3.00%*	*3.50%*	*3.50%*	*0.00%*	*0.00%*	*13.64%*
CPI-U	*2.21%*	*3.36%*	*2.85%*	*1.58%*	*2.28%*	*2.70%*	*15.93%*

Through 2006, the City's ability to contain wage growth is partially constrained by agreements already in place with multiple bargaining units. The following table lists the scheduled across-the-board wage increases for top step bargaining unit members in the out-years of each union agreement[1]:

[1] In certain of the current Pittsburgh collective bargaining agreements, wage increases vary by title or years of service. In addition to base wage increases, some contracts also provide for increases to longevity allowances and other forms of cash compensation over the next several years.

Bargaining Unit	Contract Expiration	2004 Wage Increase	2005 Wage Increase	2006 Wage Increase	2007 Wage Increase
PJCBC	12/31/06	3%	$0.50/hr [averages approx. 3%]	3%	TBD
Fraternal Assoc. of Professional Paramedics	12/31/05	4%	4%	TBD	TBD
IAFF, Local No. 1	12/31/05	3.5%	Reopener	TBD	TBD
FOP, Lodge 1	12/31/04	4% [2% 1/1 + 2% 7/1]	TBD	TBD	TBD
AFSCME, Local No. 2037 – first-level blue collar supervisors	12/31/04	3%	TBD	TBD	TBD
AFSCME, Local No. 2719 – white collar	12/31/04	3%	TBD	TBD	TBD
SEIU, Local No. 585 – Recreation employees	12/31/04	$1,000	TBD	TBD	TBD
Teamsters Local No. 249 – Refuse employees	12/31/03	TBD	TBD	TBD	TBD
SEIU, Local No. 192-B – School Crossing Guards	12/31/03	TBD	TBD	TBD	TBD

As may be noted in the table above, the majority of City workers will receive base wage increases in excess of projected 2.7 percent U.S. rate of inflation[2] for 2004, and several groups have similar increases scheduled into 2005 and 2006 when national inflation is forecast to remain low at 2.2 percent and 2.5 percent, respectively. Each percentage point increase in wages that might be added to the levels shown in the tables above would contribute significantly to the City's financial challenges. Just a one-time, one percent across-the-board wage increase for the City workforce, for example, would add approximately $2.0[3] million to overall expenditures for FY2005. Moreover, such an increase would then be built into the City's base wage recurring "running rate" each year.

Pay plan restructuring is another way of controlling base pay escalation -- such as by reducing starting pay for future hires and/or elongating pay progressions. On a temporary basis, employers have also frozen pay steps during difficult economic times to contain cost escalation. In every City of Pittsburgh bargaining unit, employees may receive automatic step increases over and above across-the-board negotiated wage gains and promotions.

III. Health Benefits

The skyrocketing cost of employee health care is not just a City of Pittsburgh concern, it is a major point of pressure for budgets across the state and the nation, in the private and public sectors alike. According to national surveys, 2004 will be the fifth year in a row of double digit cost growth in average premiums for medical coverage, and most employers anticipate annual cost increases to remain as high, or higher, through at least 2008. One major survey[4] of insurers and health care providers, for example, projected

[2] Inflation projections cited are for the U.S. economy overall, drawn from the Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters, Second Quarter 2004 release (May 24, 2004).
[3] Based on PFM 2004 Baseline Budget, including regular salaries, longevity pay, premiums, FICA, leave buybacks and severance payments.
[4] Mellon Human Resources and Investor Solutions First Half 2004 National Health Care Cost Trend Survey

the weighted average annual trends for U.S. medical cost growth as of the first half of 2004 to range from 14.0 percent (HMO) to 16.8 percent (indemnity) depending on type of coverage.

As a result, 65 percent of large firms in one national 2003 survey[5] reported increasing the amount their employees pay for health insurance during the past year. According to another national report[6], the average 2004 employee share of health care premiums (or equivalent, excluding out-of-pocket costs) is expected to increase to 23 percent for employee coverage and 27 percent for dependent coverage. These levels reflect increases of 9.5 percent for individuals and 8.0 percent for dependent coverage relative to 2003 actual levels. Looking forward, in the 2004 National Business Group on Health/Watson Wyatt survey, 84 percent of employers surveyed indicated that they would be likely or somewhat likely to increase employee premium contributions in 2005.

Contributing to these overall pressures, the cost of prescription drugs has been rising at an even faster rate than general medical care. As a result, employers nationally have increased prescription drug co-pays and redesigned plans to create incentives for use of generic and preferred brand ("formulary") medicines. Nationally, the use of three-tier formularies has grown from just 27 percent of covered workers in 2000 to 63 percent in 2003[7], with average co-pays of $9 for generics, $19 for preferred drugs, and $29 for non-preferred drugs in 2003, and higher average rates expected in 2004 and beyond.

In the U.S. public sector, according to the most recent (November 2003) National League of Cities survey of municipal finance officers, when asked what issues had the most negative impact on the ability to meet financial needs, the rising cost for health benefits was the single most frequently cited factor. In cities around the nation, multiple cost containment strategies are in effect at levels well beyond those now in place for Pittsburgh employees. In Baltimore, for example, the health plan with the highest participation levels is a preferred provider network requiring City workers to contribute 15 percent of monthly premium costs; in Chicago, municipal employees contribute a share of salary toward medical coverage ranging from just over 1.0 percent for individuals to nearly 2.0 percent for families; and in Washington, DC, municipal employees contribute fully 25 percent of the cost of their medical and prescription coverage.

Closer to home, the Commonwealth of Pennsylvania and its largest unions representing over 60,000 state employees reached settlements in 2003 that featured significant health benefits changes, including:

- Phase-in of the Commonwealth's first-ever employee contributions toward monthly health premiums, based on 1.0 percent of gross salary. In addition, employees opting for plans with costs higher than each region's most affordable option must pay the differential above the lowest cost plan.

- Greater cost-sharing across multiple areas of plan design, with increased deductibles, co-insurance, and per visit co-payments.

- Establishment of three-tier formulary prescription drug plans, requiring $10 co-payments for generic drugs, $18 co-payments for preferred brands, and $36 co-payments for non-preferred brands under the retail benefit program.

Active Employees

Within the City of Pittsburgh, several medical and prescription plan design changes have been implemented over the past decade toward containing rising costs. In 2001, for example, a three-tier formulary prescription drug plan was adopted for most City employees, while office visit co-pays were increased. Plan coverages are periodically rebid, the City has shifted to self-insurance, and benefits appear to be professionally administered by the Department of Personnel.

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[5] Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2003 Annual Survey*
[6] Hewitt Associates, *Survey Findings Health Care Expectations: Future Strategy and Direction 2004*
[7] Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2003 Annual Survey*

Nonetheless, the City has been buffeted by the rising costs seen nationally. Looking at rates unadjusted for the decreasing size of the workforce, the pressure of rising costs per employee can be seen in even sharper relief. In the following table, increases in the composite rates for Pittsburgh's primary active employee plan offerings are shown for 2002 through 2004. Over these two years, costs in the City's most affordable plan increased by nearly one-third (31.2 percent).

Health Insurance - Composite Rates ($10 Co-Pay Plans)				
	2002	**2003**	**2004**	**2002-04**
Highmark	$440.00	$585.85	$708.97	
% Change		*33.1%*	*21.0%*	*61.1%*
HealthAmerica	$410.00	$445.90	$538.12	
% Change		*8.8%*	*20.7%*	*31.2%*
UPMC	$441.00	$691.20	$775.05	
% Change		*56.7%*	*12.1%*	*75.7%*

Looking forward, the City's benefits consultants, Towers Perrin, project that aggregate active and retiree health care costs will rise by approximately 15 percent per year between FY2005 and FY2007, moderating somewhat thereafter, assuming no new cost containment measures are adopted. For the baseline fiscal projections in this Recovery Plan, the Act 47 team has taken a somewhat more conservative approach, assuming continued 15 percent annual growth through at least FY2009. Over these next five years, such growth rates would cause combined active and retiree medical costs (excluding vision and dental benefits) to more than double from $29.7 million in FY2004 to over $59.7 million by FY2009.

In evaluating opportunities to control these skyrocketing costs, it may be noted that the City's current benefits package is highly generous – with no employee contributions toward monthly premiums for the lowest cost plan option[8], 100 percent coinsurance (i.e., no employee share) for most in-network services, and co-payments for office visits and prescription drugs below national norms. Among the City employee groups, Firefighters and members of Teamsters Local 249 receive somewhat more generous benefits than the rest of the municipal workforce, while Police Officers are slated to have a cost-sharing provision for higher cost plans eliminated on July 1, 2004.

The following chart compares several key elements of the Pittsburgh active employee medical benefits package to national employers (public and private combined) as reported in the Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2003 Annual Survey*, as well as to the benefits package available for most[9] Commonwealth of Pennsylvania employees. In addition to those benefits highlighted within this chart, City workers also receive supplemental dental and vision plans as further outlined below.

[8] Firefighters, Teamsters, and, as of 7/1/04, Police make no contribution for any plan option. Other groups pay from $20 to $75 per month toward optional plans with larger networks if not selecting the zero cost plan.
[9] Only State Troopers receive a different, more costly, benefits package from other Pennsylvania state employees.

	Pittsburgh IAFF and Teamsters	Other Pittsburgh City Employees	Commonwealth of PA	2003 National Averages/Medians
Employee Contribution Toward Monthly Premiums	$0 for all options	$0 for lowest cost option (Police to pay $0 for all options as of 7/1/04)	New hires contribute 1% of salary; On-boards will begin contributing 0.5% 7/1/05, increasing to 1% on 1/1/07	92% contribute toward family premiums (avg. $201) and 76% toward individual premiums (avg. $42)
Office Visit Co-Pay – Primary Care Physician	$5	$10	$15	$15
Prescription Drug Co-Pays (retail)	10% up to maximum $10	$5 generic; $10 preferred brand; $20 non-formulary brand	$10 generic; $18 preferred brand; $36 non-formulary brand	$9 generic; $19 preferred brand; $29 non-formulary brand

Given the current comparative structure of the City's health benefits, simply introducing plan design and cost-sharing strategies consistent with other employers would be expected to generate multimillion savings relative to baseline status quo projections – while still maintaining quality, competitive family coverage.

Supplemental Dental and Vision Plans

Pittsburgh also provides its employees with comprehensive vision and dental insurance plans. Employees do not contribute to the premium costs of these supplemental plans, which are currently 100 percent City-funded. The City is projected to spend $2.0 million in FY2004 on dental benefits, and $210,000 on vision benefits.

Post-Retirement Medical Coverage

The City provides lifetime retiree medical coverage for former police officers and firefighters at an estimated cost of $10.2 million in FY2004, with such costs rising at an even faster rate than for active employees. While not uncommon among Pennsylvania local government public safety retirees, such coverage is increasingly rare in the broader labor market.

According to Kaiser's 2003 Employer Benefits survey, just 38 percent of large firms still offer retiree coverage – down from 41 percent in 1999 and 66 percent in 1988. Further, according to the Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, among those large private sector firms still offering such coverage, 71 percent of large private sector firms increased retiree contributions to premiums over the past year, and 10 percent eliminated subsidized health benefits for some future retirees.

In the City of Pittsburgh, this coverage is provided to firefighters and their spouses with full City funding. For police officers, the City also provides lifetime benefits, funding the cost of coverage at the time of retirement (with the retiree absorbing the incremental cost of future increases).

In contrast, other Pennsylvania communities facing difficult fiscal circumstances have reduced or contained such post-retirement coverage. As an Act 47 distressed municipality, for example, the City of Scranton has eliminated all retiree health benefits for police and firefighters hired after July 1, 1993, and the City's current Amended Recovery Plan seeks to eliminate coverage for all personnel retiring after January 1, 2003. In the City of Philadelphia, post-retirement medical benefits have long been limited in duration, currently capped at five years (with some ability to convert accrued, unused sick leave into extended coverage). In Wilkes-Barre, an April 2004 settlement with City firefighters establishes a new retiree contribution toward monthly premiums in the years ahead, and the retiree is responsible for all costs of spousal and dependent coverage. Likewise, cities such as Easton and York require significant premium cost-sharing for post-retirement benefits.

Going forward, new accounting standards are likely to heighten the level of awareness and concern regarding post-retirement benefits. Today, Pittsburgh accounts for and funds post-retirement medical coverage on a cash basis, unlike its treatment of pension obligations for which the City seeks to fund the actuarially projected long-term costs of current commitments[10]. Looking ahead, however, the Governmental Accounting Standards Board (GASB) has recently issued an exposure draft on Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. This GASB standard on Other Post-Employment Benefits (OPEBs) is expected to be finalized by July 2004, and would first become effective for the City in 2007. If not substantially modified from its current form, this new standard would require the City to account for all post-employment benefits, including retiree medical coverage, short-term disability coverage, and cash-outs of unused sick leave balances on an accrual basis.

In other words, much as with pension obligations today, the GASB OPEB standard will require the City to measure all post-retirement obligations, determine the Actuarial Accrued Liability and Normal Cost for these benefits, and determine the Annual Required Contribution to fund such benefits. While such calculations have not yet been completed by the City – absent changes in post-retirement benefit structure – the experience of other large public employers indicates that this new standard would likely result in an Annual Required Contribution roughly five to six times as great as the current cash basis funding levels.

IV. Workers Compensation

The City spends over $20 million annually on Workers' Compensation and related expenses. Multiple strategies for reducing these costs are detailed in the Workers' Compensation chapter of this Recovery Plan.

V. Other Compensation

In addition to base wages and healthcare benefits, City of Pittsburgh employees receive multiple forms of cash premiums, paid leave, and supplemental benefits as summarized below:

- *Longevity Pay:* In 2003, the City paid nearly $8.4 million in longevity pay – a supplemental cash premium based solely on tenure – primarily to police and firefighters. After four years of service, incremental pay is provided as a growing percentage added to base wages in accordance with the following schedule.

[10] As discussed elsewhere in this Recovery Plan, the City's long-term pension funding currently falls significantly short of projected requirements – but such obligations have been actuarially determined and published.

Police and Firefighter Longevity Schedule			
Years of Service	*Longevity Percentage*	*Years of Service*	*Longevity Percentage*
4	4.0%	14	9.0%
5	4.5%	15	9.5%
6	5.0%	16	10.0%
7	5.5%	17	10.5%
8	6.0%	18	11.0%
9	6.5%	19	11.5%
10	7.0%	20	12.0%
11	7.5%	21	12.5%
12	8.0%	22	13.0%
13	8.5%	23	13.5%

Paramedics and SEIU Local 585 members also receive longevity payments pursuant to somewhat more moderate schedules.

- *Firefighter "Call-Back" Overtime Pay*: In 2003, the City paid over $3.9 million in "call-back" pay to firefighters. Call-back pay is a form of overtime paid for work on scheduled days off (as opposed to overtime added beyond the end of a regular shift). Rather than being compensated at a simple 1.5X rate, call-back pay is subject to particular rules that inflate its cost to the City. For example, junior personnel receive call-back pay based on the rates for a fourth-year firefighter, even if the individual has less than four years of service.

- *Police Court Overtime Pay:* In 2003, the City paid nearly $3.1 million in court premium pay to police. In most circumstances, an officer is guaranteed a minimum of 3 hours pay for each court appearance.

- *General Overtime*: In 2003, the City paid nearly $4.9 million in general overtime, over and above police court premiums and firefighter call-backs. Within the City's various collective bargaining agreements, several features contribute to unnecessarily high rates. For example, certain forms of time not worked, such as personal leave, may be credited toward the 40 hours in a week after which premium rates are earned. In addition, fixed "supper pay" allowances ranging from $5.75 to $9.50 (depending on the bargaining unit) may be paid after three hours of overtime at the end of a regular shift. In addition to the modest direct cost of such payments ($13,945 in FY2003), these premiums can create a counterproductive incentive to stay later than necessary in order to qualify for this extra allowance.

- *Uniform and Equipment Allowances*: In 2003, the City paid nearly $1.3 million in uniform and related allowances, primarily to police and firefighters. Firefighters each receive $675 payments annually, paramedics receive $650, and police receive $625 per year. Some other groups may receive allowances for equipment, such as PJBC tool allowances ranging from $425 to $500 per year.

- *Paid Leave Payouts (Prior to Separation)*: In 2003, the City paid over $1.2 million in vacation buybacks across multiple employee groups, and over $1.5 million in combined sick leave buybacks (firefighters only) and personal leave payouts (other groups). In the case of firefighters, for example, 14 sick days are accrued annually. For those who have accrued over 70 sick days as of December 31st and have used 7 or fewer days in that year, the City will buy back the employee's unused annual allotment of sick days at 90 percent for 14 days, 75 percent for 10-13 days, 65 percent for 8-9 days, and 50 percent for 7 days.

- *Severance Payouts (Retirement Sick Days)*: In 2003, the City paid nearly $1.9 million upon separation for a portion of unused sick leave.

- *Master Police Officers and Master Firefighters*: Except in extraordinary cases, master rates set at 4.5 percent above the rate of the 4th year police officer firefighter are earned after 15 years of service. These payments are distinct from merit-based promotions and are over and above extra longevity pay. As of May 14, 2004, there are 102 Master Police Officers and 326 Master Firefighters.

- *Shift Differential:* Various hourly rate differentials are paid to members of most bargaining units for evening and night shift work. Police officers, for example, are paid an extra 2-4 percent premium depending on shift assignment.

- *Miscellaneous Firefighter Premiums*: Among firefighters, "Driving Pay" of $5.75 per shift is provided for assignment as a driver or tiller operator of any fire truck to respond to emergency calls, a "Detail Allowance" of $3.50 is paid when a firefighter is detailed for ½ shift or more to another location on a temporary assignment; First Responder certified firefighters receive an additional $2.20 per day, and Hazmat certified firefighters receive an additional $1.90 per day.

- *Holidays*: Police, Firefighters, and Paramedics all receive a relatively high 14 holidays, while other bargaining units receive a more moderate 11 holidays. Firefighters receive premium pay irrespective of whether they work a holiday, with supplementary premiums of 1.5x regular pay for holidays worked on scheduled workdays, or call-back pay plus 1.5x regular pay for holidays worked on unscheduled workdays. Police and Paramedics receive 2.5X regular pay if they work on a holiday, or one day of compensatory time if they are scheduled off. Other civilian units (PJBC, AFSCME 2037) can earn as much as 3X their regular rate of pay if they work on a holiday.

- *Sick and Accident Leave:* Most City workers receive short-term disability insurance wage replacement at 66 2/3 percent of salary beginning on the eighth day of a certified non-work related disability. After four years of continuous service, up to 26 weeks of coverage may be provided, with potential eligibility for long-term disability insurance (at 60 percent wage replacement) thereafter. To cover short-term occurrences and/or to bridge the wait period for short-term disability coverage, most employees accrue 6-9 personal days each year, varying according to tenure. Many employees hired prior to establishment of this benefit structure in the late 1990's also carry accumulated sick days from the prior City system.

- *Vacation*: As detailed in the following chart, Pittsburgh municipal employees receive four weeks of vacation annually after 10 years of service and five weeks after 15 years. In both cases, these levels are somewhat ahead of both public and private sector averages, although City workers vacation levels are not comparatively high in their earlier years of service.

Paid Vacation Days			
Years of Completed Service	**State and Local Governments[11]**	**Medium and Large Private Establishments[12]**	**City of Pittsburgh**
After 1 Year	12.6	9.6	10.0
After 3 Years	13.6	11.5	10.0
After 5 Years	15.6	13.8	15.0
After 10 Years	18.6	16.9	20.0
After 15 Years	21.1	18.8	25.0
After 20 Years	22.3	20.3	25.0
After 25 Years	23.1	21.5	25.0
After 30 Years	23.2	21.7	25.0

- *Life Insurance:* the City provides life insurance to most active employees equal to one to two times the employee's annual salary. In addition, some groups (including Police, Firefighters, and AFSCME 2037) also receive retiree life insurance. In total, these benefits are projected to cost the City around $2.2 million in 2004.

- *Police Legal Fund*: the City contributes $11 per officer per month toward an FOP legal services benefit, for a total annual cost estimated at over $118,000 per year.

VI. Work Practices

In multiple areas directly affecting service delivery and costs, the Coordinator's review of the current labor agreements established that certain provisions of the City's existing labor agreements unreasonably restrict the City's ability to manage its operations and direct its work force efficiently and effectively, and constrain the City's ability to share or transfer service delivery to other governments or qualified contractors.

Going forward, any constraints on the City's flexibility to optimally manage and deploy limited resources can no longer be afforded. Specific examples of areas of concern include, but are not limited to, the following:

- Arbitrary staffing minimums, such as currently in place for the Fire Department, that constrain the City's flexibility to adapt to changing demographics and public service needs;

- Limitations on the City's ability to share and/or transfer services to other governments, as well as restrictions on outsourcing;

- Restrictions on the City's ability to layoff where necessary, including outdated provisions of the General Civil Service portion of the Second Class City Code as well as collectively bargained constraints;

- Constraints on the City's flexibility to optimize schedules, assignments, and work practices for efficiency, cost-effectiveness, and/or enhanced services; and,

[11] Average number of days for full-time employees, 1998, U.S. Department of Labor
[12] Average number of days for full-time employees, 1997, U.S. Department of Labor

- Undue emphasis on seniority over individual performance and qualifications to deliver quality services.

VII. Retirement Benefits

In addition to the skyrocketing cost of post-employment health benefits for police and firefighters, severe cost pressures have caused the City's pension expenditures to grow at a rapid pace for all municipal employees. City General Fund pension contributions that were below $5.9 million in FY2002 are expected to reach nearly $17.2 million in FY2004, and soon to exceed $30 million annually. In addition, over and above these amounts, the City is paying substantial debt service on bonds issued to finance pension obligations. Given this context, and the still weak funding status of the City Pension Fund that will require additional spending to safeguard existing City commitments to its pensioners, it will be critical to avoid adding new cost pressures in the area of retirement benefits. These issues, as well several specific measures to improve the health of the Pension Fund, are further detailed in the Pension Chapter of this Recovery Plan.

Summary

In the sections that follow, this Recovery Plan mandates multiple initiatives to reduce and contain workforce costs in support of sustainable fiscal health. The aggregate impact of these measures is significant, exceeding $41 million by FY2009.

	FY2005	FY2006	FY2007	FY2008	FY2009
Fiscal Impact	$23,648,486	$22,516,282	$28,576,439	$34,956,504	$41,856,273

Within the context of this Recovery Plan, however, this total impact represents well below 40 percent of the total gap closing strategy – far below the roughly two-thirds of total spending currently dedicated to employee wages and benefits.

Standards for Negotiation of Collective Bargaining Agreements and Changes in Compensation for Non-Represented City Employees

The Act 47 team has analyzed the provisions and key costs associated with each City collective bargaining agreement now in effect. Given the City's financial situation, these costs and their rate of future growth must be contained. In addition, the Coordinator has analyzed the various programs and costs for non-represented employees. Costs for both employee groups must be reduced if the City is to become fiscally sound. In consideration of the City's fiscal distress, this Recovery Plan mandates the following initiatives which shall become binding upon the date of adoption of this Recovery Plan.

I. <u>All Employees: Non-Union and All Unions</u>

The Coordinator's recommendations for all City employees (union and nonunion) are as follows[13]. Wherever reference is made to parameters for bargaining units and collective bargaining agreements in the following (e.g., wage freezes, healthcare cost containment, leave buyback programs), such provision shall also apply fully to non-represented personnel. It may also be noted that some initiatives in this section may not apply to all bargaining units, and that changes for certain groups may not be implemented until the end of current collective bargaining agreements.

WF01. <u>Seek to Achieve Negotiated Settlement</u>

The City shall make every good faith effort to achieve negotiated labor agreements consistent with this Plan.

WF02. <u>Limit New Contract Enhancement</u>

Unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new labor agreements between the City and the unions representing its employees (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2004 through 2009 and subsequent years (or any portion thereof) **<u>must</u> <u>not</u>** contain, require or provide for any of the following:

a. new overtime or premium pay requirements;
b. any increase in overtime or premium pay requirements;
c. new benefits;
d. any improvements in existing benefits;
e. any new paid or unpaid leave;
f. any improvements to existing paid or unpaid leaves;
g. any additional pay for time not worked;
h. any improvements in existing pay for time not worked;
i. any new designations that time not worked counts as time worked for the purpose of computing overtime or premium pay or increases in existing designations of same;
j. any new benefits for retirees or other inactive employees (e.g., those in layoff or disability status);
k. any improvements in existing benefits for retirees or other inactive employees;
l. any other term or provision which adds any new or additional restrictions on the City's Management Rights;[14]

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[13] In some cases, recommendations may represent reaffirmation or clarification of existing management rights. Although most recommendations would require changes to collective bargaining agreements for union-represented personnel, inclusion of any specific recommendation herein should not automatically be interpreted to imply that the recommendation is currently constrained.

[14] The term "Management Rights," as used herein, includes, without limitation, the rights to: promulgate and enforce work rules, policies and procedures; select, hire, promote, transfer, assign, determine the duties of, evaluate, layoff, recall, reprimand, suspend, discharge and otherwise discipline employees; establish, eliminate and redefine positions in accordance with the City's needs; determine the qualifications and establish performance standards for jobs and assignments; determine the methods, processes and means of performance, where and when work shall be performed, and the equipment to be used; determine the composition of the

m. any provision which impairs or restricts the City's ability to engage qualified contractors to perform services for the City, including services currently provided by bargaining unit personnel;
n. any provision which restricts or impairs the City's ability to effect a layoff or other reduction in its workforce;
o. any provision which expands any arbitrator's authority to grant relief in any arbitration proceeding;
p. any provision which obligates the City to promote or assign or to permit bumping of any employee on the basis of seniority, rather than on the basis of qualifications and performance, except to the extent that preference is accorded to the most senior of those employees having relatively equal qualifications and performance histories;
q. any provision requiring the City to pay bargaining unit employees to attend any trial, hearing or other legal proceeding, except to the extent that such employee attends any such proceeding at the request of the City[15];
r. any provision obligating the City to provide "light duty" to any employee who is unable to perform the essential functions of his or her job, with or without reasonable accommodation and without posing a direct threat to the health or safety of the employee or others;
s. any provision which expands the bargaining unit employees' rights to present grievances to the City or to appeal grievances to arbitration.

WF03. <u>Avoid Continuation of Provisions Inconsistent with Recovery Plan</u>

No person or entity, including (without limitation) the City, any union representing City employees, and any arbitrator appointed pursuant to Act 111, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the Recommendations made herein.

WF04. <u>Extended Contract Terms to Remain Consistent with Recovery Plan</u>

If this Plan is extended to cover any period of time subsequent to its initial term, then, unless and until the initiatives made in this section of this Chapter of this Plan are revised, any labor agreement between the City and any union representing City employees (whether resulting from collective bargaining, interest arbitration pursuant to Act 111 or otherwise) covering such subsequent period shall comply with the Recommendations made herein without regard to the period of agreement specified in any such Recommendation.

WF05. <u>Two Year Wage and Step Freeze</u>

An across the board wage and step[16] freeze shall be applied for the first two years of each new collective bargaining agreement or arbitration award term under the period of the Recovery Plan. Wage increases in subsequent years shall not exceed 2.5 percent annually, and, if the parties negotiate to resume the step progression, such steps shall resume from the frozen level rather than being accelerated to “catch up” to the step that would have been reached without a freeze.[17]

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work force; create, abolish and change jobs and job duties; determine employees’ hours and days of work, work schedules, shifts and reporting stations; determine whether to assign overtime and the amount required; require employees to work overtime; determine when a job vacancy exists, and select the best qualified candidate to fill it; take necessary actions in emergency situations; extend, curtail or change City operations and otherwise manage the City, its operations and its employees in its discretion.

[15] This provision is not intended to eliminate pay for routine police court appearances pursuant to subpoenas regarding matters handled by an officer while on duty. Rather, this provision shall provide clear management discretion to avoid automatic City pay and/or guaranteed minimum rates for attendance at grievance proceedings and other internal hearings, court appearances regarding personal affairs, etc..

[16] Step increment in the context of this initiative shall include all provisions for automatic pay progressions for all City employees (e.g., AFSCME A step and PJCBC new hire reduced percentages).

[17] Savings from wage moderation are calculated against assumed baseline “status quo” wage increases of 3.5% in FY2005 and 3.0% thereafter. Calculations further take into account the “roll up” impact of base wage changes on other components of compensation such as overtime, FICA, leave buybacks, and severance payments.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$5,596,883	$11,140,981	$13,150,287	$14,966,973	$16,476,908

WF06. Redesign Healthcare Plan with Employee Contributions

A redesigned healthcare plan and employee contribution structure shall be implemented for all active employees no later than January 1, 2005 such that 2004 average costs per participant (including medical coverage, dental, and vision benefits in the aggregate) are reduced by 5.0 percent in year one, with future growth held at or below 9.0 percent in all future years. The revised plan design as of January 1, 2005 will be based on the average costs for those employees not covered by provisions of existing collective bargaining agreements without re-openers that were negotiated prior to the adoption of this Recovery Plan. As these existing collective bargaining agreements[18] expire, all groups shall be moved under a single Citywide benefit program designed within the cost parameters above so as to achieve consistency, minimize administrative overhead, and maximize buying power.[19] Opportunities for broader joint benefits programs shall also be explored. To continue to meet the above guidelines for ongoing cost containment, annual adjustments shall be made to plan design and employee contributions as necessary. City subsidies toward supplemental vision and dental care plans may also be reduced. The City shall not improve the benefit program while the Recovery Plan is in effect, even if market and/or experience factors result in underlying aggregate cost growth below the maximum rates of increase set forth above.

According to analysis developed by the City's benefits consultant, Towers Perrin, implementation of the proposed "Next Generation" plan redesign as put forward by the City would be expected to achieve an approximately 5.0 percent first-year cost reduction as mandated by the Coordinator above. Under Towers Perrin's projections regarding underlying healthcare cost growth, however, the initiative mandated by the Act 47 team would be expected to require further benefit design and/or employee contribution changes on an ongoing, annual basis beyond the initial Next Generation model in order to continue to contain cost growth within the mandated levels.

The Act 47 team further notes that the Intergovernmental Coordination Authority (ICA) has engaged a benefits consultant to assess the current City program. Upon completion of this ICA analysis, the City shall review and consider the findings and recommendations therein. The Act 47 team strongly urges the City and its employee groups to consider any such findings and recommendations that may be beneficial toward reaching or exceeding the cost containment levels mandated above and/or that would otherwise lead to improved benefits management.

Further minimum guidelines for benefit structure and plan design shall include:

a. Establishment of an employee contribution toward the most affordable coverage option set at 15 percent of tier cost, with employees further paying the full incremental cost of any more expensive options. Alternative contribution structures (e.g., based on a percentage of salary rather than benefit cost) may be substituted with the approval of the Coordinator, so long as equivalent savings are achieved).

[18] FAPP agreement expires December 31, 2005 and the PJCBC agreement expires December 31, 2006. While the IAFF agreement also continues in part until December 31, 2005, it includes a re-opener for health benefits and is, therefore, subject to the changes above effective January 1, 2005.

[19] If substantial savings can be demonstrated subject to validation by the Coordinator, employee groups may be exempted from the primary Citywide benefits program if participating in an alternative pool more economical to the City

b. Increased office visit and prescription drug co-payments, coinsurance, and other cost sharing mechanisms with periodic upward adjustments for inflation and/or changing market conditions.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$5,142,783	$7,748,269	$11,239,239	$14,959,400	$19,420,669

WF07. Limit Healthcare Bonus Waiver Obligation

The bonus waiver for healthcare insurance shall not be increased. In addition, the City shall retain the right to adjust the bonus waiver to reduce City healthcare costs.

WF08. Limit Health Benefits for Part-Time Personnel

Consistent with the current benefit program for most bargaining units, part-time employees shall not receive City-paid health and welfare benefits.[20] Part-time personnel may be allowed to purchase benefits at the City's cost.

WF09. Strengthen Workers' Compensation Cost Controls

A strengthened workers' compensation cost control program shall be adopted, and all collective bargaining agreements shall be modified to comply with such program, which shall include, but not be limited to, the following elements:

a. All employees shall be required to treat with panel physicians for at least 90 days following the date of injury. This provision is already in place for most City employees, and shall be extended to firefighters effective no later than January 1, 2006. This extension will allow the City's panel physicians to provide treatment, examination and evaluation to all City employees in similar fashion for the first ninety days of disability.
b. Beyond the first 90 days following the date of injury, no supplemental wage replacement payments, healthcare benefits, or leave accruals shall be provided beyond applicable statutory minimums, if any, unless the employee continues to treat with the City's panel physicians.
c. All bargaining unit agreements shall be revised to provide that employees with short term disabilities may be assigned to modified or light duty assignments in any department within the City. Currently, modified and light duty assignments are generally made to employees with short term disabilities only within their departments.

The Act 47 team further notes that the Intergovernmental Coordination Authority (ICA) has engaged a consultant to assess the current City workers' compensation program. As also mandated in the Workers' Compensation chapter of this Recovery Plan, the City shall review and consider the findings and recommendations therein, and seek to implement any that may be beneficial toward improving cost containment and overall program management.

WF10. Mandatory Post-Incident Drug and Alcohol Testing

Employees may be required to undergo drug and alcohol testing following reportable on-the-job accidents or injuries.

WF11. Limit Extended Healthcare Coverage

Individuals who are laid off and who are eligible to receive City healthcare benefits will be limited to three months of coverage as of the date of layoff. Individuals who are disabled due to

[20] As described in the section of this chapter addressing Service Employees Local 192-B, School Crossing Guards will continue to receive individual health benefit coverage, but will be required to pay the full cost of any dependent coverage.

a non-work related illness or injury who are eligible for City healthcare will receive coverage for no more than twelve months from the date of disability.

WF12. Limit Vacation Accrual during Extended Absences
An employee shall not be permitted to accrue vacation during his/her long-term absence from work due to non-work related disabilities.

WF13. Overtime Reduction
The City shall reduce overtime expenditures from FY2004 Budget levels of more than $10 million (including police officer court premium pay and firefighter call-back pay) by at least 10 percent. The following measures shall be adopted to reduce and control overtime costs in support of this savings target:

a. Payment of overtime premium of time and one half or compensatory time where appropriate only for hours worked beyond forty hours in a workweek (excluding firefighters). Paid leave, whether or not authorized and other hours not worked shall not be included in the calculation of forty hours required to invoke premium pay.

b. Premium pay of any kind, including overtime (and call-back pay for firefighters), shall not exceed 1 and 1/2 half times the employee's hourly rate for non-holiday overtime or 1 and 1/2 half times the employee's hourly rate plus holiday pay if the employee is eligible, for work performed on holidays.

c. For police officers, the City shall not be required to pay more than 1 and 1/2 times the employee's hourly rate for time spent in training.

d. Any other practices and provisions of the collective bargaining agreement which limit the City's ability to control and reduce overtime and other premium pay time shall be eliminated.

e. All labor agreements shall contain a provision prohibiting pyramiding of overtime and other premium pay; and shall contain provisions authorizing the City, in its discretion, to award compensatory time off in lieu of overtime pay for overtime hours worked.

f. All supper money payments shall be eliminated, thereby eliminating any incentive to extend an overtime assignment to receive such supplemental cash compensation.

The savings shown below have been discounted to reflect existing collective bargaining agreements which will expire in the out-years of this Recovery Plan.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	17.6%	1.6%	0.0%	0.0%	0.0%
Fiscal Impact	$0	$1,029,550	$1,230,524	$1,276,655	$1,308,062	$1,340,764

WF14. Longevity Pay Freeze and New Hire Elimination
Longevity pay shall not be provided to employees hired after the date of adoption of this Plan or to on-board employees who are not currently eligible for and receiving such pay, and shall be frozen for existing employees who are currently eligible for and receiving such pay (i.e., if an individual currently earns a 5 percent longevity premium based on tenure, that individual's longevity premium percentage rate shall not increase beyond 5 percent even as additional years of service are attained). The savings below reflect the application of the above proposal to sworn police and fire personnel, which represent 98 percent of total City spending on

longevity pay, and have been discounted by 50 percent to account for attrition-related changes in workforce composition.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	50%	50%	50%	50%	50%
Fiscal Impact	$0	$239,049	$461,242	$655,442	$843,030	$1,037,913

WF15. Limit Tuition Reimbursement to 50 Percent

The amount of tuition reimbursement shall be limited to 50 percent. The tuition reimbursement incentive provisions shall be revised to specify that employees are eligible for such reimbursements only with respect to degrees that relate directly to their work for the City and are approved in advance by the City. Payment shall be made only upon presentation of evidence of achievement of a passing grade. The savings shown below have been discounted to reflect existing collective bargaining agreements which will expire in the out-years of this Recovery Plan.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	41.0%	9.0%	0.0%	0.0%	0.0%
Fiscal Impact	$0	$44,190	$68,136	$74,889	$74,889	$74,889

WF16. Limit Paid Holidays to 10 Annually

Paid holidays shall be limited to 10 per year.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	86.4%	0%	0%	0%	0%
Fiscal Impact	$0	$101,367	$743,615	$759,944	$778,924	$798,397

WF17. Fully Implement Sickness and Accident Plan and Eliminate Prior Systems

The City's Sickness and Accident Plan shall apply to all employees regardless of date of hire.[21] Employees will no longer receive sick days, and existing sick banks shall be frozen. Additionally, employees will be required to use any previously accumulated sick days before other leave due to illness. Payment of unused sick leave on retirement, death or other termination of employment shall not exceed 50 percent of the total days accrued (e.g., if the accrual of unused sick days is capped at 150 days and a retiree is carrying 150 days, then payout shall not exceed 75 days). Sick day buyback programs will take place at the sole discretion of management, however, leave buybacks shall not be offered to non-union employees unless offered under the same terms for unionized employees within the same department. The savings shown below have been discounted to reflect existing collective bargaining agreements which will expire in the out-years of this Recovery Plan.

[21] Employees will be eligible for short-term disability (STD) benefits under the following conditions: (1) the employee is eligible for disability on the later of either the 22nd day of disability or the exhaustion of all sick days; (2) the core benefit paid by the City for STD and long-term disability LTD may not exceed 50% of salary and additional coverage purchased by employee contribution may not exceed 60% of salary; and (3) coverage may not exceed one year for disabilities preventing employment in the employee's own occupation and limits the level of benefit to 20% for employees not eligible for Social Security Disability after two years of disability.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	32.7%	1.5%	0.0%	0.0%	0.0%
Fiscal Impact	$0	$654,442	$958,268	$996,280	$1,020,675	$1,046,192

WF18. **Limit Vacation Accrual Levels**

Vacation eligibility shall continue at a maximum of two weeks for employees with 1-4 years service, three weeks for those with 5-9 years service, and shall be capped at a maximum of four weeks thereafter.

WF19. **Restrict Leave and Benefit Accruals for Inactive Employees**

The labor agreement shall specify that only employees who are actively at work accrue vacation or other benefits.

WF20. **Establish Subcontracting Flexibility**

The City shall be permitted to subcontract operations without limitation or restriction, as it deems beneficial.

WF21. **Eliminate/Avoid Mandatory Staffing Requirements**

There shall not be any mandatory staffing levels including tables of organization.

WF22. **Establish/Maintain Layoff Flexibility**

Labor agreements shall not contain “no layoff” clauses. Layoff procedures shall provide for layoffs within job classifications and reasonably defined layoff units so as to limit operational and service disruption in the event that layoffs are necessary. To the extent that Section 20.1 of the General Civil Service portion of the Second Class City Code constrains the City’s ability to implement layoffs of certain employees within job classifications and/or operationally practical layoff units, the City shall petition the General Assembly to revise the Second Class City Code to provide for a more reasonable level of managerial flexibility.

WF23. **Overtime Assignment Flexibility**

Employees shall not be permitted to refuse overtime except in cases of legitimate hardship.

WF24. **Achieve Statutory Compliance for Pension Plans**

Pension plans shall be modified so as to be brought into compliance with statutes (subject to vesting requirements).

WF25. **Contain Post-Retirement Healthcare Cost**

The following modifications shall be made to post-retirement health benefits:

a. The City shall no longer provide retiree healthcare to employees hired following the date of adoption of this Recovery Plan (or following the expiration of an existing collective bargaining agreement covering that employee, if subsequent to the Recovery Plan adoption date).

b. For all employees retiring after the date of adoption of this Plan (or following the expiration of an existing collective bargaining agreement covering that employee, if subsequent to the Recovery Plan adoption date), increases in healthcare premiums after the date of retirement shall be paid by the retiree. This is currently the contribution structure for FOP retirees, but IAFF retirees do not yet pay such incremental costs.

c. The City shall maintain the level of benefits provided to existing retirees but shall retain the right to change the provider.

d. The healthcare, pension or other benefits currently provided to existing retirees and vested employees shall not be increased.

Discounted Fiscal Impact[22]

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$0	$51,540	$170,084	$374,570	$688,117

WF26. Labor Agreement Implementation Delay Adjustment

To the extent that any bargaining unit does not have a new collective bargaining agreement in place consistent with the Recovery Plan as of the latter of January 1, 2005 or the day immediately following expiration of any existing agreement, then an Implementation Delay Adjustment shall be made to account for foregone savings in benefits, premium pay, and other cost factors resulting from such delayed settlement (or, as applicable, Act 111 arbitration award). For each month of delay, the settlement eventually reached shall include a 1.0 percent wage decrease for the twelve-month period following ratification (or, as applicable, the date of issuance for an Act 111 award). For example, if a contract expires December 31, 2005 and a new Agreement is not reached until March 31, 2006, then a three-month Implementation Delay Adjustment shall be implemented in the form of a 3.0 percent wage decrease to be effective from April 1, 2006 through March 31, 2007.

II. Union Employees: Bargaining Unit Specific Issues

In addition to the mandatory initiatives set forth in Section I above, the following additional, specific mandates for the various bargaining units are cited below.

FOP

The City's police officers, including the Captain, the Lieutenant, Sergeant, Firearms Instructor and other uniformed officers, comprise a bargaining unit represented by Fort Pitt Lodge No. 1 of the Fraternal Order of Police ("FOP"). The current working agreement, which expires on December 31, 2004, memorializes the terms and conditions of the police officers' employment and the rights and duties of the bargaining unit employees, the FOP and the City. In addition to the mandatory initiatives set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator mandates the following specific initiatives for the FOP, which will become binding upon the date of adoption of this Recovery Plan:

WF27. FOP Labor-Management Committee

Any labor agreement between the City and the FOP entered into after the adoption date of this Recovery Plan (whether resulting from collective bargaining or interest arbitration pursuant to Act 111 or otherwise) shall require that the parties work to establish an effective labor management committee and to negotiate and implement functional operating guidelines and procedures to enable the labor management committee to function as an effective forum for discussion and resolution of workplace issues, other than grievances

WF28. FOP Fitness Standards

Any labor agreement between the City and the FOP entered into after the adoption date of this Recovery Plan (whether resulting from collective bargaining or interest arbitration pursuant to

[22] The primary impact of this initiative would be to improve the City's long-term fiscal position, with much of the benefit occurring beyond the period shown above. The savings shown do not reflect these significant long-term benefits as might be estimated actuarially, but rather are based on the new firefighter retiree health contribution structure mandated above.

Act 111 or otherwise) shall contain a provision authorizing the City to implement validated fitness standards for all active bargaining unit members.

WF29. Eliminate Master Police Officer Position Prospectively
The position of Master Police Officer shall be eliminated prospectively. Current personnel holding the title may be grandfathered, subject to meeting Management-developed performance guidelines.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$86,773	$86,773	$225,962	$502,644	$805,648

WF30. Police Civilianization Flexibility
Positions which do not require police training and certification shall be civilianized. See Police chapter for quantified impact.

WF31. FOP Schedule Change Flexibility
The City shall be permitted to change an employee's schedule at least 10 times per year. In addition, there shall be no limit on the number of times the City can change an employee's duty location.

IAFF

The City's firefighters, including all uniformed fire department personnel and Captains, comprise a bargaining unit represented by the International Association of Firefighters, Local Union No. 1 ("IAFF"). The current agreement, which expires on December 31, 2005, (but has an economic re-opener in 2004 for 2005 wages and benefits) memorializes the terms and conditions of the firefighters' employment and the rights and duties of the bargaining unit employees, the IAFF, and the City. In addition to the mandatory initiatives set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator mandates the following specific initiatives for the IAFF, which will become binding upon the date of adoption of this Recovery Plan:

WF32. IAFF Reopener Negotiations
The City and the IAFF will meet as soon as possible to reach agreement on implementation of these Recommendations that are appropriate under the agreed to economic re-opener for 2005.

WF33. Fire Bureau Management Flexibility
In addition to and consistent with the general Management Rights provisions set forth in Section I "All Employees: Non-Union and All Unions", unless, and only to the extent that, applicable law requires a change in any of the wages, benefits, terms, provisions or conditions enumerated herein, all new labor agreements between the City and IAFF (whether resulting from collective bargaining between the parties or interest arbitration pursuant to Act 111 as applicable or otherwise) covering calendar years 2004 through 2009 and subsequent years (or any portion thereof) **must not** contain, require or provide for any of the following:

a. any provision limiting the City's ability to determine, in accordance with applicable civil service regulations, the requirements for any position or promotion or whether an individual meets such requirements;
b. any minimum manning provision;
c. any provision which restricts or impairs the City's ability to procure fire protection services from any source.

WF34. IAFF Labor-Management Committee

Any labor agreement between the City and the IAFF entered into after the date of adoption of this Recovery Plan (whether resulting from collective bargaining or interest arbitration pursuant to Act 111 or otherwise) shall require that the parties work to establish an effective labor management committee and to negotiate and implement functional operating guidelines and procedures to enable the labor management committee to function as an effective forum for discussion and resolution of workplace issues, other than grievances

WF35. IAFF Fitness Standards

Any labor agreement between the City and the IAFF entered into after the adoption of this Plan (whether resulting from collective bargaining or interest arbitration pursuant to Act 111 or otherwise) shall contain a provision authorizing the City to implement validated fitness standards for all active bargaining unit members.

WF36. Fire Bureau Organizational Flexibility

There shall be no restriction on the City's ability to subcontract, civilianize, or consolidate functions with other governments.

WF37. Fire Bureau Staffing Flexibility

The City need not staff all stations or companies at all times. The City shall have the right to determine the number and location of fire stations and companies, which includes the right to eliminate unnecessary stations and companies, in its discretion. There shall be no minimum staffing levels of any kind, whether for stations, apparatus, on an aggregate basis, or on any other basis. In addition, the City shall have the ability to put stations and/or companies out of service on a temporary or permanent basis. See Fire chapter for quantified impact of measures utilizing staffing flexibility.

WF38. Eliminate Master Firefighter Position Prospectively

The position of Master Firefighter shall be eliminated prospectively. Current personnel holding the title may be grandfathered, subject to meeting Management-developed performance guidelines.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$0	$26,934	$27,607	$127,337	$166,776

WF39. IAFF 2005 Salaries Adjustment

Because the term of the existing IAFF collective bargaining agreement extends through December 31, 2005 for multiple issues not subject to the 2004 reopener, the Recovery Plan can not compel certain changes during FY2005. To achieve equitable savings across the Plan period, a one-time downward adjustment to base wages shall be made during FY2005 beyond the wage freeze recommended for the City workforce generally. At the end of twelve months of implementation, base wages shall be restored to FY2004 levels prospectively with no retroactivity. This adjustment shall be equivalent to the cost of maintaining non-essential staffing levels during FY2005 of $10.7 million. In turn, this lump sum cost is projected to equate to a 17.1 percent across-the-board wage reduction for FY2005.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$10,753,449	$0	$0	$0	$0

Teamsters

All full-time and regular part-time employees employed in Animal Control, City Refuse and Rodent Control departments comprise a bargaining unit represented by the Teamsters Local Union No. 249. The City and the Teamsters are parties to a collective bargaining agreement which was effective, from January 1, 1999 to December 31, 2003. 2004 is the first year this Plan can mandate changes in the current labor agreement. In addition to the mandatory initiatives set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator mandates the following specific initiatives for the Teamsters, which will become binding upon the adoption of this Recovery Plan:

WF40. **Teamsters Labor-Management Committee**
Any labor agreement between the City and the Teamsters entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee to negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances

WF41. **Teamsters Temporary and Part-Time Workers Flexibility**
The City shall not be restricted from hiring employees on a temporary, part-time basis with no benefits but with preferential treatment when filling permanent positions.

AFSCME Local 2037

All employees employed as Supervisors and Foreman comprise a bargaining unit represented by AFSCME Local Union No. 2037. The City and AFSCME are parties to a collective bargaining agreement which is effective, from January 1, 2001 to December 31, 2004. 2005 is the first year this Plan can mandate changes in the current labor agreement. In addition to the recommendations set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator makes the following specific recommendations for AFSCME, Local No. 2037, which will become binding upon the adoption of this Recovery Plan:

WF42. **AFSCME 2037 Labor-Management Committee**
Any labor agreement between the City and the AFSCME entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee to negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

AFSCME Local 2719 Employees

All full-time and regular part-time employees employed in clerical and technical positions, including but not limited to Clerks, Inspectors, Computer Programmers and analysts, comprise a bargaining unit represented by AFSCME Local Union No. 2719. The City and AFSCME are parties to a collective bargaining agreement which is effective, from January 1, 2001 to December 31, 2004. 2005 is the first year this Plan can mandate changes in the current labor agreements. In addition to the recommendations set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator makes the following specific recommendations for AFSCME Local Union No. 2719, which will become binding upon the adoption of this Recovery Plan:

WF43. **AFSCME 2719 Labor Management Committee**
Any labor agreement between the City and the AFSCME entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee and negotiate and implement functional operating

guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

WF44. AFSCME 2719 Full-Time 40 Hour Work Week
The City will not enter into a contract that defines or allows a full-time employee to regularly work less than 40 hours per week.

PJCBC

All full-time and regular part-time employees employed in Crafts, or as Drivers and Laborers comprise a bargaining unit represented by The Pittsburgh Joint Collective Bargaining Committee ("PJCBC"). The City and the PJCBC are parties to a collective bargaining agreement which is effective, from January 1, 2003 to December 31, 2006.

The Coordinator has asked the PJCBC to agree to meet with the City to discuss the possibility of changes to the existing labor agreement to reduce the current cost per PJCBC employee and appreciates PJCBC's expressed willingness to meet to discuss these issues. While the Coordinator cannot compel the PJCBC employees to relinquish or forego any of the rights, benefits or compensation provided in the existing labor agreement, the Coordinator urges the PJCBC to agree to do so in the long-term interests of the City and the bargaining unit employees. The City and PJCBC should work cooperatively together to reduce the cost Per PJCBC employee in ways that will have the least negative impact on the bargaining unit members' take home pay and productivity.

2007 is the first year this Plan can mandate changes in the current labor agreements. In addition to the recommendations set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator makes the following specific recommendations for the PJCBC, which will become binding upon the adoption of this Recovery Plan:

WF45. PJCBC Labor-Management Committee
Any labor agreement between the City and the PJCBC entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee and negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

WF46. PJCBC Out-of Classification Work
The City will not enter into a contract that provides monetary relief in grievance arbitration over "out of classification work."

WF47. PJCBC Assignment Flexibility
The City will not be required to pay a premium to employees for work within their job descriptions.

WF48. PJCBC Use of Volunteers in the Parks
The City shall not be constrained in the use of volunteers for park clean-up and other park improvement projects to supplement regular staff duties.

SEIU Local 192-B

All regular and substitute School Crossing Guards comprise a bargaining unit represented by SEIU Local Union No. 192-B. The City and the SEIU are parties to a collective bargaining agreement which was effective, from January 1, 2001 to December 31, 2003.

In addition to the mandatory initiatives set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator mandates the following specific initiatives for SEIU Local Union No. 192-B, which will become binding upon the adoption of this Recovery Plan:

WF49. **SEIU 192-B Labor Management Committee**
Any labor agreement between the City and the SEIU entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee and negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

WF50. **Crossing Guard Annual Schedule**
The City shall limit the number of days a School Crossing Guard may work, including time worked as a pool attendant, to less than 200 days per year.

WF51. **Crossing Guard Benefit Cost Containment**
The City shall limit health and other welfare benefits to no more than individual coverage only for School Crossing Guards. Coverage for dependents shall only be made available if the full incremental cost is contributed by the employee.

WF52. **Crossing Guard Pensions**
The City shall no longer offer pension rights to School Crossing Guards.

SEIU Local 585

All full-time and regular part-time employees employed as Recreation Teachers comprise a bargaining unit represented by SEIU Local Union No. 585. The City and the SEIU are parties to a collective bargaining agreement which is effective, from January 1, 2001 to December 31, 2004.

2005 is the first year this Plan can mandate changes in the current labor agreement. In addition to the mandatory initiatives set forth for all employees in Section I. "All Employees: Non-Union and All Unions" above, the Coordinator mandates the following specific initiatives for SEIU Local Union No. 585, which will become binding upon the adoption of this Recovery Plan:

WF53. **SEIU Local 585 Labor Management Committee**
Any labor agreement between the City and the SEIU entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee and negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

FAPP

All full-time and regular part-time employees employed as paramedics comprise a bargaining unit represented by The Fraternal Association of Professional Paramedics ("FAPP") Local Union 1-IUPA, Local 22 affiliation. The City and the FAPP are parties to a collective bargaining agreement which is effective, from January 1, 2001 to December 31, 2005.

The Coordinator has asked the FAPP to agree to meet with the City to discuss the possibility of changes to the existing labor agreement to reduce the current cost per employee and appreciates FAPP's expressed willingness to meet to discuss these issues. While the Coordinator cannot compel the FAPP employees to relinquish or forego any of the rights, benefits or compensation provided in the existing labor agreement, the Coordinator urges the FAPP to agree to do so in the long-term interests of the City and the bargaining unit employees. The City and FAPP should work cooperatively together to reduce the current cost per employee in ways that will have the least negative impact on the bargaining unit members' take home pay and productivity.

2006 is the first year this Plan can mandate changes in the current labor agreements. In addition to the mandatory initiatives set forth for all employees in Section I. “All Employees: Non-Union and All Unions” above, the Coordinator mandates the following specific initiatives for FAPP, which will become binding upon the adoption of this Recovery Plan:

WF54. **FAPP Labor Management Committee**
Any labor agreement between the City and the FAPP entered into after this Plan is adopted (whether resulting from collective bargaining or otherwise) shall require that the parties establish an effective labor-management committee and negotiate and implement functional operating guidelines and procedures to enable the labor-management committee to function as an effective forum for discussion and resolution of workplace issues other than grievances.

WF55. **FAPP Job Classifications**
The labor agreement shall not mandate any specific positions, such as the mail car, PPD, supply car or EOC crew chief.

WF56. **FAPP Training**
The City shall not be required to provide training above what is required for State certification.

WF57. **FAPP Part-Time Staffing Flexibility**
The labor agreement shall not restrict part-time staffing or the City’s ability to deploy combination units.

WF58. **FAPP Shift Flexibility**
The labor agreement shall not define the structure of shifts. This right shall be reserved for management.

WF59. **EMS Bureau Organizational Flexibility**
The labor agreement shall not restrict the City’s ability to transfer City EMS functions to an authority or other alternative governance structure, nor shall the City be constrained with regard to subcontracting and/or civilianization as appropriate.

City of Pittsburgh Employees By Department Ten-Year History (1994-2003)
Headcount as of December 31st for all years except 2003 (which uses November data)

Department	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Change 1994-2003
City Council and City Clerk's Office	41	38	40	35	36	38	37	35	33	46	5
Mayor's Office	80	83	81	84	80	80	78	82	88	80	0
Pittsburgh Magistrates Court	32	29	30	33	30	32	32	37	38	34	2
Commission on Human Relations	11	10	7	7	7	8	7	9	7	8	(3)
City Controller's Office	69	67	66	65	64	62	62	61	62	63	(6)
Finance	119	103	100	91	86	88	89	93	98	89	(30)
Law	32	29	32	36	35	40	41	41	41	33	1
Personnel and Civil Service Commission											0
Employee Development	31	26	22	21	21	21	21	22	21	19	(12)
Employee Compensation					8	7	10	9	10	9	9
Pittsburgh Partnership	37	35	36	36	34	41	41	46	44	45	8
Light Duty Program					8	10	10	10	8	2	2
City Planning	50	44	38	32	37	40	38	39	38	29	(21)
Parks and Recreation	162	109	108	104	107	104	105	107	106	57	(105)
General Services	230	217	205	188	184	178	174	174	177	150	(80)
Public Safety											0
Police	1281	1232	1268	1183	1158	1098	1191	1191	1162	900	(381)
Fire	872	850	830	869	849	886	893	902	874	838	(34)
Emergency Medical Services	161	167	164	161	167	201	202	218	211	177	16
Buildings and Inspections	62	57	55	65	61	65	65	66	63	65	3
Communications	75	70	70	74	70	72	75	69	76	71	(4)
School Crossing Guards	227	205	227	224	215	210	209	205	205	183	(44)
Public Safety Civilian	30	29	23	26	35	34	35	35	40	48	18
Engineering and Construction	85	70	69	70	68	66	67	63	69	61	(24)
Public Works	811	746	735	705	674	682	662	677	671	605	(206)
											0
Total	**4498**	**4216**	**4206**	**4109**	**4034**	**4063**	**4144**	**4191**	**4142**	**3612**	(886)

Note(s): Data above not adjusted for various transfers of functions and organizational changes, including completion of Zoo privatization (38 positions) in 1995.
Figures for December 31, 2003 not readliy available by department, however, aggregate year end headcount was slightly higher than shown above at 3,632.

4. Intergovernmental Cooperation

Intergovernmental Cooperation

The City and the County, and more recently, the School District, have a history of discussions, and some initial success, with intergovernmental cooperation – joint provision of services, provision of services by one entity for another, and joint purchasing efforts. Such initiatives represent an important strategy for achieving economies in public service delivery, and are strongly endorsed by the Act 47 team.

Merger of City-County 911 Service

One major step forward in intergovernmental cooperation was taken earlier in 2004 with the City's decision to merge its 911 emergency call system with the 911 system operated by Allegheny County. According to the Pennsylvania Emergency Management Agency (PEMA), the merger will contribute to the health and safety of Pittsburgh's residents. Most City 911 personnel, their salaries and operating costs, along with most of the City's 911 fee structure, will be transferred to the County.

Merger allows the City to avoid approximately $4.8 million in capital expenditures on its 911 system, including a $1.9 million renovation to the Railroad Street facility, a $2.2 million improvement to radio infrastructure, a $375,000 upgrade to the Computer Aided Dispatch (CAD) system and a $350,000 required reimbursement to Allegheny County for improvements it has already made to the City's 911 system. Instead, the City will have to invest only around $400,000 on CAD, radio improvements and moving expenses, for net capital expenditure savings of approximately $4.4 million. The City also expects to save over $1.0 million in operating expenses each year, as highlighted in the Initiatives section of this Chapter below.

City-County Joint Purchasing Efforts

In another important step forward, the City and County recruited the Allegheny Conference on Community Development/Pennsylvania Economy League (AC/PEL) in 2003 to perform an independent analysis of cooperation opportunities in joint purchasing among the City, County and School District.

AC/PEL developed a productive working relationship among the three agencies and engaged local business leaders and private procurement experts to assist. An initial series of workshops was held during October, 2003 where opportunities in four major purchasing categories were explored. Monthly meetings of these workshops, attended by the procurement specialists for the City, County and School District, have continued into 2004. As recently as April, 2004, these three entities have been joined by representatives of the Allegheny County Airport Authority, Port Authority of Allegheny County, Housing Authority of the City of Pittsburgh and Pittsburgh Water and Sewer Authority.

The City and County spend a total of about $39 million per year in the following four categories – uniforms ($3.1 million), utilities ($13.6 million), telecommunications ($5.2 million) and vehicle purchase and maintenance ($16.7 million). Of the vehicle purchase amount, most of that funding comes from CDBG or Capital Budget funds. Opportunities in each of these procurement categories have been identified and shall be pursued by the City through its continuing participation in these workshops.

In addition, the continuing monthly meetings have spawned discussion of jointly bidding several other items, including flags, landscape supplies, pagers, swimming pool chemicals, ammunition, bituminous patching materials, lumber, ceiling tile, drywall, photographic supplies, plumbing supplies and pre-cast and ready mix concrete. These discussions include the timing of expiration of current contracts, joint bidding and piggybacking by one entity on another's existing contracts.

More generally, the agencies have reviewed their respective public procurement regulations and current contracts in an effort to make their respective regulations and practices compatible in order to facilitate these joint efforts. Incompatibilities which must be addressed include the inconsistent monetary levels, among the three agencies, at which formal awards to the lowest responsible bidder (as opposed to informal taking of quotations) are required, advertising requirements, minority and women-owned business requirements, approval processes and performance metrics.

In view of the commitments to increased City-County cooperation and joint provision of services made recently by City and County elected officials as discussed below, and based upon these recent successful efforts by City and County purchasing professionals, it is imperative that some actions be taken immediately by the City to capture available efficiencies in purchasing. Other areas of joint purchasing require further discussion, review and negotiation between the City and County, hopefully with the increasing participation of the School District.

Joint Provision of Services

Another important set of intergovernmental efforts has been initiated by state legislators. Senators Jane Orie and Jack Wagner initiated discussions with members of Allegheny County Council and Pittsburgh City Council about convening a meeting for policy makers to talk about possible cooperation between the two entities. On February 12, 2004, representatives and members of the Governor's Office, State Senate, State House of Representatives, Allegheny County Council, Allegheny County Chief Executive and Pittsburgh City Council attended an initial meeting at the Allegheny County Courthouse.

At this February 12th City-County "Summit," participants discussed various opportunities for shared services, consolidation and cooperation. As part of that discussion, it was determined that working groups would begin convening to address each of these opportunities in more detail. The participants set a 40-45 day window for each of those groups to report back to the full group with specific recommendations.

Eight working groups were established: Economic Development, Facilities, Information Technology, Parks, Public Safety, Public Works, Purchasing and Tax Collection. Four of the groups were chaired by a member of County Council; four were chaired by a member of City Council. Each group had representation from the General Assembly, the County's Legislative and Executive branches, and the City's Legislative and Executive branches and began meeting shortly after the "Summit".

Each Chair was charged with completing its task and submitting a report to the organizers of the "Summit" by March 26, 2004. The City-County "Summit" reconvened on April 1, 2004 to allow each Chair an opportunity to present a summary of the working group's recommendations to the full body.

As an outgrowth of these meetings, there are multiple actions to be taken immediately, as well as several potential areas of joint provision of services meriting further research and then decision. These initiatives, as well as the 911 service merger and other joint purchasing measures, are further detailed below.

Initiatives

IG01. **911 Consolidation**

The City shall continue to work to fully implement the merger of City and County 911 services.

Discounted Fiscal Impact – City-County 911 Merger

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$1,043,237	$1,147,910	$1,276,919	$1,378,057	$1,488,645

IG02. Co-Locate City-County Purchasing Departments

No later than January 1, 2005, the City shall co-locate its purchasing department with the County at the County's facilities. No later than July 1, 2005, the City shall turn over its purchasing operation to the County which shall provide all purchasing services for the City. The City, through the Mayor's and Solicitor's Offices, shall negotiate an agreement with the County, for a transition period determined by the parties, pursuant to which the City reimburses the County for the cost of City purchasing personnel hired by the County to provide services for the City. The agreement should include a provision requiring the County to give priority consideration in hiring to current City purchasing professionals and support staff.

The County currently employees 14 staff members in its purchasing department (including two vacancies) and the City has approximately eight FTEs within a broader Administrative unit. Preliminary estimates indicate that the County can absorb the purchasing requirements of the City with the transfer of two City buyers and associated funding. Therefore, the City will be able to achieve net budget savings equivalent to six positions by merging its purchasing function with the County.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	50%	0%	0%	0%	0%
Fiscal Impact	$0	$149,549	$314,053	$329,755	$346,243	$363,555

IG03. Continue Monthly Cooperative Purchasing Workshops

During the interim period prior to transfer of the City purchasing function to the County, the City shall continue to encourage and support the monthly cooperative purchasing workshops, initiated in October, 2003, among the City, County and School District staffs.

IG04. Facilitate Joint Purchasing with the County

Prior to January 1, 2005 co-location, the City shall review its public procurement regulations and current procurement contracts and make changes necessary to make its regulations compatible with County regulations and to otherwise facilitate joint purchasing with the County. This review shall include, without limitation, the term of existing procurement contracts and the monetary levels at which awards to the lowest responsible bidder are required, advertising requirements, minority and women-owned business requirements, approval processes and performance metrics.

IG05. Continue Collaboration with Local Businesses

In its ongoing efforts to expand its joint purchasing relationships, the City shall continue to collaborate with the local business Advisory Group, organized by the AC/PEL, currently consisting of procurement professionals from Bayer Polymers, Carnegie Mellon University, Federal Express Ground, Heinz Endowments, PPG and PNC Bank.

IG06. Joint Purchasing through Merger, Selected Commodities

The City shall continue to give priority attention to three of the four purchasing categories in which the City and County spend a combined total of $39 million per year – uniforms, utilities, telecommunications and vehicles (including maintenance). Based upon FY2002 data provided to the Pennsylvania Economy League as part of City/County Consolidation and Coordination workshops conducted in early 2003, it is estimated that the City and County made overall purchases that annually total $75 and $150 million, respectively. Leveraging this purchasing power as broadly as possible would generate tremendous potential additional savings for both governments. To be conservative, however, the savings estimate for this initiative only covers three commodities. The table below shows the potential savings generated by consolidating City and County purchasing functions when applied to purchases of these commodities.

City/County Savings Projections

	Expenditure		7% Savings		Total
Commodity	**City**	**County**	**City**	**County**	**Savings**
Electricity	$1.9	$4.0	$0.1	$0.3	$0.4
Uniforms	$4.9	$1.2	$0.3	$0.1	$0.4
Telecommunications	$0.8	$4.4	$0.1	$0.3	$0.4
Total	$7.6	$9.6	$0.5	$0.7	$1.2

Figures are in millions and are taken from a Pennsylvania Economy League Study

Savings of $1.2 million can be jointly achieved, assuming a 7.0 percent savings rate. Approximately $500,000 of this amount would be estimated to accrue to the City.

Discounted Fiscal Impact – Joint Purchasing through Merger, Selected Commodities

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$500,000	$512,500	$525,313	$538,445	$551,906

IG07. Join the U.S. Communities Government Purchasing Alliance

The City shall join the U.S. Communities Government Purchasing Alliance. The Law Department shall assist Council in implementing any required amendments to the Home Rule Charter and/or applicable ordinances needed to initiate this membership.

IG08. Expand Use of Reverse Auction E-Bidding Software

The City shall continue to use and expand its use of reverse auction e-bidding software with the assistance of Free Markets.

IG09. Explore Joint Purchasing of Vending and IT Services

The City shall actively discuss with the County and/or the School District joint purchasing of the following services, among others: vending services and information technology services such as server and hardware maintenance and help desk services.

IG10. Consolidation of Information Technology Equipment and Services

The City shall continue to explore with the County a consolidation of information technology equipment and services. This consolidation has been discussed for over a decade with no action taken. The first step has to be a formal commitment by City and County Councils that such a consolidation shall occur and the establishment of a plan to accomplish the consolidation. The plan must include a determination of the eventual information technology structure and architecture and selection of a single set of vendors to support the combined structure at the lowest possible cost. City Council, with the assistance of the Law Department, shall prepare, for review by County Council, a joint resolution committing the two bodies to information technology consolidation and to the preparation of a plan to accomplish that goal. Once the formal commitment to consolidation is made by City and County Councils, the City shall cooperate with the County to assure that the City's efforts are consistent with the consolidation plan. A major component of the consolidation plan shall be savings in personnel costs realized by combining the various skill sets into pools of skill available to both the City and County operations. The plan shall include enterprise resource planning (*e.g.*, combining People Soft software on the County's enterprise license, combining support staffs and consideration of adding payroll production for the City and County); consolidation of e-mail systems and related servers; consolidation of City and County access to internet service providers; and consolidation of programming and other application support.

IG11. **Reimbursement for School Guards**

By July 1, 2004, the City shall resolve with the School District the number, location and cost of school crossing guards and the City shall seek to negotiate an agreement with the School District to reimburse the City, on an annual basis beginning with the 2004-2005 school year, one half the cost of such school guards. The fiscal impact from this initiative can be found in the Revenue chapter of this Recovery Plan.

IG12. **Arson Investigation Transferred to County**

By no later than January 1, 2005, the City shall transfer its arson investigation function to the County which currently provides that service to all Allegheny County communities except Pittsburgh. The City, through the Mayor's and Solicitor's offices, shall negotiate an agreement with the County, for a transition period determined by the parties, pursuant to which the City reimburses the County for the cost of City arson personnel hired by the County to provide investigation services for the City. The agreement should include a provision requiring the County to give priority consideration in hiring to current City arson investigators and staff. Due to the need to reimburse the County for some time, savings equivalent to only one arson investigator is assumed.

Discounted Fiscal Impact – Arson Investigation Transferred to County

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$85,000	$87,125	$91,481	$96,055	$100,858

IG13. **Satellite Booking/Arraignment Centers**

If the County decides to establish satellite booking/arraignment centers at locations throughout the County, including within the City, the City shall transfer its criminal booking/arraignment functions to those satellite centers within three months of their establishment and initial operation.

IG14. **Pet Licensing Transferred to County**

By August 1, 2004, the City shall accept the County's offer to act as the City's agent to collect pet licensing fees for the City. The City and County have discussed for some time the provision of pet licensing services by the County for the City. According to the City Solicitor, the County is designated under the state's Dog Law as the agent of the state to collect dog license fees. Cities of the Second Class (Pittsburgh) are exempt from the licensing provisions of the Dog Law but, pursuant to the Second Class City Code, Pittsburgh has the power, for general revenue purposes, to levy and collect license taxes or fees upon dogs. The City's ordinance addresses the licensing of dogs, tagging of cats and dogs and related issues. The City is authorized to retain dog license fees for itself. Currently the proceeds are placed into a trust fund which pays for the City's animal control program. The County has offered to charge the City $1.00 per license and remit the license fees collected for City dogs to the City. After netting out the $1.00 per license charge, this initiative will likely achieve savings for the City. Because this fiscal impact is expected to be relatively modest, with a final agreement not yet in place, no specific quantified benefit has been assumed for this Recovery Plan.

IG15. **Joint Elevator Maintenance Services with County**

The City shall complete and distribute, in cooperation with the County, a Request for Proposals (RFP) for elevator maintenance services in City and County facilities. The City shall communicate with the School District to determine the School District's interest in joining the RFP.

IG16. **Continue Joint Services Support**

City Council and the Mayor shall continue to encourage and support these joint services provision efforts, either through the current eight working groups, combining elected officials and employee specialists, or other structure agreed upon among the City, County and School District.

IG17. **Equitable Sharing of Security Costs at City-County Building**

The City shall initiate discussions with the County to negotiate an equitable sharing of the costs of providing security for the City-County Building. Currently the approximate $400,000 in annual cost is paid exclusively by the City, although the County occupies a significant portion of the building and in the past has shared that expense.

IG18. **Explore County Payroll Services as Alternative**

The County provides its own payroll services internally while the City has recently outsourced its payroll services to Ceridian. The City shall determine its unit costs for such service and communicate that information to the County. The City and County shall then cooperate to determine whether the County could provide payroll services to the City at less cost than Ceridian.

IG19. **Regional Park System**

In the Parks and Recreation Chapter, this plan calls for a significant reduction in recreation activities (particularly pools) in City parks, compared with levels in place prior to 2003 cuts. These reductions will result in significant cost savings, but also in revenue reductions. While these necessary adjustments are implemented, the City and County shall continue their discussions of a regional park system, combining the operation and maintenance of the County's nine parks (12,000 acres) and the City's four main parks (1,700 acres), comprising Highland, Schenley, Riverview and Frick Parks. The City and County currently receive approximately $20 million in Regional Asset District support for these regional parks. The City shall seek the County's cooperation in initiating discussion (with the help of the Act 47 Coordinator and DCED) with the Commonwealth's Department of Conservation and Natural Resources to determine state financial resources available to support such an intergovernmental, regional effort. Any such regional parks system must address the significant amount of deferred maintenance in both the City and County parks. The City shall include the Pittsburgh Parks Conservancy in these discussions.

IG20. **Agility Agreement**

The City shall continue its efforts to draft, and negotiate with the County, an Agility Agreement to foster joint efforts in sign production, traffic line painting, equipment sharing, inventory control, graffiti control and the sharing of Geographic Information Systems information.

IG21. **Consolidation of Tax Collection Services**

The City shall encourage the continuation of discussions with the County and School District concerning the consolidation of tax collection. The School District currently pays the City approximately $4.7 million per year to collect the School District's real estate, mercantile and earned income taxes.

IG22. **Shared Service Compensation from Adjacent Municipalities**

The City shall initiate negotiations with adjacent municipalities for the City's compensated provision of such services as code enforcement/inspection, policing and fire protection.

IG23. **County Co-Location**

The City shall actively explore with the County co-location of similar functions.

IG24. Shared Facilities
The City shall actively discuss with the County the sharing of facilities currently owned by the City and County.

IG25. SSI Services, Inc.
The City shall continue to support the work of SSI Services, Inc. in its physical review of City and County facilities, with the goals of consolidating services and selling public buildings which have high development potential.

IG26. Cooperative Road Maintenance
The City shall actively explore with the County the initiation or continuation of agreements to control ice and snow on each others' roads and to jointly purchase asphalt.

IG27. Maximize Use of PennDOT's Agility Program
The City shall explore with PennDOT opportunities available through PennDOT's Agility Program and the initiation or continuation of road snow and ice control agreements. The City shall utilize opportunities for "piggyback" purchases through the Commonwealth's Department of General Services' Cooperative Purchasing Program.

IG28. Consolidation /Joint Provision - Other
The City shall actively discuss with the County the consolidation/joint provision of the following services: fire and police training, including consolidation of training facilities; other human resources functions such as salary administration and surveys, benefits management, recruitment, non-sworn training, and employee relations programs; records storage, internal mail delivery, printing services, planning and community and economic development.

IG29. Legislate Mandatory Intergovernmental Cooperation Initiatives
The City shall enact such new ordinances and repeal, amend or interpret such current ordinances as required to accomplish these mandatory intergovernmental cooperation initiatives as part of this Recovery Plan.

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5. Financial Administration

Finance

Overview

Financial management in the City of Pittsburgh is shared between the Finance Department and the Controller's Office. The Finance Department reports through the Mayor, and the Controller is independently elected, so the division of labor between the two offices provides an important set of financial controls for the City. The Finance Department collects taxes and other revenues for the City, and also administers the finances of the various departments. The Controller maintains the accounting record of City transactions and disburses funds, and produces financial statements. The Office of Management and Budget is administratively located in the Mayor's Office, although for purposes of this chapter it is assumed that the Office works closely with the Finance Department. Achievement of the important initiatives included in this chapter will require the participation of and cooperation among the Finance Department, Controller's Office and the Office of Management and Budget.

General Management Issues

Budget Development and Management

As in most governments, the Mayor submits operating and capital budgets to City Council annually in advance of the new fiscal year. Pittsburgh's Home Rule Charter mandates that the Mayor's submission be made on the second Monday of November. Council then has approximately two months to review the Mayor's submission before adopting operating and capital budgets before the new year begins. Council may make changes to the Mayor's submission, and the final version must be approved by the Mayor or allowed to become law without his signature. The Home Rule Charter requires that the Mayor's submission and the final budget be balanced (i.e. estimated revenues must be equal to or greater than expenditures for the budget year).

In practice, Pittsburgh has followed a two-tier process for revenue and expenditure development. For many years, the City has engaged the Pennsylvania Economy League (PEL) to review the majority of revenue categories and make a five-year projection of those revenues. After the initial submission, PEL and the City work together to reach an agreement on the final projection that is used in conjunction with the budget. Because of PEL's expertise in this area and the availability of a substantial amount of account and trend data, Pittsburgh's revenue forecasting has been extremely professional and reliable in recent years. The joint PEL/City forecast covers most major revenue categories. However, there can still be variation in categories not covered by the consensus estimate. Also, in the past several budget cycles the Mayor and City Council have included in the budget revenues that may have been well-estimated, but were unlikely to be collected.

The expenditure budget is developed solely by the Administration and submitted to City Council. The budget includes prior year actual and current year estimated results, as well as projected budget year spending. However, there is no multi-year spending projection associated with the expenditure portion of the budget, and only one year of historical actuals. The budget document itself is very spare. The greatest level of detail is provided on personnel, which comprises a large amount of the City's expenditures, but overall the budget should provide more information for policy development and detailed decision making. The City should also produce an annual "popular budget" accessible to all citizens, and meet the criteria for application for the Government Finance Officers Association Distinguished Budget Presentation Award. The following initiative includes improvements in budget presentation, and shall be applicable to the Mayor's submitted budget and Council's final budget.

FI01. Budget Presentation

- The budget comes largely without any narrative discussion of issues and priorities, except for a short Mayoral transmittal letter. It is not possible for the reader to easily grasp the basis of current spending; challenges and opportunities in the current year, the budget year, and the future; and how the Administration's budget request will meet these challenges. Future budgets shall include detailed discussion of current status, proposed levels, and future issues for major revenue sources and all expenditures by department. Citywide summaries shall also be provided both by department and by major object class.

- Revenues and expenditures by major class for at least the prior three years, current year budget, current year estimated, the proposed budget year, and four subsequent years shall be shown on a combined table in the budget in order to facilitate understanding of recent trends and the potential effect of the budget proposal. Fund balance shall be shown as a figure and as a percentage of revenues and expenditures.

- Additional detail shall be provided on major expenditures, with a detailed breakout within each budget subclass for items over $25,000.

- Initial summary tables or charts shall be included, visually representing how the City receives and spends its money, key budget and revenue trends, and other basic information.

- The budget shall include notes and descriptive text as needed to explain variances, changes, one-time events and unusual trends.

- The expenditure summary table, currently shown by department, shall also be presented by line item and major category.

- The budget shall be restructured to eliminate the presentation of items on a net basis. For example, the City's full pension payment shall be shown as an expenditure with the Commonwealth's pension reimbursement as a revenue. Likewise, the full cost of school crossing guards shall be shown as an expenditure, and the School District's payment to the City as a revenue.

- The end of the budget document includes a series of "trust funds" that represent a collection of special funds, grants and other items. The City shall consider integrating revenue and spending as separate grants fund items in an appropriate larger budget center. This allows a clearer view of the full cost of programs.

After Council approves the budget, it is administered by the Office of Management and Budget. Over the past several years, the Administration has augmented a monthly cash report for revenues and expenditures with performance data from the CitiStat performance measurement system. This is a major step forward, and most senior Administration officials appear to have cooperated in working with the CitiStat office to improve service delivery and accountability.

In order to implement the many recommendations of this Recovery Plan, and to provide proper budget oversight and financial control, the Finance Department and the Office of Management and Budget must increase their involvement in financial review, approval and reporting (although not currently feasible due to the City's financial situation, in the long run the Office should consider adopting new comprehensive budget software). The following initiative includes critical new responsibilities.

FI02. Budget Oversight and Implementation

- The system of budget oversight shall be much more formal and rigorous. Departments shall be required to prepare a detailed revenue and expenditure plan by the beginning of January each year, showing the projected monthly progress of both and how the Department will live within its approved budget for the year. Monthly updates shall be submitted to the Finance Department and head of the Office of Management and Budget, showing actual spending to date and revised projected spending for the year. Each Department head and Departmental budget officer shall meet with the Finance Director and other officials at quarterly intervals to review and discuss these reports, including year-to-date spending, expected overall result, and actions taken to control any potential overspending. This process could be managed as an extension to CitiStat. This initiative will require accurate and timely monthly reporting of financial results to the Finance Department from the Controller's Office.
- Within 45 days of the close of each quarter, the Finance Director and head of the Office of Management and Budget shall compile and circulate a Quarterly Financial and Management Report detailing key budgetary metrics. Interim budget reports are a recognized best practice in public sector financial management[1]. Further, the Wall Street rating agency, FitchRatings has cited the effective use of monthly or quarterly financial reporting and monitoring to be of "significant" value in their credit rating process. The City's Quarterly Report shall include: details on the performance of major revenue sources and expenditure categories (current quarter, year-to-date, budget-to-actual, budget-to-projected actual, comparisons to prior year: year-to-date through the same period and year-end, narrative variance analysis); reports on key factors driving the budget (e.g., staffing levels by unit; filled vs. authorized positions; overtime by unit; leave usage by unit); cash flows; and brief updates on important management initiatives (i.e., deficit reduction initiatives).
- In order to create a modest contingency fund in each year's budget, the Finance Department and the Office of Management and Budget shall set a formal annual target budget as further detailed in Initiative FI11 for each department, established at a level below the full budget amount. The revenue and expenditure plan described above shall be at the same level as this target budget.
- A variety of key agency costs are budgeted centrally and never allocated or charged back to departments, including fringe benefits, vehicles, energy, building operations and others. This approach means that departments make spending decisions in the absence of full cost information, and also reduces accountability and control while promoting spending. It also affects policy debates within the Administration and outside, since it makes service departments look smaller than they actually are while administrative functions seem too large. In the same vein, with the partial exception of the breakeven centers, revenues related to user departments are not linked to their budgets. Again, this makes accurate review and evaluation more difficult, as the net cost of services is harder to see. The City shall meet its stated goal of implementing a citywide chargeback system for these costs, to be implemented for the FY2006 budget.

Accounting and Financial Reporting

The City's financial processing and reporting system is capable of providing a wide variety of reports, and the Controller's Office does produce reports to help users. However, the City is not taking full advantage of the functions available in the system, and not all data entry is being completed on a timely basis. In order to make such reports accurate and up to date, certain basic functions are normally performed on a

[1] As articulated in the recommended budget practices of the National Advisory Council on State and Local Budgeting, "*Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. It is also an essential input in demonstrating accountability.*"

monthly basis in accounting systems. For example, bank accounts are reconciled; there is a month end closing of the books where closing entries are made after which basic financial statements are produced.

In order to gain the full productivity available in the financial system, however, and to aid the financial offices in making the expenditure reductions noted elsewhere in this Recovery Plan, the following initiatives shall be undertaken:

FI03. **Improved Accounting and Financial Reporting**

- This Recovery Plan requires that the Controller's Office shall produce, at least quarterly, a full set of financial statements within 30 days of the end of each quarter.
- To support the quarterly reports, this Recovery Plan requires that basic entries shall be made not less frequently than monthly.
- In addition to its Combined Annual Financial Report, the Controller's Office shall produce annual reports presented in a format more understandable by citizens of the City, and in a manner eligible for the Government Finance Officers Association's Popular Annual Financial Reporting Award.

These changes will result in more frequent, reliable financial reporting, and will reduce the burden on the Finance Department to run a parallel cash accounting reporting system. It will also make year end financial processing much faster and easier, while allowing the calculation of trial balances as needed.

Auditors' Comments

The City's external auditors have raised issues over a period of years about the same group of several items. The most critical include:

- The need for timely bank reconciliation;
- The financial statement closing process; and
- The proper recording of fixed assets.

Repeated auditor's comments on basic accounting procedures are unacceptable. These comments must be addressed and the underlying situation resolved as soon as possible.

FI04. **Correct Conditions Noted by External Auditor**

This Recovery Plan directs that the Controller's Office and the Finance Department shall work together to assume responsibility for immediately resolving the issues raised by the external auditors. Each office shall identify a senior principal to take the lead. The two principals and relevant staff shall meet no later than July 15, 2004. No later than July 30, 2004, the two offices shall set up a working group on each item noted in the most recent audit report and a workplan and establish a timeline for resolution before December 31, 2004. The workplan and timeline shall be shared with the Coordinator, who may choose to attend certain meetings of the principals and the working groups. The principals shall also devise by the end of the year a procedure for addressing any future audit comments. Short- and long-term solutions may include delegation of responsibilities to the Finance Department.

Accounts payable

The City's payment processing system appears to follow reasonable basic processes expected of municipal government, including standard conventions on late payments, check frequency, report availability and review, and custody of checks. However, the City's procedures have too many manual interventions. For example, addresses are manually checked and remittances are sent back to departments after checks are paid. While these are not large items, they indicate a pattern that could be made more efficient. The streamlined process then could then be more fully automated using the City's financial system.

FI05. **Reduce Manual Processes**
The Finance Department and the Controller's Office shall conduct a self-audit to identify processes and procedures where manual data entry and processing could be replaced by existing or prospective automated processes. To the extent that new computers or other technology are needed to eliminate manual processes, the Finance Director or Controller shall apply to the Productivity Bank (see initiative FI12), for funding.

FI06. **Finance Department Funding**
The Finance Department has suggested in the City's Five-Year Financial Forecast and Performance Plan that certain position and expenditure enhancements could improve collections. These include credit card acceptance for payments, enhanced staffing in the Real Estate Division and ISAT staffing. In lieu of an across-the-board expenditure reduction, the Finance Department shall implement these initiatives by using current resources. The Department may apply to the Productivity Bank for funding, as these projects are likely to generate a qualifying return (see initiative FI12).

Other Aspects of Financial Management

Revenue Collection Processes

The City's accounting system is not really used to manage revenues, other than to record collections. Many revenue collection functions are managed by the Finance Department, but the collection of other revenues seems to reside primarily in operational departments, usually in connection with service provision.

As such there is no centralized way for the Finance Department to observe and manage the City's overall revenue collection process and results, including the aging of receivables, collection rates, and other indicators. The data recorded is primarily a cash based function. Similarly, this usually means that there is no centralized monitoring of collection policies, limited use of outside collection services, and other processes that may benefit from some centralized monitoring. The City has on staff a number of employees involved in some level of revenue collection, including investigators and auditors. Some of its taxes are collected only for the City, while some others have multi-jurisdictional collections. For example, real property tax assessment appeals and refunds are managed jointly with the School District, but not with the County.

FI07. **Explore Joint Collections**
The City shall explore both the possibility of expanding its collection efforts with other governments that perform a similar function (as it has done with the School District, the Three Taxing Districts and other public agencies), or by outsourcing parts of collections if it appears that the effort can be handled more efficiently by another jurisdiction. Joint collection activities with Allegheny County and the School District of Pittsburgh shall receive priority.

Technology Issues

Modern municipal financial management is heavily technology dependent. In particular, the management of a distressed municipality relies on the ability to generate standard sets of information in a timely manner, and to create special reports with reasonable ease. The City maintains a large workforce in the Finance Department and the Controller's office, but dedicates too many personnel to routine procedures that can be automated to allow increased analysis and oversight.

In its review of the City's financial management offices, the Coordinator found that there appear to be a number of circumstances where data is entered and then rekeyed for a second purpose because systems are not linked. For example:

- Payroll data comes from the payroll processors in the each department and is reentered in the accounting system;
- The budget system is in Excel, requiring data from the accounting system to be rekeyed both when it is entered into the budget worksheets and when budget data is returned to the accounting system;
- The City still has a substantial data processing function. While it has been moving in the direction of streamlining these functions, it needs to step up these efforts (including reviewing outsourcing opportunities where there is a large amount of processing).

Fund Balance

In 2002, the Committee on Governmental Budgeting and Fiscal Policy of the Government Finance Officers Association (GFOA) issued a recommended practice calling on local governments to establish formal policies on the level of unreserved fund balance necessary to support ongoing operations. While it cautioned that each situation is unique, the GFOA recommended "…*at a minimum*, that general-purpose governments, regardless of size, maintain unreserved fund balance of five to 15 percent of regular general fund operating revenues." Likewise, the major Wall Street credit rating agencies have consistently cited strong reserve levels as among the most significant and influential management best practices.

FI08. <u>Build and Maintain Fund Balance</u>

Over a period of three to five years beginning as of January 1, 2005, the City shall seek to build and maintain undesignated Fund Balance reserves equivalent to at least 5.0 percent to 15.0 percent of annual revenues (approximately $20 million to $60 million if revenues are $400 million). This Recovery Plan anticipates that the City will begin FY2005 with a fund balance of approximately zero. Over the period from FY2005 through FY2009, the Recovery Plan would create modest annual positive operating balances that should create a fund balance of approximately $22.5 million by 2009, or about 5.6 percent of general fund revenues.

General Savings to be Enforced by Finance and Budget

Throughout this Recovery Plan, specific initiatives for cost savings have been proposed. Even after these items, however, the Coordinator finds that certain budget categories are unduly large. The City's budget and accounting systems make it extremely complex to identify the specific spending in these categories, as they are titled broadly and allocated across numerous departments.

Accordingly, after taking into account expenditure control initiatives elsewhere in this Recovery Plan; spending for items that will be hard to modify or reduce in the short term; and the City's success in controlling miscellaneous spending in the recent past, the Coordinator finds that strong Finance Department management in the areas of materials, supplies, miscellaneous contracts and services will generate further savings for the City.

FI09. <u>Materials and Supplies</u>

In the area of materials and supplies, the Coordinator has reviewed expected baseline expenditures and excluded certain items – mostly related to fleet maintenance. The City shall reduce spending on the total amount of all remaining materials and supplies by five percent as a result of enhanced oversight, increased efficiency, full consumption of inventory, elimination of necessary items, and other management efforts. The savings level is assumed to occur at this level in each year from FY2005 through FY2009. The savings for FY2004 are prorated to 1.25 percent to account for the mid-year initiation of this Recovery Plan. The Coordinator does not specify the specific lines or departments from which the reductions shall be made, but only the total percentage reduction in each year for this budget category across all classes. The Finance Department and the Office of Management and Budget are charged with implementing and enforcing this provision as part of their budget implementation and financial oversight responsibility.

Discounted Fiscal Impact – 5% Targeted Materials & Supplies Reduction

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	75%	0%	0%	0%	0%	0%
Fiscal Impact	$34,175	$205,050	$210,177	$215,431	$220,817	$226,337

FI10. **Miscellaneous Services**

For miscellaneous contracts, the Coordinator again has reviewed expected baseline expenditures and excluded certain items – in this case contracts allocated to elected officials who have already been assigned an across-the-board cut of 15 percent. The City shall reduce spending on all remaining miscellaneous contracts by five percent as a result of enhanced oversight, increased efficiency, full consumption of inventory, elimination of necessary items, and other management efforts. The savings level is assumed to occur at this level in each year from FY2005 through FY2009. No savings are assumed for FY2004, as it is assumed that most miscellaneous service contracts for the year will be in place or substantially complete by the time of Recovery Plan adoption.

Discounted Fiscal Impact – 5% Targeted Miscellaneous Services Reduction

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$154,773	$159,191	$163,737	$168,411	$173,220

FI11. **Target Budget Reductions**

In order to create a contingency for budget emergencies, to enforce budget discipline and planning, and to create budget savings, local governments often create target budgets. Frequently implemented in conjunction with the annual revenue and expenditure planning budgets at the beginning of the year (mentioned earlier in this chapter), target budgets enforce a small reduction in available funds for most departments and budget categories. This amount is reserved or set aside, depending on the conventions of the government's financial system, and held by the central financial agencies. Individual departments can apply during the year to recapture their target set-aside, although this is not easily granted until much of the year has passed and it is clear that the municipality will be well below budgeted expenditures. More often, the target amount is retained by the central agency and added to fund balance at year end. The target budget is sometimes used as the baseline budget for construction of the following year's financial proposal.

In the case of Pittsburgh, a number of departments have already been directed to make efficiency and economy cuts in this Recovery Plan, both on a targeted and across the board basis. The Recovery Plan has also reduced materials, supplies and miscellaneous spending in the two previous initiatives. Under these circumstances, a typical target budget cut of 1 percent to 2 percent would be significant for many departments. At the same time, the discipline of target budgeting is useful for a municipality in severe distress, with very limited reserves for contingencies.

Accordingly, the City shall establish a target budget reserve of ¼ percent of baseline expenditures in 2005 and 2006, and ½ percent of baseline expenditures in subsequent years. Debt service costs are excluded from the base used to calculate the reductions. In light of the other across-the-board cuts in this and other chapters of the Recovery Plan, annual savings are not anticipated for this initiative. Rather, it is assumed that funding for contingencies within each year would be provided by this mechanism.

FI12. Productivity Bank

A Productivity Bank is an internal revolving loan program that allows City departments to make otherwise unaffordable investments in return for cost savings, revenue gains and service improvements. For example, the City of Philadelphia's $20 million Productivity Bank established during fiscal crisis provided loans to City departments and agencies for individual or collaborative projects, with those in excess of $250,000 requiring City Council approval. Eligible projects were those that could not otherwise be funded from the City's capital budget or from a department's operating budget without jeopardizing normal service levels. Savings and revenues achieved through Bank projects were reflected in adjusted operating budgets, as were the loan repayments so that the Bank's lending capacity was not depleted. Initial loan criteria required that projects generate cost savings or additional revenues in an amount sufficient to repay the loan plus interest within five years. A limited number of loans were later authorized for projects expected to generate substantial service improvements, even if financial benefits were not readily quantifiable.

Loans were reviewed and approved by an interdisciplinary Loan Committee, including senior City officials and private sector business leaders, that reviewed departmental applications and the business case for requested investments. In addition to achieving bottom line impact, the Productivity Bank has helped to promote a strategic approach to the way in which City government conducted its business by encouraging innovation, accountability, and entrepreneurship.

Examples of departments and agencies that have been loan recipients in Philadelphia include the City Law Department for an upgrade of its computer system, allowing improved delinquent tax collection; the City's information technology department for an automated tape system to perform daily disaster-recovery backup of mainframe computer systems; the Police Department for an on-line photo-imaging system to store criminal mugshots; and the City energy office for an energy-efficient lightbulb replacement effort.

The City of Pittsburgh shall establish a Productivity Bank capitalized with $3 million in FY2005. Initial project applications shall include handheld devices for the Bureau of Building Inspections; the development of an online timesheet system; automation and improved revenue collection in the City's finance agencies; and other productivity initiatives described throughout this Recovery Plan. During the first three years of the Bank, applications shall be required to generate savings and a return on investment. Beginning in FY2008, applications for service level improvement projects may be submitted.

Discounted Fiscal Impact – Productivity Bank

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($3,000,000)	$0	$0	$0	$0

FI13. Parking Ticket Revenue Enhancement

The elimination of Magistrates Court, described elsewhere in this Recovery Plan, creates a number of opportunities to improve efficiency and effectiveness in City government. Parking and parking-related issues for the City are fragmented among several different agencies including the Police Department, Parking Authority, and Traffic Court. The Parking Authority issues parking tickets and manages approximately 8,000 parking meters. Unpaid parking tickets and adjudicating disputed tickets are handled by the District Justices who now administer Traffic Court. Responsibility for some enforcement activities, including boot and tow activities, are handled by the Police Department.

The Act 47 team recommends integration of most parking-related enforcement functions into the Pittsburgh Parking Authority. Such consolidation would be expected to facilitate the elimination of redundant positions, streamline work processes, and provide a platform for enhanced collection and outsourcing strategies. The Department of Finance would have the responsibility for overseeing the transition and the success of the new initiative.

To advance this initiative, the City shall pursue the following measures:

- Responsibility for collecting unpaid parking tickets shall be transferred to the Parking Authority. This would require a formal agreement between Traffic Court and the Parking Authority. Further, the cooperation agreement between the City and the Parking Authority would need to be amended to authorize the Parking Authority to perform processing/ collections for parking ticket issuances, and to increase the annual payment from the Authority to the City to reflect the amounts in this initiative. The Parking Authority would need to develop ticket collection capacity, preferably through the competitive solicitation of well-qualified vendors.

- Transfer Adjudication of Parking Tickets from Traffic Court to the Parking Authority. In municipalities where parking ticket collection is centralized, adjudication of parking tickets is frequently transferred from the courts to an administrative review process. For instance, in Philadelphia, parking ticket adjudication is an administrative task handled solely by the Finance Department.

To maximize the impact of this approach, the following additional steps would be beneficial:

- Amend the Pennsylvania Motor Vehicle Code to decriminalize parking tickets in Pittsburgh, as has been done in Philadelphia;

- Revise the City Charter to eliminate provisions assigning parking violation adjudication responsibilities to City Magistrates;

- Develop an administrative adjudication office;

- Transfer responsibility for boot/tow and impound lot to the Parking Authority, including resolution of any labor-management considerations as necessary.

If the above consolidation strategies are undertaken in concert with a collections improvement strategy, significant revenue increases are attainable. Analysis of other communities' experiences, as well as discussions with vendors and other practitioners in the billing and collections service area, have indicated that major revenue gains are possible in Pittsburgh. Vendors providing collection services have developed effective, reliable methods for maximizing collection percentages.

The Coordinator, therefore, recommends that the City shall prepare a request for proposals (RFP) for distribution by October 1, 2004 with a deadline of establishing a contract for outsourced collection services no later than January 1, 2005.

In specific conversations with experienced, national vendors, a range of $5.0 to $7.5 million in additional revenue has been identified as attainable for Pittsburgh. The following projections are based on the low end of the range, applying a graduated discount factor to account for implementation lag. Projections through FY2007 do not assume legislative changes. To achieve the full impact as estimated for FY2008 and FY2009, modifications to the state motor vehicle code as authorized for Philadelphia would be beneficial.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	75%	50%	50%	25%	0%
Fiscal Impact	$0	$1,375,000	$2,750,000	$2,750,000	$4,125,000	$5,500,000

Insurance Coverage – Risk Management

Risk Management

Risk Management is the establishment of City-wide policies or systems, known as risk management tools, designed to minimize liability risks. Such tools typically center around the establishment of uniform standards and the capability of ready monitoring for compliance and involvement with a minimum of intrusion and expense into normal City operations. Loss prevention and loss control are terms that are synonymous with risk management.

The City's overall approach to risk management is disjointed and has no clear strategic focus.

- Liability and risk management are fragmented across numerous city agencies (Department of General Services, City Law Department, Office of Management Investigations, Department of Personnel and Civil Service) without overall direction or supervision on a City-wide basis;
- The City has historically relied on governmental immunity to limit its economic risks and loss control;
- The City has been reactive rather than proactive in its approach to risk management, particularly in the area of managing property damage claims;
- Most attempts by Citistat to classify data concerning claims payments and risk management have not yet resulted in meaningful information with which to design a proactive approach;
- No apparent attempt has been made by the City to identify high risk service areas or to know what, if any, procedures are in place in high risk service areas;
- The total cost to the City of satisfying judgments against it, managing claims and insuring against risks is not known by the City because costs are allocated without overall program oversight.

City Self-Insurance

The City self insures on a proactive basis (or by lack of attention to several critical liability areas) the following programs:

- Police professional liability and false arrest claims;
- Employment practices liability;
- Electronic data processing hardware and software except as covered under real property endorsements; and,
- General liability and comprehensive vehicle and facility liability.

In addition to the above, Workers' Compensation claims management is a critical self-insurance program described elsewhere in this Recovery Plan.

City Insurance Contracts

The City purchases insurance contracts for coverage in the following areas:

- Real and personal property damage and loss;
- Business interruption, including payroll;
- Valuable papers loss and recovery;

- Boiler and machinery, including hazardous clean ups;
- Fire and theft;
- Errors and omissions for EMS program services only;
- Crime, including employee dishonesty;
- Vehicle insurance for passenger pool vehicles only.

Current Self Insurance and Insurance Contract Limitations

In general, the City is grossly uninsured and underinsured in real and personal property and general liability areas such as:

- blanket limits for real and personal property in the amount of $76,000,000 may be less than 30 percent adequate coverage based on current values;
- business interruption limits of $9,450,000 (with extra expense coverage of $5,000,000) may be 20 percent to 25 percent of the level necessary for the City;
- valuable papers limit of $500,000 is clearly far below the limits necessary for historical and other paper files maintained by the City;
- employee dishonesty bond limit of $10,000 is 10 percent of the level generally recommended where high volume cash collections are in place;
- vehicle coverage for less than 5 percent of the City owned vehicles is not acceptable under general public sector management policies.

Initiatives

IR01. **Establish City Wide Risk Manager**
The position of City Wide Risk Manager shall be established to implement a comprehensive Risk Management and Loss Control Program for all phases of the City's operations. The position shall be a staff officer who reports to the Director of Finance.

IR02. **Establish a Risk Management Team**
A Risk Management Team shall be organized under the administrative head of the Risk Manager. The team shall include the Safety Manager, the City Solicitor or a designated Assistant City Solicitor, the head of the Department of General Services and a designee of the Department of Personnel and Civil Service. The Risk Management Team shall be required to meet at least once monthly to implement effective risk management procedures and policies for the City.

IR03. **Establish Risk Management Implementation Program**
A proactive program shall be established to establish procedures and policies for implementation by all departments and supervisory personnel. Areas that must be covered include facility and program area risk management processes, notification procedures and record keeping.

IR04. **Restructure Current Insurance Contracts**
The City's current insurance contracts shall be restructured to include higher coverage limits, higher per occurrence deductions, and gap coverage. By no later than September 1, 2004, the underwriters who currently provide coverage to the City shall be required to prepare a complete coverage survey with recommended revisions to coverage for review by the City and the Coordinator. By no later than October 1, 2004, the City shall prepare and distribute a Request

for Proposals consistent with the underwriters' recommendations as reviewed and approved by the City and Coordinator.

IR05. **Create Comprehensive Facilities and Equipment Inventory**
The Departments of General Services shall complete, no later than August 1, 2004, a comprehensive inventory of all City facilities and equipment for use by the underwriters in completing the coverage study and recommendations.

IR06. **Conduct Interdepartmental Liability Risk Audits**
Department Heads shall be assigned the responsibility to conduct audits of departments other than their own to determine where liability risks exist.

IR07. **Reallocate Judgment and Liability Costs**
All judgment costs and liability costs to the City over the past two years shall be reallocated to a single line item in the general ledger so that costs going forward can be compared with historical data.

IR08. **Consider Comprehensive Public Safety Professional Liability Insurance**
The Risk Management Team shall review and consider a comprehensive public safety professional liability insurance contract to cover police, paramedics and firefighters.

Debt

The City's obligation to pay debt service on its outstanding bonds represents one of the single largest impediments to the City's return to financial health and balanced budgets. Annual debt service on non-pension general obligation bonds is approximately $68 million in each of the next six years while annual debt service on pension general obligation bonds is approximately $20 million in each of the next eight years. The 2004 debt service payment obligation of $86.2 million represents almost 23 percent of the City's budgeted expenditures for 2004.[1]

While the absolute size of this payment obligation is staggering (second only to personnel costs in the ranking of expenditures), managing debt expenditure is further complicated by its substantially fixed nature. This chapter will discuss the relatively limited options the City has for reducing or modifying its existing debt burden in the next five years. It should also be noted that the most recent stages of the City's fiscal crisis have been highly correlated with the rapid growth in the City's debt service payment obligation. Actual general obligation debt service grew from $55,314,000 in 2002 to $71,230,000 in 2003 with $86,231,000 budgeted for 2004. The $30.9 million or 56 percent increase between 2002 and 2004 represents a heavy additional burden for an already encumbered budget.

In an ideal world, the objectives of any financial plan would be to achieve and maintain affordable debt service levels and to ensure capacity for future capital borrowings to provide for the development and maintenance of the City's infrastructure. In the short run, these objectives will be difficult to attain given the magnitude of the City's budget crisis. However, they should be kept in the forefront of thinking on this issue, and all debt-related decisions should be viewed in the context of their impact on the ultimate achievement of these goals.

This analysis also takes note of the need to achieve debt service relief in the short run to create the opportunity for the City to begin to rebalance its revenues and expenditures. Further, it focuses at some length on issues and strategies relating to the refinancing and/or restructuring of debt in a non-investment grade rating environment. Finally, this analysis addresses future borrowings (for capital and/or cost-saving initiatives) and alternative financing techniques that may at some future point be of benefit to the City.

At first glance, the debt of the City seems sufficiently large and complex to suggest the potential for refinancing and/or restructuring that could produce either genuine debt service savings for the City or short-term budget relief opportunities. The discussion of the City's debt in this chapter explores these potential opportunities. Unfortunately, however, the limitations imposed both by current market conditions and by federal tax law (which limits the number of times an issue of bonds may be advance refunded) combine to virtually eliminate the opportunity to use debt refinancing or restructuring to make a positive impact on the City's budget situation. The only available opportunities to make a short-term impact on the City's budget are the so-called "scoop" refundings discussed below. While this opportunity does exist, "scoop" refundings will be costly to the City over time and may not be practicable given the City's limited potential access to the bond market. The Act 47 team recommends against any further "scoop" refundings.

It has also been suggested that the Intergovernmental Cooperation Authority ("ICA") could serve as a potential issuer of bonds that would permit access to the capital markets for the City on a temporary basis. While such an approach would certainly be possible, particularly for the issuance of bonds for new capital project purposes, the ability of such issuance to achieve savings by refinancing outstanding City general obligation bonds is as limited by federal tax law as the City's own ability to issue advance refunding bonds.

[1] The rating agencies typically view debt service as a percentage of budgeted expenditures in excess of 15 percent as a warning of impending fiscal distress.

For example, when the Pennsylvania Intergovernmental Cooperation Authority ("PICA") refinanced certain general obligation debt of the City of Philadelphia during its fiscal crisis in the early 1990s, PICA could only refinance the bonds that had not previously exhausted their one legal advance refunding. Because, unlike Pittsburgh, Philadelphia had been absent from the capital markets for many years and because of a then-falling interest rate environment, PICA was able to use its credit to refund a substantial portion of Philadelphia's bonds to achieve debt service savings. In the case of Pittsburgh, however, the City has already taken advantage of the existence of the historically low interest rates that were prevalent until recently and has refinanced much of their debt already. Therefore, the suggestion that the ICA could serve as an alternative issuer of bonds for the City should only be considered for new money purposes.

Current Bond Ratings

In October and November 2003, each of the three major national credit rating agencies downgraded the rating of the City's general obligation debt to speculative or "junk bond" status. Excerpts from the each of the three ratings reports are as follow:

> **Standard & Poor's** – (October 15, 2003: downgrade from A- to BB, placed on CreditWatch with negative outlook): *"Standard and Poor's had previously noted the city's significant fiscal stress when placing the rating on CreditWatch in August. While Pittsburgh's fundamental credit characteristics have not changed since then, the unresolved status of the city's legislative requests, the audit note questioning the city's ability to operate as a going concern, and the city's statement that it would consider filing for bankruptcy are inconsistent with an investment grade rating."*
>
> **Fitch Ratings –** (November 7, 2003: downgrade from A- to BB, continuing on Rating Watch Negative): "*Absence of substantial progress toward budget resolution in a timely manner could result in further downgrade. The city already restructured $13 million of debt service payments in 2003 to provide cash flow relief as it sought tax reform legislation from the commonwealth. Fitch believes a reprisal of this option would be difficult since city's cash reserves will be nearly exhausted by the end of the year and the budget uncertainty could make it problematic to access the public markets or arrange for suitable private financing."*
>
> **Moody's Investor's Service** – (November 18, 2003: downgrade from Baa3 to Ba, continuing on WatchList for potential further downgrade): *". . . the city is expecting a budget deficit of approximately $40 million by the end of the year, reducing General Fund reserves to inadequate levels to operate through fiscal 2004 without external liquidity."*

The placement of the City's general obligation bonds into non-investment grade status in itself produces a significant impediment to the City's ability to improve its debt service payment situation either through cost-effective refinancing or through the far less desirable technique of debt deferral. Without the cooperation of the municipal bond insurance providers, the City will have no access to the public capital markets.

Much of the discussion below depends upon the cooperation and willingness of the municipal bond insurance providers (the "bond insurers") to reinsure portions of the City's debt. From their perspective, a non-investment grade rating means that they are required by their own regulators to set aside additional capital reserves for the City's bonds they have already insured. It makes any prospect of refinancing that involves the bond insurers that much more complex and that much more expensive.

Absent access to the public capital markets, the City's only alternative would be to seek and receive private funding from either the local commercial banks or one of the national investment banks that offers a direct loan program. The use of either of these alternatives, if they are even available, would be very costly for the City.

Prospective Bond Ratings

The return of the City's bond ratings to investment grade status will not occur until a Recovery Plan has been implemented and the City has sufficiently demonstrated both that it has balanced revenues and expenditures and will continue to do so in the future. In this regard, the City of Philadelphia's return from junk-bond to investment-grade status in the early 1990s is instructive. In that case, there was nearly a full year between the approval of the City's first Five-Year Financial Plan, the imposition of the a dedicated tax revenue source, and the financing of the cumulative deficit (all of which occurred in the first half of 1992) and the City's return to investment grade status in mid-1993.

Simple adoption of a Recovery Plan will not be sufficient to achieve ratings upgrades for the City of Pittsburgh. Rather, substantial implementation of the Recovery Plan and an actual demonstration by the City of its ability to achieve and maintain fiscal balance will be required. This will almost inevitably require the City to secure and begin to collect from new sources of revenue. It is unlikely that this can occur before audited financial statements for 2004 are produced in mid-2005. For these reasons, the Capital section of this Plan anticipates the City's first borrowing no earlier than 2006.

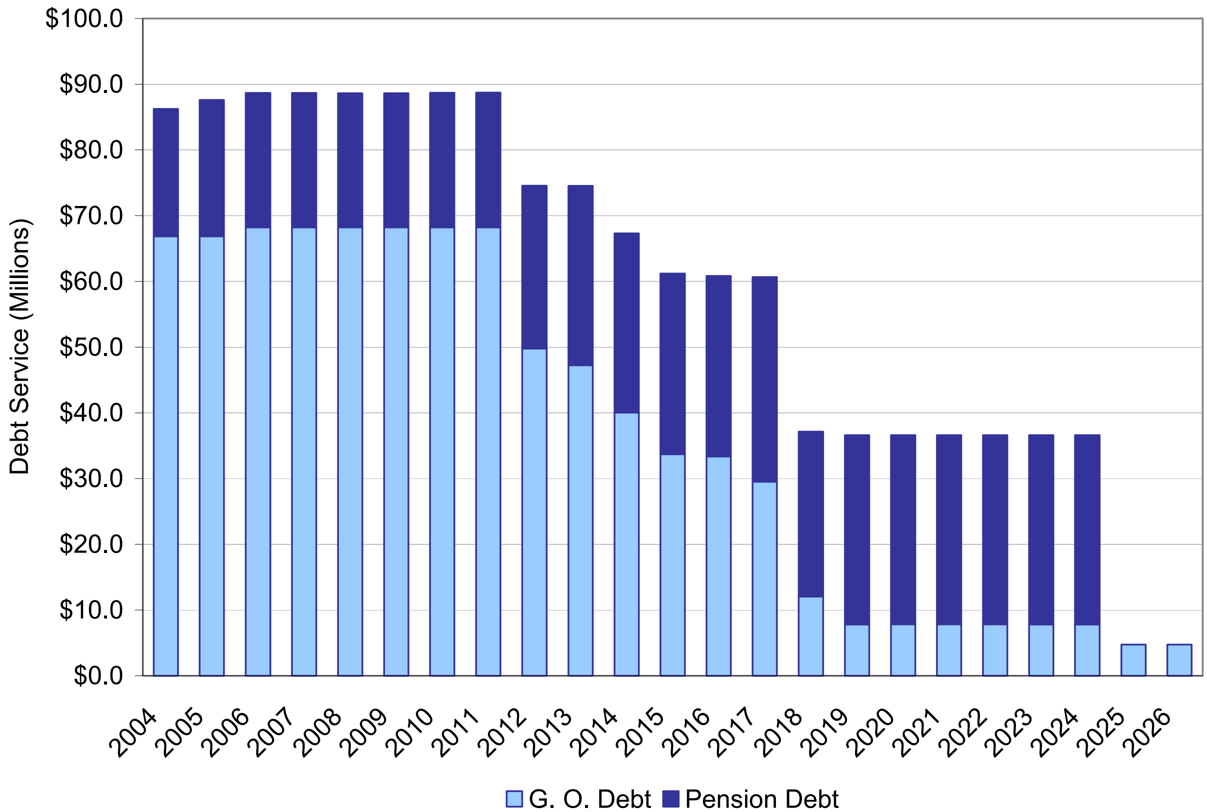
Existing Debt

General Obligation Bonds

As of March 1, 2004, the City had outstanding $577.680 million of principal amount of tax-exempt general obligation debt issued for various capital purposes and $268.010 million of principal amount of taxable general obligation pension bonds issued in 1996 and 1998 to fund portions of the City's unfunded pension liability[2] (together, these bonds, having a total principal amount outstanding of $845.690 million are referred to in this chapter as the "General Obligation Bonds"). From a credit and payment perspective, there is no difference between these two debt categories. The City pays debt service on General Obligation Bonds from its general revenues. The City's annual debt service obligations associated with General Obligation Bonds is illustrated in the following chart and table.

[2] The incurrence in 1996 and 1998 of the debt service payment obligation associated with the pension obligation bonds represents the transformation of the obligation to make current year payments toward the satisfaction of the unfunded pension liability into the obligation to pay debt service on the pension bonds. The rating agencies view these two types of obligations as fixed and, therefore, substantially alike.

Outstanding Debt Service
General Obligation and Pension Debt



	Debt Service ($ Millions)		
Fiscal Year	**Capital**	**Pension**	**Total G.O.**
2004	66.875	19.357	86.232
2005	66.851	20.756	87.607
2006	68.246	20.426	88.672
2007	68.247	20.423	88.669
2008	68.247	20.371	88.618
2009	68.246	20.403	88.649
2010	68.250	20.450	88.700
2011	68.244	20.474	88.717
2012	49.763	24.787	74.551
2013	47.245	27.284	74.530
2014	40.032	27.261	67.293
2015	33.703	27.491	61.194
2016	33.357	27.482	60.839
2017	29.543	31.136	60.679
2018	12.030	25.101	37.131
2019	7.813	28.786	36.599
2020	7.821	28.789	36.610
2021	7.821	28.788	36.609
2022	7.817	28.793	36.610
2023	7.812	28.796	36.608
2024	7.815	28.795	36.609
2025	4.725	0.000	4.725
2026	4.726	0.000	4.726

Authority Debt Paid by the City

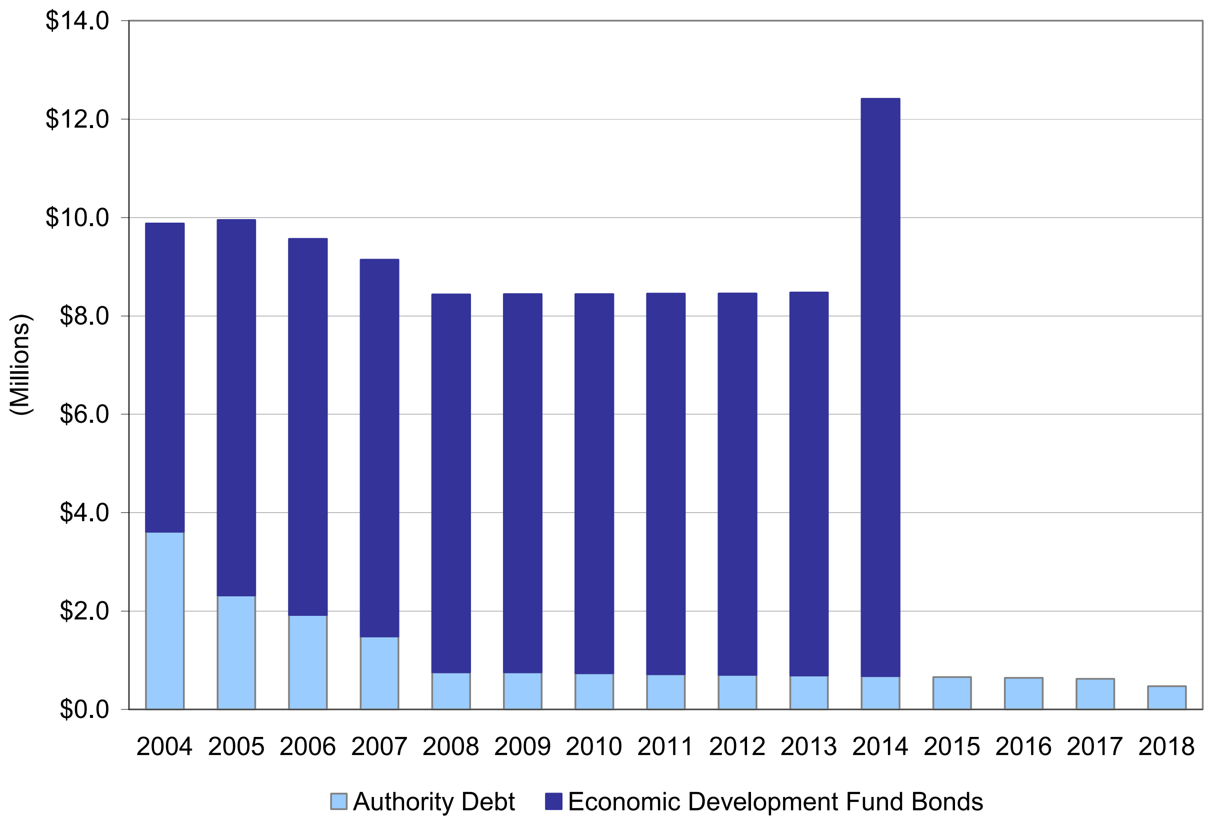
At various times in the past, the City elected to guarantee or otherwise provide for the payment of debt service on a series of bonds issued by one of its related authorities. Currently, the City is obligated to make the debt service payments on three such series of outstanding bonds issued by related authorities.

i) **The Urban Redevelopment Authority's 1994B Bonds** (for the Pirates working capital loan) currently outstanding in the principal amount of $1.125 million and scheduled for final maturity on September 1, 2004. This loan is payable from the City's general revenues and is effectively a general obligation of the City.

ii) **The Auditorium Authority's (SEA) 1999 Bonds** (for the Mellon Arena) currently outstanding in the principal amount of $23.480 million and scheduled for final maturity on December 15, 2018. The City and the County are each responsible for 50 percent of the debt service on these bonds. In 1999, the Allegheny Regional Asset District (the "RAD") agreed to annually reimburse the City and the County for approximately two-thirds of the debt service on these bonds. Without taking into account the RAD reimbursement, the City's share of the debt service is approximately $2.3 million in 2004 and 2005 and then begins to decline. The City's portion of debt service on these bonds is payable from general revenues and is effectively a general obligation of the City. Depending on changing market conditions, this issue may offer a refinancing opportunity. Given the City's relatively small debt service payment, however, only modest dollar savings would be available to the City. These bonds were originally insured by MBIA and it would take the willingness of MBIA to insure the refunding bonds (see discussion of bond insurance below) to actually achieve any savings.

iii) **The Urban Redevelopment Authority's 1995 Taxable Bonds** (to establish the Pittsburgh Development Fund) currently outstanding in the principal amount of $52.625 million and scheduled for final maturity on September 1, 2014. The amounts on deposit in the Pittsburgh Development Fund are used to make loans for redevelopment projects in the City. Loan repayments are redeposited into the Fund and reloaned to other entities for additional projects. The City has allocated a portion of its share of the Regional Asset District tax to pay debt service ($6.265 million in 2004 and then approximately $7.65 million annually) in each of the next nine years on these bonds. The RAD tax revenues are collected by the Commonwealth. Pursuant to an Intercept Agreement the portion of the City's RAD tax revenues which have been allocated to pay debt service on the bonds are paid directly by the Commonwealth to the trustee for the bonds. If these RAD tax revenues were ever insufficient to make the debt service payment, the City would have no obligation to pay debt service on the bonds from its general revenues. Although the relatively high interest rates on these bonds (ranging from 8.55 percent to 9.07 percent) together with the fact that they were originally insured by FSA appear to offer an opportunity for a refinancing to achieve debt service savings, the URA has previously entered into a "forward bond purchase" transaction relative to these bonds in order to receive these potential savings on an upfront basis. Any possible debt service savings would, therefore, be virtually eliminated by the amount of the payment that would be necessary to unwind that transaction.

Outstanding Authority Debt Service Paid by the City



	Debt Service ($mm)		
Fiscal Year	**Authority Bonds**	**Economic Development Fund Bonds**	**Total Authority Bonds**
2004	3.613	6.265	9.879
2005	2.318	7.631	9.949
2006	1.922	7.642	9.565
2007	1.484	7.658	9.142
2008	0.758	7.675	8.433
2009	0.755	7.690	8.445
2010	0.734	7.710	8.443
2011	0.716	7.736	8.452
2012	0.703	7.753	8.457
2013	0.691	7.782	8.473
2014	0.678	11.736	12.414
2015	0.659	0.000	0.659
2016	0.640	0.000	0.640
2017	0.624	0.000	0.624
2018	0.471	0.000	0.471

Tax-Increment Financing Bonds

A tax-increment financing bond ("TIF") is issued to provide capital for a specific development project, usually by designating new real estate taxes to support debt service payments on the bonds. The TIF is payable from the real estate tax "increment" specifically generated by the project or the project area as defined in the TIF financing documents. The City retains the "base" real estate taxes reflecting the taxes on the assessed value prior to the development of the project, and then pledges all or a specific portion of the tax increment in excess of the "base" to the payment of the TIF. The underlying theory of any TIF program is that the particular project will create increased real estate taxes beyond those that would have been generated without the TIF, create additional spin-off development and generally enhance community real estate values which, in turn, will lead to a general increase in real estate tax revenues.

The City has undertaken a number of TIF projects. In 2004, a total of $3.613 million of real estate tax receipts are budgeted to pay the City's portion of total TIF debt service (the relevant amounts of County and School District taxes were also diverted to make the debt service payments). This represents approximately 3 percent of the City's 2004 budgeted real estate tax revenues of $122.500 million and almost 1 percent of all City revenues for the year.

While the loss of this level of real estate tax revenues is not large relative to the City's overall budget, the City should adopt a critical policy toward future TIF programs to ensure that the development and revenue enhancement objectives are realistic and obtainable when weighed against additional revenue diversions.

Refinancing Options[3]

Advance Refundings – As of mid-May 2004, rising interest rates have substantially eroded potential savings from most City refunding opportunities that would produce real net debt service savings. For example, expected savings from the following bonds (original insurer of each series of bonds noted in parentheses) were attractive for much of the year, but have now decreased to levels below standard refunding thresholds:

[3] All projections of debt service savings and/or costs associated with various refinancing options are a function of market conditions that may improve or worsen at any time.

$71,655,000 Series A of 1995 (FGIC)
$23,350,000 Series B of 1997 (AMBAC)
$20,120,000 Series C of 1997 (AMBAC)

Refunding these bonds (together, the "Prior Bonds") in the mid-May 2004 interest rate environment would produce approximately $800,000 of net present value savings. This represents approximately 0.69 percent of the par amount of the refunded bonds, a percentage well below the normal 3.0 percent threshold for measuring the efficacy of an advance refunding. It should also be noted that this proposed advance refunding does not depend upon the extension of the final maturity date of the Prior Bonds (the existing bonds that would be refunded). The average life of the Prior Bonds was 7.7 years and the average life of the proposed refunding bonds will be 7.5 years. This is important because – as will be discussed below – the City has previously created current year savings by extending the life of its debt, and thereby merely postponing its repayment obligation.

The most critical impediment to the issuance of refunding bonds is the limitation imposed by the Intergovernmental Cooperation Authority Act for Cities of the Second Class (Act 11) passed earlier in 2004. Section 208 of Act 11 provides that "a city and its corporate entities may not borrow or receive funds for any lawful purpose unless the city has entered into an intergovernmental cooperation agreement with the authority and there is an approved financial plan in effect." Unless and until the required agreement is in place and a financial plan is in effect, the City will not be able to issue bonds of any sort. At the time this Recovery Plan is being filed, neither an agreement nor an approved plan are in place.

Another impediment to the issuance of the refunding bonds will be the ability of the City to access the capital markets while it has a below-investment grade credit rating. However, there is a likelihood that both FGIC and AMBAC, as the insurers of the Prior Bonds, will be willing to insure their respective shares of the refunding bonds. From their perspective, they already have credit exposure to the Prior Bonds, exposure which would be reduced after the refunding. In addition, of course, they would also receive an additional (and probably very substantial) premium for insuring the refunding. For these reasons, it is probable that the City will find market access for these proposed refunding bonds. If they are otherwise able to issue such bonds and interest rates are favorable.

Current Refundings – Effective June 1, 2005, the City will have the opportunity to do a current refunding of $77.635 million outstanding principal amount of Series 1995B Bonds[4] (maturing on or after March 1, 2006). These bonds will be callable on September 1, 2005 and, therefore, may be refunded on a current basis. These bonds were originally insured by FGIC. While there can be no guarantee that both the availability of bond insurance and a favorable interest rate climate will permit it, there is a possibility that the City will be able to undertake this refunding to achieve debt service savings without extending the life of the refunding issue beyond the term of the original bonds.

Additional Refundings – In the recent past, the City has availed itself of a technique known as a "scoop" refunding to obtain budget relief in the then-current year. This technique involves the refinancing of a current debt service payment to avoid having to make it in the current budget year. Unlike the advance refunding discussed above, this technique does have the effect of increasing total debt service as well as substantially increasing the term of the bonds that are being scooped, as it is most common to extend the life of the refunding bonds out into a year in which the issuer's total debt service begins to decline. The scoop refunding technique should be viewed only as a last resort to produce current year budget relief as

[4] The Series 1995B Bonds were issued for a combination of new money and an advance refunding purposes. This multi-purpose allocation would permit some portion of the Series 1995B Bonds to be advance refunded while some portion must wait until June 1, 2005 to be eligible for a current refunding. For the purpose of this analysis, it was assumed that the entire issue would be current refunded but as a practical matter, a portion of the issue could be included in an advance refunding that took place prior to June 1, 2005.

it represents a costly long term solution to a short term crisis. This Recovery Plan specifically directs that the City shall not engage in further use of this technique without the prior approval of the Coordinator.

While the City does have certain potential scoop refunding candidates in 2004, March 2005 and September 2005, subject to approval under Section 208 of Act 11 as discussed above, the caveats regarding these transactions are substantial from policy, legal, financial and business perspectives. From a policy perspective, the scoop technique is generally viewed by the rating agencies and the investing public as a desperate measure that is indicative of a city's inability to meet its current expenses. It is the capital market equivalent of buying groceries with a credit card, the bill for which is not paid at the end of the month. From a legal perspective, the refunding must be completed in compliance with the terms of federal tax law and the Pennsylvania Local Government Unit Debt Act, as well as Act 11. Among other concerns that this may engender is an evaluation of the useful lives of the capital projects previously financed with the bonds in question. Bond counsel will have to be assured that the life of the scoop refunding bonds does not exceed the life of the projects originally financed.

The principal financial constraint associated with the scoop refunding, in addition to net present value costs and the costs of issuance associated with multiple transactions, will be the ability of the City to access the capital markets. Unlike the advance refunding bond issues discussed above for which it is possible that the support of the existing bond insurers can be obtained, it is much more problematic for the bond insurers associated with the bonds to be scoop refunded to sign on for an extension of their commitment. From their perspective, the September 1, 2004 maturity of the first set of bonds in question will reduce their outstanding exposure to the credit of the City. During the current fiscal crisis, it will take a substantial act of faith for them to sign on for an extension of their exposure. On the positive side, given the relatively modest size of their principal exposure (in 2004, AMBAC: $7,125,000 and FGIC: $3,590,000) it may be possible to obtain the support of AMBAC and FGIC for the debt extension as part of a comprehensive negotiation that also includes their participation in the advance refunding issue. The practical constraint associated with the 2004 scoop refunding is timing. Because the bonds in question all mature on September 1, 2004, it will be necessary to complete the transaction between June 1, 2004 and August 31, 2004. The March and September 2005 scoop refundings cannot be included in this transaction but would have to be deferred into the periods from January 1, 2005 to February 28, 2005 and June 1, 2005-August 31, 2005 respectively to be completed.

Forward Refundings – In the current very low interest rate environment, the market for bonds that will settle at a future or forward date is extremely thin and, for the most part, extends out only several months. Therefore, the City does not currently appear to have any forward refunding opportunities that will produce debt service savings. This conclusion may alter as different market conditions develop so the City and its advisors should keep a continuing watch to determine if such options become available in the future.

Short-Term Borrowing for Cash Flow Purposes

One of the City's immediate concerns is liquidity. Various analyses indicate that the City could run out of cash between September and December of this year. To avoid this potential crisis, the City is exploring the potential of a loan from a consortium of local banks. Because the borrowing would occur so late in the year, it could not be done as a tax and revenue anticipation note ("TRAN"), since a TRAN is required to mature and be repaid from taxes and other revenues received prior to the end of the fiscal year in which it is issued. As an alternative, the loan (for which the banks have not yet granted approval) could be done as "unfunded debt" under the Local Government Unit Debt Act. The loan would have a very short term (maturing in January 2005) and would be repaid from the proceeds of a TRAN to be issued at that time. The unfunded debt loan would require the approval of the Allegheny County Court of Common Pleas.

The City's ability to borrow from the banks and to issue the TRAN in January would be conditioned on meeting the Act 11 requirements that debt issuance be preceded by the adoption of an intergovernmental cooperation agreement and a approved multi-year plan (assuming they are not in effect at the time of the proposed borrowing). In addition, the ability to achieve either an investment-grade short term rating for the TRAN or, if that is not possible without enhancement, to secure the repayment of the TRAN with a letter of credit, is also problematic if the Act 11 borrowing prohibition has not been addressed.

Other Financing Techniques

Variable Rate Debt – The use of variable rate demand bonds or auction rate bonds to diversify a city's liability structure (and at the same time serve as a hedge to the short-term investment of liquid assets) is often a fiscally appropriate technique for managing a balance sheet. In the case of the City, the use of such bonds would presumably be associated with the issuance of new money (as opposed to refunding) bonds. However, until the City has achieved fiscal stability and regained its investment grade credit rating, it is unlikely that any of the bond insurers (necessary for both variable rate demand bonds and auction rate bonds) or letter of credit banks (necessary for variable rate demand bonds) will be willing to take on new or additional credit exposure to the City. When as a practical and financial matter this option does become available again, the City should approach the use of variable rate debt cautiously and on a limited basis and only within the terms of a carefully developed and articulated strategy for the use of variable rate debt.

Swaps and Swaptions – As the municipal markets have begun to use widely some of the techniques more common to the world of corporate finance, interest rate swaps and swaptions have been proposed as an alternative means of reducing the City's annual debt service obligation. In the case of a swap, the proposals have centered on swapping existing fixed-rate debt service payments to variable rate payments, thus effectively reducing the City's interest rate payment on a given series of outstanding bonds. A swaption is a combination of a swap and a refunding. The City would sell (and receive an upfront cash payment) an option to a counterparty who would have the right (if it exercised the option) to require the City to issue refunding bonds at a date certain in the future. In effect, the City would receive today some portion of the savings that it would achieve if the bonds in question could be refunded today. Holding aside the practical matter that it is unlikely that a counterparty to such an agreement could be found given the City's current financial situation (unless the insurer of the bonds in question could be convinced to agree to the future refinancing), the section of the Pennsylvania Local Government Unit Debt Act that permits municipalities to undertake swaps or swaptions specifically prohibits any local government which has been declared distressed by the Pennsylvania Department of Community and Economic Development from engaging in such transactions.

At such time as the City does become legally able to pursue the swap or swaption alternative, such techniques should be used with extreme caution and only after the development and adoption of a formal swap policy which includes an education process that will assist the City's finance professionals to understand and evaluate the risks and trade-offs associated with interest rate exchange transactions. Such transactions should not be undertaken lightly without a proper understanding of risk and cost/benefits trade-offs that they may contain.

Future Borrowing

Capital Program Borrowings– In order to maintain and enhance its infrastructure, the City will need to continue to access the capital markets on an annual or bi-annual basis with the issuance of general obligation bonds. Consequently, this Recovery Plan assumes annual issuance of $25 million of general obligation bonds for this purpose, beginning in 2006. As a result, the City will continue to add to its debt service payment obligation. However, when the City again has affordable access to the credit markets, a steady and measured borrowing program will be appropriate.

With approximately $25 million of borrowing each year, new borrowing will be slightly below the level of prior debt that is maturing each year, so the absolute level of debt outstanding will not increase if this strategy is implemented. The following table illustrates the impact on the City's operating budget of the debt service expense associated with the potential issue of $25 million of general obligation bonds on January 1 of 2006, 2007 and 2008. For this illustration, debt service expense has been calculated assuming current interest rates as of mid-May 2004, current rates plus 100 basis points (1 percent) and current rates plus 200 basis points (2 percent). Because of the historically low interest rates over the last several years, and for reasons of conservatism, this Recovery Plan assumes that when the annual borrowings resume in 2006, rates will be 200 basis points above current rates.

Annual Debt Service

	Current Market			
Fiscal Year	**2006 Bonds**	**2007 Bonds**	**2008 Bonds**	**Total**
2006	598,432.00			598,432.00
2007	1,998,480.50	598,432.00		2,596,912.50
2008	1,998,850.50	1,998,480.50	598,432.00	4,595,763.00
2009	1,998,753.00	1,998,850.50	1,998,480.50	5,996,084.00
2010	1,998,839.25	1,998,753.00	1,998,850.50	5,996,442.75

	Current Market plus 100 B.P.			
Fiscal Year	**2006 Bonds**	**2007 Bonds**	**2008 Bonds**	**Total**
2006	728,827.25			728,827.25
2007	2,171,525.75	728,827.25		2,900,353.00
2008	2,171,484.50	2,171,525.75	728,827.25	5,071,837.50
2009	2,171,036.00	2,171,484.50	2,171,525.75	6,514,046.25
2010	2,170,632.75	2,171,036.00	2,171,484.50	6,513,153.25

	Current Market plus 200 B.P.			
Fiscal Year	**2006 Bonds**	**2007 Bonds**	**2008 Bonds**	**Total**
2006	859,083.50			859,083.50
2007	2,350,041.25	859,083.50		3,209,124.75
2008	2,351,019.25	2,350,041.25	859,083.50	5,560,144.00
2009	2,351,521.00	2,351,019.25	2,350,041.25	7,052,581.50
2010	2,351,806.50	2,351,521.00	2,351,019.25	7,054,346.75

In the relatively near term, the City may well be forced to forego capital borrowing until its issues of fiscal stability are resolved, and this Recovery Plan assumes no further borrowings in 2004 or 2005. On an uninsured basis, the City currently has no access to the capital markets and the bond insurers are unlikely to be willing to participate in new money financings unless and until an investment grade credit rating has been re-established.[5] In order to provide some capital resources beyond the minimal amounts remaining from prior issues, this Recovery Plan anticipates that some portion of the operating budget will be dedicated to capital projects. This is a common approach for municipal governments, and the use of "pay as you go" capital is recognized by the bond rating agencies as a responsible and desirable financial management practice. Further discussion on the expenditure of new bond proceeds and operating budget contributions to capital are included in the Capital Chapter of this Recovery Plan.

[5] If capital market access is reestablished before FY2006, the City will have to reduce other costs to fund principal and interest payments associated with earlier bond issues.

Pension

Severe cost pressures have caused the City's pension cost to grow at a rapid pace, with net pension costs rising from $5.9 million in FY2002 to a projected $17.2 million in FY2004. Growth to the range of $29.7 million is anticipated in FY2005. Going forward, it is projected that pension cost growth will begin to abate, but remain at a high and steadily increasing level. With these projections, pension costs that already more than doubled from FY2002 to FY2004 will nearly double again by FY2009. Even with these dramatic contribution increases, however, the extremely weak funding status of the City pension funds threaten the ongoing stability of retiree benefits as well as the City's finances. Strong monitoring and action will be critical to improving pension fund health.

There are a variety of indicators of the stress facing Pittsburgh's pension funds:

- The City's actuary, Mockenhaupt Associates, has indicated that the combined ratio of assets to the Actuarial Accrued Liability is just 40.8 percent as of January 1, 2003. A ratio of 41 percent is very low: for example, the major credit rating agency FitchRatings has cited a funding ratio below 60 percent as among a set of practices that "raise analysts' concern about an issuer's fiscal future."[1]

- The City's issuance of pension obligation bonds in 1996 and 1998 significantly improved the aggregate funding ratio from 18.2 percent in 1996 to 67.0 percent as of January 1, 2000. Over the three years beginning in January 2000 and ending December 2002, however, the City's Combined Pension Trust Funds experienced a decline in net assets of more than $155.1 million, from $467.6 million to $312.5 million. As a result of this drop, the City's funding ratio eroded to 59.3 percent in 2001, 50.7 percent in 2002, and the 40.8 percent level for 2003.

- Reflecting this weakening position, Pittsburgh's Minimum Municipal Obligation (MMO) for the City's pension plan contributions pursuant to Act 205 increased from $18.4 million in 2002 to $23.9 million in 2003 to a projected $31.6 million in 2004.

- Equities experienced a significant rebound during 2003. However, the City's actuarial evaluations have only included returns through January 2002. Therefore, while they have begun to incorporate the 2001 and 2002 market decline, 2003 market gains (which remain small in contrast to the investment losses of the prior two years) have not yet been included. Looking forward, market returns in 2004 have been mixed. Compounding these factors, recent benefit enhancements for public safety employees are beginning to impact employer contribution rates in 2004 and 2005. At the same time, near-term state pension funding relief is not projected as additional municipalities access state assistance. Consequently, further overall increases in pension contributions are likely.

- Taking the above factors into account, according to projections provided by the City using actuarial assumptions as of January 1, 2003, the City's MMO is forecast to exceed $40 million annually in 2005 and 2006.

- Looking at a further indicator of longer-term pressures on the City's pension plans, it may noted that as of January 1, 2003, the City had nearly as many retirees receiving pension benefits (4,108) as active employees contributing into the retirement system (4,289).

- Unlike local governments in stronger fiscal condition, Pittsburgh has opted not to make its annual pension payment at the start of each fiscal year. In 2003, the City made minimal payments throughout the year, with the bulk of its contribution coming in November and December. This can increase future requirements, since the pension fund loses the return on that payment during the year, an amount that probably would have been substantial in 2003. Also, if the City fails to make the

[1] FitchRatings, November 21, 2002.

payment by December 31, it must pay an interest penalty dating to the beginning of the year at the assumed interest rate of the plan or the six-month Treasury bill rate (whichever is greater). Nevertheless, cash pressures have again forced the City to delay the bulk of its pension payment to December in its current projected cash flow for 2004. While the City's practice is legally acceptable, the preferred approach to reduce long-term costs would be to make payments at the start of each fiscal year for the long-term benefit of the fund. Pittsburgh also makes the most liberal permitted assumptions about the spread between investment returns and annual payroll increases, assuming a 3.0 percent gap.

The result of these various changes is that the City's unfunded actuarial accrued liability, which dropped by half when the pension obligation bonds were issued, has now almost returned to prior levels:

Unfunded Actuarial Accrued Liability
City of Pittsburgh Police, Fire and Municipal Pension Funds
1996-2003

Year	Total All Funds ($000)
1996	530,180
1997	510,779
1998	502,040
1999	248,635
2000	230,039
2001	289,920
2002	371,457
2003	453,293

Mockenhaupt Associates has calculated the City's Minimum Municipal Obligation (MMO) for its pension funds based on the January 1, 2003, valuation reports for those funds. However, at the City's direction, these figures assume that the City's emergency medical services employees will leave public employment in 2006 as ambulance services move to a hospital-based management system. This has the effect of reducing the 2007 and 2008 MMO.

To establish an MMO for this Recovery Plan, several factors were taken into account. First, while the Recovery Plan encourages the continued exploration of EMS service alternatives, the Act 47 team has chosen to more conservatively assume that those employees remain in City employment. At the same time, there are many other recommendations and initiatives in this Recovery Plan, some of which would reduce City headcount and a few others that would increase it. Overall, implementation of the Recovery Plan is likely to result in a modest reduction in overall City employment levels. Finally, turbulent market returns over the past several years mean that achievement of the City's 8.75 percent pension investment return is far from certain. Thus, this Recovery Plan assumes that the MMO will remain roughly stable at the level projected for 2005, as follows:

Minimum Municipal Obligation
City of Pittsburgh Police, Fire and Municipal Pension Funds
2005-2009

Year	Total All Funds ($000)
2005	40,866
2006	40,948
2007	40,948
2008	40,948
2009	40,948

The City's overall pension payment is offset each year by a contribution from the Commonwealth. For the past several years this amount has been estimated at $18.0 million. However, the amount of the Commonwealth payment is calculated based on the number of active employees, with uniformed employees double-weighted. Since the City's employment levels have declined, its reimbursement could decline. The amount of the payment also turns on the amount the State has available to distribute and the number of municipalities applying for aid. With the market downturn in recent years, more localities have applied, increasing competition for limited funds. For these reasons, this Recovery Plan assumes that the $18.0 million in annual state aid will decline by 2 percent per year beginning in 2005:

State Pension Aid
City of Pittsburgh Police, Fire and Municipal Pension Funds
2004-2009

Year	Total All Funds ($000)
2004	18,000
2005	17,640
2006	17,287
2007	16,941
2008	16,603
2009	16,271

This Recovery Plan's cautious assumptions about pension costs reflect the negative experience of the past several years, while seeking to protect the City's finances so that it can restore fiscal balance.

The Coordinator further notes that on May 26, 2004, the Intergovernmental Cooperation Authority received a report from Aon Consulting on the status of the City's pension funds. The Aon study identified a number of critical issues, including the aggressive 8.75 percent rate of return, the low funding ratio, the use of a dated mortality table that may understate life expectancy for pension recipients, and the possible need for increased funding. Based on these concerns, even greater employee contributions than assumed above may be desirable to more quickly restore Pittsburgh's pension funds to a more stable position.

Initiatives

PE01. **Make Annual Pension Contributions during the First Quarter of Each Year**
Beginning in FY2006, as cash flow position improves, the City shall make its annual pension payments no later than the end of the first quarter of each fiscal year. This practice will have a favorable long-term impact on the health of the City Pension Fund and the amount of future City contributions.

PE02. **Pursue State Legislative Action for Unfunded Accrued Liability Amortization**
Currently, there is discussion in Harrisburg about the impact of recent market declines on public pension plans around the state. HB 2467, legislation to increase the amortization period for pension losses experienced in 2001 and 2002 from fifteen to thirty years, has recently passed the House. Other initiatives under consideration include amendments to Act 205 to limit access to state pension aid to those plans with significant unfunded liability, and to "hold harmless" jurisdictions that reduce headcount in the calculation of pension aid. The City shall evaluate the various proposals and inform its state legislative delegation of potential changes that would be beneficial to the health of the City's retirement systems.

PE03. **Reevaluate City Pension Contribution Level and Monitor Funding Status**
The pension study completed by Aon Consulting for the ICA has raised many critical issues. The aggressive rate of return assumption, the large unfunded ratio of the City's pension plans,

the dated mortality table, and the potential for reduced State aid could further weaken the plans in the future. At the same time, the wage freeze and caps in this Recovery Plan, the potential return to historical levels of return, and the possibility of Commonwealth action to allow extended amortization of 2001 and 2002 losses could partially offset those items. In order to ensure the long-term health of the City's pension plans, the Finance Department shall work with the Coordinator and the ICA to develop new pension projections taking these factors into account. To the extent that additional pension contributions are determined to be advisable based on such review, the City shall make it a priority to apply any "windfall" fiscal benefits not already quantified within this Plan toward improvement of pension fund health.

Along with the recommendations outlined above, the following initiative(s) impacting Pension issues are detailed in other sections of this Recovery Plan:

- Moratorium on further improvements to pension benefits, as well as various labor-management changes to reduce growth in the base payroll (e.g., wage freeze) would be expected to have a favorable effect on actuarial calculations [Workforce and Collective Bargaining Chapter]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].

6. General Government

Elected Officials

The Mayor's Office, City Council/City Clerk and the City Controller's Office constitute the City's elected executive, legislative and accounting/audit offices. As the seat of the City's executive, legislative and accounting/audit authority and responsibility, these offices are essential components of the City's government. Their efficient operation is central to the City's success.

Given the City's current serious financial crisis and the mandatory initiatives throughout this Recovery Plan to control costs and downsize Pittsburgh's government, it is expected and essential that these elected offices share in the sacrifices being made by their peers and subordinates. Each of these offices, described in more detail below, shall, therefore, reduce its expenditures by at least 15 percent for 2005 and thereafter from the Coordinator's baseline budget discussed in the Introduction to this Recovery Plan. This amount is commensurate with the range of overall expenditure reduction sought throughout the non-debt service portion of the City's budget.

Although the Coordinator is leaving to each of these offices the means by which the 15 percent expenditure reduction targets are met, in some instances the Act 47 team has recommendations which we would project to minimize any adverse effect on the ability of these important offices to fulfill their essential duties.

Mayor's Office

Pursuant to the City's Home Rule Charter, the executive, administrative and law enforcement powers of the City are vested in the Mayor. The Mayor is elected to a four year term. The powers and duties of the office include the execution and enforcement of the Charter, ordinances and resolutions of the City, the submission of proposed legislation to Council, the supervision of City employees and officers and the appointment of heads of all major administrative units, subject to approval of Council. The Mayor may appoint a major administrative unit head to act as deputy mayor, without additional compensation, while the Mayor is necessarily absent from the City or temporarily disabled.

The City's 2004 Operating budget includes $1,290,522 in salaries for 29 positions in the Mayor's Office. These positions include the Mayor, an Executive Secretary, a Deputy Mayor – Operations/Director of Public Safety, a Director of Intergovernmental Relations, Managers of Special Projects and Government Relations, a Grants and Development Officer and a Supervisor of the Mayor's Service Center. The remaining positions include seven positions related to budget development and oversight, nine secretaries/administrative assistants and five clerk/typists. The 2004 Operating Budget also includes $99,174 in "miscellaneous services" and $85,000 in "education and training."

EL01. **Reduce Mayor's Office Budget**

The Mayor's Office Budget shall be reduced by at least 15 percent from FY2004 levels. To accomplish this expenditure reduction as mandated above, the Coordinator suggests that the Mayor review the services provided by Directors and Managers for duplication of functions and that some budgeted Executive Assistant, Secretary and/or budget management/analysis/technicians positions be eliminated.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$227,384	$234,870	$241,482	$248,292	$255,304

City Council

Pursuant to the City's Home Rule Charter, the legislative power of the City is vested in the City Council, consisting of nine members elected by districts. Members serve four year terms. Council elects a President who serves during the ensuing legislative term.

Pursuant to the City's 2004 Operating Budget, each Council member has a salary of $53,687. Each Council member is allocated $99,445 for "administration/research" which each Council member generally uses currently to fund three full time positions in his or her office. An additional $95,947 is budgeted for "miscellaneous services" of Council. A detailed description of these services obtained from Council includes cell phones and pagers, mileage reimbursement, janitorial services, consulting services and other costs.

City Clerk

The Office of City Clerk is not an office mandated by the City's Home Rule Charter, but City Council is authorized to appoint a City Clerk as part of its staff.

Pursuant to the Administrative Code, the City Clerk's responsibilities are to keep minutes of Council meetings, maintain the public record of ordinances and resolutions and to act as clerk to all committees of Council.

The City's 2004 Operating Budget includes $512,617 in salaries and $169,085 in "miscellaneous services" for the City Clerk's office. The salaried positions are the City Clerk, a Deputy City Clerk, a Budget Director, a Senior budget Analyst, a Budget Technician, an Internal Accounts Monitor, two secretarial/administrative positions and five (5) clerk/typist positions.

A detailed description of the "miscellaneous services" obtained from the City Clerk includes transcription services, general supplies, consultants, copiers, legal advertising and travel.

EL02. **<u>Combine City Council and Clerk's Budgets</u>**
During the public comment period on this Recovery Plan, the Coordinator received a letter signed by six of the nine members of City Council requesting that the final Recovery Plan combine the offices of Council and the City Clerk for budget purposes, and particularly for purposes of achieving the 15 percent expenditure reduction. The Coordinator agrees that the division of the two offices is artificial and unnecessary for budget purposes, especially since many of the staff and resources of the two offices are shared. Accordingly, the City shall combine the budgets of the City Council and the City Clerk beginning in FY2005.

EL03. **<u>Reduce Combined Council/Clerk Budget</u>**
The newly-combined Council/Clerk budget shall be reduced by at least 15 percent from FY2004 levels. To accomplish this expenditure reduction as mandated above, the Coordinator suggests that Council reduce to no more than $65,000 the amount budgeted to each Council member for "administration/research." Council should consider further reductions in this amount allocated to each member and review whether a small pool of these administrative positions could jointly serve all of Council. Further the Coordinator suggests that Council reduce its "miscellaneous services" budget by reducing the amount to be spent on conferences, trips and consultants. The initiative described in the Department of General Services Chapter of this Recovery Plan concerning cell phones and pagers will further reduce these costs. The Coordinator also suggests that Council review the City Clerk's "miscellaneous services" budget and consider reductions in the amounts allocated to consultants and general supplies.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$343,216	$353,351	$363,941	$374,692	$385,763

City Controller's Office

The City's Home Rule Charter mandates the Office of Controller who is elected for a four year term. The Controller's powers and duties include prescribing the form of reports and accounts of Council, auditing the accounts and performance of Council, units of government and all agencies and trusts and keeping separate accounts for each item or appropriation for Council and each unit of government.

The City's 2004 Operating Budget includes $2,576,843 in salaries for 72 positions in the Controller's Office. These positions include the City Controller, Deputy Controller, Chief Accounting Officer, Accounting Managers, accountants, auditors, systems analysts and clerks. The 2004 Operating Budget also includes $148,287 in "miscellaneous services."

EL04. <u>Reduce City Controller's Budget</u>

The City Controller's Budget shall be reduced by at least 15 percent from FY2004 levels. To accomplish this expenditure reduction as mandated above, the Coordinator suggests that the Controller review the responsibilities and services provided by the accountants, auditors, systems analysts and clerks to eliminate some positions. As noted in the Finance Chapter and elsewhere in this Recovery Plan, opportunities for increased efficiency exist in connection with more extensive use of the City's PeopleSoft financial system; improved coordination with the Finance Department; and ultimately a merger of accounting systems with Allegheny County.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$419,530	$434,008	$446,873	$460,122	$487,819

In addition to this initiative, the Finance chapter of this Recovery Plan includes discussion of the Controller's Office. Initiatives FI03, FI04 and FI05 in the Finance chapter all require action by the Controller.

Magistrates Court

Pursuant to the City's Home Rule Charter, the Mayor appoints city magistrates, subject to approval of Council. Magistrates serve a four year term. The Mayor designates one magistrate to serve as chief magistrate, who employs and supervises a staff responsible to the chief magistrate. The chief magistrate schedules cases and assigns magistrates to various courts.

As part of the Commonwealth's unified judicial system, city magistrates are subject to the administration of the Pennsylvania Supreme Court. Pursuant to an Order of Court dated December 30, 2002, the Pennsylvania Supreme Court realigned the Fifth Judicial District (Allegheny County). Pursuant to the order, sitting city magistrates continue to serve until the expiration of their current terms. District Justices are assigned by the President Judge of the District to fulfill judicial duties created by the vacancies. Existing revenue flows of fines, fees and costs from Magistrates Court remain the same.

The City's 2004 Operating Budget includes $1,329,534 in salaries and other services for the Magistrates Court. The positions include a chief administrator (formerly Chief Magistrate), two city magistrates, a court supervisor, ten court clerks, a probation officer, four cashiers and several clerk/typists. Since the terms of the two remaining magistrates expire December 31, 2004, virtually all of this department and its related expenditures will be removed from the City's budget, effective January 1, 2005. The current Housing Court, Traffic Court and City Court (criminal) will continue to operate at the same City-owned location but virtually all expenditures will be transferred to the County or State budget. However, at the time of filing of this Recovery Plan, negotiations are ongoing among the City, State, President Judge of the Fifth Judicial District and County as to whether some remaining administrative expenses will have to be paid by the City and as to how the City will be compensated for the use by the District Justices of the City's building and facilities.

MC01. Magistrates Court Transfer

For purposes of revenue and expenditure projections, therefore, the Coordinator has discounted the projected expenditure reduction for Magistrates Court, including salaries, premium pay, other operating costs and benefits ($1,828,000) to 90 percent (or $1,645,000) for the 2005 operating budget. All fines, fees and costs remain the same.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	10%	10%	10%	10%	10%
Fiscal Impact	0%	$1,645,000	$1,645,000	$1,645,000	$1,645,000	$1,645,000

Along with the recommendations outlined above, the following initiative(s) impacting the Magistrates Court are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Personnel & Civil Service Commission

The Department of Personnel and Civil Service Commission provides staffing and employee development services for the government of the City of Pittsburgh. The Personnel Department is also responsible for administering payroll, benefits, and workers' compensation. Overall service delivery is divided into the following five primary areas.

Employment Services. This unit provides job analysis, recruiting and hiring services, based upon the City's employment statues. This unit also provides human resource programs, consulting resources, and general personnel guidance to City departments and employees.

Benefits Administration. Develops and administers an employee benefits program that is comprehensive, cost-effective, and efficient, while remaining competitive with private industry standards.

Payroll. Ensures the accurate and timely issuance of paychecks and provides record keeping.

Workers' Compensation. Provides a comprehensive Workers' Compensation program for City employees injured on the job and ensures that the state's requirements for Workers' Compensation programs are met.

Safety and Injury Prevention. Assist departments with preventing injuries and promoting a safe and healthy work environment.

Given the extensive workforce changes outlined in this Recovery Plan, the Personnel Department will need to play an important role in the years ahead. Downsizing, reorganization, workers' compensation reforms, benefits restructuring, and other collective bargaining changes will all draw in different but significant ways on the City's human resources professionals. In light of these anticipated demands, as well as recent budget reductions of more than 10 percent already implemented for the Department, no further targeted cutbacks for Personnel are recommended beyond the across-the-board materials, supplies, and miscellaneous contracts reductions required Citywide.

Initiatives

PC01. **Conduct Compensation Comparability Study**

As Pittsburgh's fiscal condition improves, the City shall consider conducting a study of compensation comparability for major benchmark job classifications across the City to ensure continued competitiveness for recruitment and retention. This study shall determine appropriate labor markets for each classification surveyed, and evaluate total compensation, not solely base wages.

Along with the recommendation outlined above, the following initiative(s) impacting the Department of Personnel are detailed in other Chapters of this Recovery Plan:

- Multiple initiatives regarding workers' compensation program administration. [Workers' Compensation Chapter]
- Multiple labor-management initiatives [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter]
- Online timesheet system assessment [General Services]

Workers' Compensation Program

The Division of Employee Compensation of the Department of Personnel and Civil Service is the administrative department of the City of Pittsburgh that has management responsibility for the City's workers' compensation program.

Commonwealth Program Requirements

The Bureau of Workers' Compensation of the Department of Labor and Industry of the Commonwealth of Pennsylvania has the regulatory responsibility to oversee the City's Workers' Compensation program. Reporting procedures are in place by statute to require the timely reporting of work related injuries by employees, acceptance or rejection of liability for any injuries reported and benefits management. The overall process from the time of the report of a work related injury to rejection of liability or acceptance of liability and initiation of benefits must be within a twenty-one day period.

City's Managed Care Program

In 1996 the City of Pittsburgh expanded its "team" approach to Workers' Compensation management by the full implementation of a managed care program. For the fifteen years prior to 1996, an outside contractor was responsible for claims payments and Commonwealth reporting requirements. The City's current contract for the period 2002 through 2005 was structured around the following four stated program goals:

- To improve the quality of health care for workers with work related injuries through their periods of injury and recovery;
- To return workers' compensation injured employees to work promptly and safely;
- To reduce the City's overall work related injury costs; and
- To create a safety culture through the utilization of an effective safety program.

After issuance of a Request for Proposals in 2001, Allegheny General Hospital (AGH) was awarded the four year contract. The basic responsibilities of AGH include: to supply physicians who will provide treatment and perform medical examinations and evaluations and referrals to specialists, when required; to place a qualified Safety Manager in the City to evaluate all work related injury claims; and, to conduct monthly case management conferences with the City to review patient care and treatment plans.

AGH subcontracts with Frank Gates Service Company to serve as Third Party Administrator (TPA) of the City's program. A program manager is assigned to AGH to oversee the contract implementation and to coordinate its subcontractor responsibilities.

Total Program Costs

The City has budgeted a total of $21 million in 2004 to cover all costs associated with workers' compensation. This compares with the following actual costs (rounded) for the past four years:

			Claims Payments		
Year	Number Of Claims	Program and Administrative Costs	Active Payroll	Terminated Payroll	Total Cost
2000	954	$4,840,000	$6,435,000	$7,179,000	$18,454,000
2001	909	5,220,000	6,408,000	6,827,000	18,455,000
2002	872	6,355,000	7,454,000	7,027,000	20,836,000
2003	756	6,524,000	7,689,000	6,229,000	20,442,000

City's Self-Insurance Status

On November 23, 2003, the Commonwealth Bureau of Workers' Compensation (Bureau) preliminarily approved the City's self-insurance renewal application conditioned upon the City establishing a trust account to fund anticipated liabilities and to prefund its payments for 2004 by January 31, 2004.

The Bureau then issued an amended decision on January 29, 2004 with revised conditions concerning its self-insurance approval. Conditions set forth by the Bureau were as follows:

- The establishment of a Voluntary Employee Benefits Account (VEBA) to be established by the City by February 1, 2004.
- Deposits into the VEBA account in the following amounts to demonstrate ability of the City to satisfy 2004 year end obligations –

  $1.5 million – February, 2004
  $2.0 million – March, 2004
  $3.0 million – April, 2004
  $3.5 million – May, 2004

- Completion of the renewal application for 2005 self-insurance approval by the Bureau by August 1, 2004.

In its January 29, 2004 approval, the Bureau noted that "should the City end 2004 with the substantial cash deficit that is currently projected, conditions for the pre-funding of the City's 2005 workers' compensation obligations may be needed to allow the City to continue to self-insure during the 2004-2005 period." In a subsequent letter dated April 27, 2004, the Bureau acknowledged the City's compliance with the VEBA deposits required through April. However, the Bureau also notified the City that if definite actions have not occurred by August 1, 2004 to ensure that the City will remain solvent through the end of 2004 and into 2005, the Bureau will require the City to pre-fund a significant portion of its 2005 worker's compensation obligations as a condition to its continuation as a self-insured employer.

Claims Litigation

If as a result of claims renewal the determination is made by the City to litigate a Workers' Compensation or Heart and Lung claim, one of two outside law firms is retained to handle the litigation. An audit conducted by the City Controller's office in December, 2003 contained a very thorough analysis of legal fees incurred by the City in 2001 and 2002. The audit concluded that legal services were generally provided to the City by the two firms on a retainer basis at a total cost of $266,000 in 2002 and $279,000 in 2003. These legal service costs are included in the above chart under the column heading "Program and Administrative Costs."

Aging of Workers' Compensation Payments

As pointed out in the City Controller's December, 2003 audit report, over 21 percent of the workers' compensation payments made to injured employees in 2003 were for claims that are over 20 years old. The annual cost for these claims payments exceeds $2.5 million per year.

Return to Work Program

A modified duty program has been implemented by the City, but injured employees may currently be assigned light duty responsibilities only in positions within their department assignments due to constraints outlined in the Workforce and Collective Bargaining Chapter of this Recovery Plan.

Initiatives

A number of significant and well thought recommendations have been made in the past several years concerning the City's workers' compensation program. The City Controller's audit of 2003 contains substantive recommendations with which the City for the most part agrees. As of May 2004, the Intergovernmental Cooperation Authority (ICA) has engaged a consultant to further review the program for potential improvements.

WC01. **Implement Finding of ICA Study**
Upon completion of the ICA analysis, the City shall review and consider the findings and recommendations therein. The Act 47 team strongly urges the City to consider and aggressively implement any such findings and recommendations that may be beneficial toward improving cost containment and overall program management.

WC02. **Add Safety Manager to Citywide Risk Management Team**
The Safety Manager as required by the managed care agreement has responsibilities concerning citywide safety programs and related workers' compensation injury investigations. It is critical that the Safety Manager be part of the citywide Risk Management team described elsewhere in this Recovery Plan. The Safety Manager's job responsibilities shall include the identification and reporting of unsafe work and environmental conditions throughout the City's workplaces and within the City's work procedures.

WC03. **Issue RFPs for Insurance Coverage Including Excess Loss**
When the current managed care self-insurance program is renewed in 2005, alternate Requests for Proposals shall be prepared to request overall insurance proposals as well as excess loss proposals in order that alternative costs can be analyzed.

WC04. **Adjust Managed Care Contract for Reduced Workforce**
As the City's total personnel roster strength is reduced (as projected in other sections of this Recovery Plan), the cost of the managed care contract for workers' compensation administration on a per employee basis will increase for the balance of 2004 and all of 2005. Discussions shall be undertaken with AGH to convert the last year of the managed care contract to a cost basis that reflects the reduced number of employees anticipated as well as the settlement of 20 year and older claim payments. The new Request for Proposals to be prepared in 2005 shall also be revised to request cost proposals on a per employee basis.

WC05. **Independent Performance Audit of Workers' Compensation**

The City Controller's 2003 audit of workers' compensation discussed an advanced audit fee for management services audit of the performance of AGH. This performance audit must be performed by an outside audit firm prior to the end of 2004.

WC06. **City Attendance at Monthly Case Management Conferences**

The AGH Workers' Compensation Medical Director must continue to hold monthly case management conferences. The City shall attend all such meetings to review claims, potential litigation matters and all other aspects of contract management and program implementation.

WC07. **Implement Safety Recommendations and Conduct Safety Programs**

All City Department and Bureau heads shall be advised that they will be required to conduct safety education and training programs with the assistance of the Safety Manager. Supervisory personnel will be required to work closely with the Safety Manager to insure that all recommendations of the Safety Manager concerning workplace facility and environmental safety provisions are carried out.

WC08. **Implement Pilot Workers' Compensation Settlement Program**

All aged claims for injuries shall be actuarially net present valued and the City Solicitor and the Department of Personnel and Civil Service shall undertake an aggressive mitigation program to attempt to settle said claims where economically advantageous to the City. As reflected in the table below, the City shall set aside $750,000 in FY2005 to fund a pilot settlement program, which shall be initiated no later than March 1, 2005. After six months, the City shall evaluate the results of this pilot and consider expansion in FY2006. While savings are expected from this initiative beginning in FY2006, no impact has been quantified pending the analysis mandated above.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($750,000)	$0	$0	$0	$0

Along with the recommendations outlined above, the following initiative(s) impacting Workers' Compensation expenditures are detailed in other sections of this Recovery Plan:

- Multiple labor-management initiatives, including, but not limited to, changes to encourage participation in the City's workers' compensation managed care program, to enhance light duty options, and to promote a safety culture [Workforce and Collective Bargaining Chapter]

City Planning

The Department of City Planning provides policy guidance on the development of the City's built environment. The department pursues community development by facilitating community planning processes, supporting community based and technical assistance organizations and programs, and administering federal Community Development Block Grant (CDBG) funds.

Land Use Control Division The Division administers the zoning ordinance and the City's Subdivision Regulations and Standards.

- **Board of Zoning Adjustment** The Board is a three (3) member panel appointed by the Mayor. The Board meets weekly to hear appeals to consider granting variances or special exceptions to the Zoning Ordinance.

Community Development Administration Division
The Division manages the administration of the City's federal CDBG funding.

Comprehensive Planning Division
Provides staff support to the City of Pittsburgh Planning Commission. Prepares plans, which set the standard for policy decisions regarding changes to the City's physical environment, and manages the City's participation in regional transportation planning.

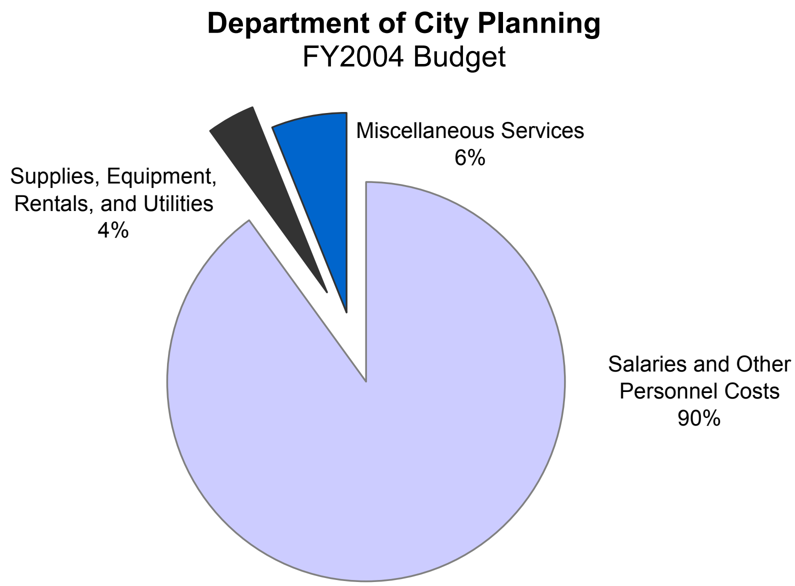
- **Planning Commission** The City Planning Commission is a nine member panel appointed by the Mayor for six-year staggered terms. The Commission is charged with guiding land use and development in the City. The Planning Commission makes recommendations to City Council concerning the Zoning Ordinance and zoning map, reviews major development proposals and prepares redevelopment plans.

In FY2004 City Council enacted budget, City Planning received $1,023,624 or 0.3 percent of the City budget. The table below shows how the Department's budget has been modified over the last two fiscal years.

Department of City Planning

	2002 Actual	2003 Budget	2004 Enacted	Act 47 Baseline 2004
Total	$1,515,380	$1,291,555	$1,023,624	$1,023,624

The City Planning budget has decreased by $491,576 or 32.5 percent since FY2002. One major component of this decrease was the elimination of $369,889 in City grant funding, which had been distributed to local groups. The other primary component of the decrease has been position elimination. In FY2004, the Department lost 6.75 FTEs, including 4 planners. As the following chart shows, the City Planning budget is now essentially a personnel budget, with only 10 percent allocated for non-personnel costs. The current funding level for the department generally provides only for the fulfillment of activities legally required under either the Zoning Ordinance or by the Commonwealth, including staffing the Planning Commission and the Zoning Board of Adjustment. Recent cuts have placed the Department in the position of struggling to sufficiently monitor, direct and support development efforts, and City Planning officials have recommended restoration of staffing dedicated to planning functions.



Use of Federal CDBG Funds

HUD awards grants to entitlement community grantees to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. As an entitlement community, Pittsburgh is authorized to develop its own programs and funding priorities. However, HUD requires that priority be given to activities which benefit low- and moderate-income persons and communities. CDBG funds may be used for activities which include, but are not limited to:

- Acquisition of real property;
- Relocation and demolition;
- Rehabilitation of residential and non-residential structures;
- Construction of public facilities and improvements, such as water and sewer facilities, streets, neighborhood centers, and the conversion of school buildings for eligible purposes;
- Public services, within certain limits;
- Activities relating to energy conservation and renewable energy resources; and
- Provision of assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.

Generally, the following types of activities are ineligible:

- Acquisition, construction, or reconstruction of buildings for the general conduct of government;
- Political activities;
- Certain income payments; and

- Construction of new housing by units of general local government.

The City received $26.0 million from HUD funding in FY2003, and, of that amount, $20.6 million was CDBG funding. Considering the broad range of eligible uses of CDBG funds, the City shall maximize this source and decrease the outlay of City funding wherever possible. In addition, most federal funding programs encourage the use of grant monies for funding capital improvements, and prefer that the grantees provide matching funds for operations.

In its Consolidated Community Development Plan – 2004 Action Plan, the City has allocated approximately $3.2 million for programs that may be considered operating in nature. These programs are detailed in the table below.

Expense Category	CDBG FY2004 Budget
URA Administration	$398,000
Operational Materials	$100,000
Engineering Personnel	$500,000
Housing Authority Rec./Senior Program	$725,000
Personnel – DPW	$500,000
Street Resurfacing	$935,000
	$3,158,000

Going forward, the City shall move towards a CDBG usage policy that decreases the use of CDBG funding for operations, while still achieving the purpose and goals of the program. At the same time, the City has elsewhere applied Regional Asset District (RAD) funds that might appropriately be used for operating programs toward debt service for long-term economic development investments. Because these RAD funds are, in many cases, pledged for bond repayment, rationalizing the use of these two important programs will be a long-term – but ultimately beneficial – endeavor.

Geographic Information Systems (GIS)

During the last decade, municipalities have come to embrace and rely on technology to facilitate sound planning analysis and decision-making. Geographic Information Systems (GIS) have developed from being map making tools, into intensive analytical systems.

The City of Pittsburgh has embraced this technology, as evidenced by efforts to move forward the City's *Map Pittsburgh* initiative. *Map Pittsburgh* is the City's next step in implementing the recently adopted Urban Zoning Code. The initiative will align the zoning code with current uses, and in instances of incongruence, meeting with residents to negotiate a rezoning proposal. As it is updated, the information is merged with the existing GIS database to present an accurate vision of the City's development options.

Currently, GIS is primarily used in planning efforts, but has also been used for DPW route analysis, and more notably by CitiStat for management analysis as well as the Police and Fire Bureaus. The City currently pays the full cost of implementing this program and offers GIS products (maps and census data) to requestors at a fee.

Initiatives

PL01. **<u>Increase Fees and Reduce Stipends to Fund Professional Planners</u>**
Following significant 2004 budget cuts, the City does not have sufficient staff to provide adequate planning services beyond those required by the Zoning Ordinance or State statute. The absence of a strategic and interactive planning function will result in uncoordinated

investment and development. In contrast, a fully functioning planning department will guide a development policy that is based upon the strategic direction of residents, nonprofit institutions, and the business community by educating and reaching out to these groups. The City shall move toward establishment of an improved complement of planning staff by implementing the two sub-initiatives described below – stipend reductions and fee increases. In combination, these measures are projected to enable approximately half of the FY2004 staff cuts to be restored in FY2005. Because the City shall direct the resources developed through these sub-initiatives toward partial staff restorations not budgeted in the Recovery Plan baseline, the net fiscal impact of these measures is not incorporated in the overall Citywide gap closure analysis.

- **Reduce Board of Zoning Adjustment Stipends.**
  The Zoning Board of Adjustment is a quasi-judicial board entrusted with adjudicating zoning appeals. Pittsburgh's Board meets weekly to hear appeals and consider granting variances or special exceptions to the Zoning Ordinance. The Board is a three (3) member panel appointed by the Mayor. Appointees of this board are volunteers who give of their time to serve the public good. For this service, they are currently provided a stipend of $31,000 per year for a board member or $45,000 for the chairperson. In total, these stipends cost the city $107,000 annually.

  When compared to stipends paid to comparable municipalities, the stipends for board members in Pittsburgh are high. Not only are the annual stipends greater, but when compared by caseload, meeting frequency, and hourly pay as shown in the following table, the Pittsburgh board members are compensated at significantly greater rates than other equivalent bodies surveyed.

	Stipend per Member	Pay per Meeting	Pay per Hour	Pay per Case
Pittsburgh	$31,000	$596.15	$119	$73.99
Philadelphia	$10,400	$100.00	$24	N/A
Cleveland	$7,820	$150.38	$30	$22.41
Baltimore	$8,000	$307.69	$62	$18.39
Detroit	$11,500	$221.15	$111	$67.65
Average	**$13,744**	**$275.08**	**$69.20**	**$45.61**

Based on the results described above, an average compensation of approximately $14,000 per year for each board member would be more in line with the comparative analysis. Therefore, the City shall adopt a stipend rate of $14,000 per member, for total spending of $42,000 for the Zoning Board of Adjustment. By implementing this change, the city will save $65,000 annually, or more than 60 percent of existing stipend expenses, in direct compensation that shall be redirected toward restoring professional planning staff positions.

Zoning Board Stipend Costs

	FTEs	Stipend	Current Cost	Proposed Cost	Annual Savings
Chairman	1	$45,000	$45,000	$14,000	$31,000
Member	2	$31,000	$62,000	$28,000	$34,000
Total	**3**		**$107,000**	**$42,000**	**$65,000**

- **Generate Additional Permit Fee Revenue to Fund Additional Professional Planners**
  Due to the high volume of work generated by the Planning Commission and Board of Zoning, the current complement of Planning staff is insufficient to conduct the quality and volume of planning-related work that exists. City Planning has 7 FTEs, at a cost of $279,727, assigned to various zoning and land use regulation activities. The department's

zoning and land use operation generated $212,522 in zoning-related revenues during FY2003. The table below presents these revenues.

FY 2003 Land Use/Zoning Permit Fees

	Number	Total Revenue
Zoning/Subdivision Code	39	$1,735
Mail List Registration	33	$413
Subdivision of Lots	19	$2,615
Zoning Board Hearing	20	$20,360
No Violations Certificate	4	$41,615
Sign Permit	5	$11,566
Zoning Certificate	5	$47,855
Occupancy Application	5	$38,779
Site Plan Review	8	$5,835
Conditional Use Application	1	$1,120
Planned Unit Development	2	$1,070
Zone Change Petition	4	$12,510
Project Development Plan	9	$27,049
Total	**154**	**$212,522**

Recently, the City has increased planning fees and instituted new fees. It currently projects that these changes will generate revenues approximately 70 percent greater than the prior fee schedule for land use and zoning permits (although this target might not be met in FY2004 due to a decrease in development activity). If the new fee schedule generates sufficient recurring revenues to fully recover the cost of its existing staff, the Coordinator will consider a request to dedicate some portion of this increase to other planning staff needs.

PL02. <u>Identify and Implement Creative Options to Fund GIS Expansion.</u>

As in many communities nationwide, the City works with local institutions such as the University of Pittsburgh (School of Information Science), Carnegie Mellon University (Heinz School), and the Southwestern Pennsylvania Commission to share GIS data and complete related tasks. These efforts have nearly completed the baseline GIS, and the City shall continue to work with these institutions and others to pool resources and ensure a robust City/County GIS system.

Currently, the City funds its GIS program through the contribution of interested operating agencies. These agencies fund positions from their respective operating budgets, and then are able to access and manipulate the data to meet the needs of the agency. There are several agencies that have devoted portions of their budgets towards GIS development and enhancement.

This initiative calls for additional efforts to find sources for funding for GIS expansion. In the City's current budget situation, additional funding for improving GIS will not be available for some years. City Planning and other agencies shall instead seek private sector or non-profit partners that can contribute significant cash or in-kind resources to fund needed system expansion in coming years. These opportunities may range from one-time data purchases through multi-year agreements to build and use certain aspects of GIS.

Partners for funding expansion include numerous private, for-profit businesses in the region and nationally. Other potential partners include universities (University of Pittsburgh, Duquesne

University and Carnegie Mellon University), utility companies (Duquesne Light, Dominion Peoples, Strategic Energy, etc.) and other government agencies (Allegheny County, SHACOG, etc.).

Along with the recommendations outlined above, the following initiative(s) impacting City Planning are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and 15 percent in miscellaneous contracts [Finance Chapter]

Human Relations Commission

The Human Relations Commission (HRC) studies and investigates complaints of alleged discrimination in employment, housing, public accommodation and civil rights practices involving City employees and the provision of City services.

HRC prevents and investigates incidents of discrimination through four divisions:

- **Unlawful Practices – Administration and Enforcement:** provides support in the investigation and adjudication of complaints of employment discrimination;
- **Inter-Group/Police-Community Relations:** studies and investigates situations adversely affecting inter-group relations in Pittsburgh neighborhoods and Police/Community relations;
- **Education and Outreach:** provides presentations and programs to all segments of the population, including the City workforce, to reduce prejudice, enhance inter-group relations, increase understanding, and bring a greater level of compliance with the law; and
- **Unfair Employment Practice Enforcement:** assists the Commission in investigating complaints of employment discrimination.

The Department's historical staffing and budget are shown below:

Position Title	Number of Postions FY 2003	Number of Postions FY 2004	Percentage Change in Positions FY2003 - FY2004
Director	1	1	0.00%
Commission Representative 3	1	1	0.00%
Commission Representative 2	2	1	-50.00%
Secretary	1	1	0.00%
Clerk Stenographer 2	1	1	0.00%
Total	**6**	**5**	**-16.67%**

Description	2002 Actual	2003 Estimate	2004 Baseline
Salaries	$170,201	$150,881	$144,558
Education and Training	$545	$1,200	$1,200
Supplies	$1,395	$1,500	$1,000
Equipment	$0	$1,750	$1,000
Miscellaneous Services	$31,304	$25,000	$26,560
Total	**$203,445**	**$180,331**	**$174,318**

Initiatives

The following initiative(s) impacting the HRC are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter]

Law Department

Pursuant to the City's Home Rule Charter, the Mayor is required to appoint a City Solicitor, subject to approval of Council. The Solicitor must be an attorney qualified to practice law before the Supreme Court of Pennsylvania. The Solicitor acts as attorney for the City as a municipal corporation, for Council and for any City unit of government.

The Law Department is divided into several service divisions, including Zoning/Real Estate, Taxes, Labor, Litigation and General Municipal services.

The City's 2004 Operating Budget includes $1,417,220 in salaries and $507,912 in "miscellaneous services." The salaried positions include the City Solicitor, a deputy solicitor, two associate solicitors, ten assistant solicitors, one paralegal, one claims administrator, three real estate technicians, five legal secretaries, one administrative assistant and two clerks. The major components of the "miscellaneous services" budget are outside labor legal counsel, real property appraisal assistance and computer legal research.

With the implementation of the cost initiatives set forth throughout this Recovery Plan, including the merger of 911 services with the County, the reduction in the number of Fire companies, the outsourcing of such services as purchasing, fleet management, arson investigation and police booking/arraignment services, and the joint provision of many other services with the County, recurring demands upon the Law Department should decrease within the next several years. Given the City's current fiscal crisis, it is imperative that the Law Department participate in the general downsizing of Pittsburgh's government.

At the same time, to ensure adequate legal support for the period of intensive implementation required to achieve the transition outlined above – from drafting Requests for Proposals, to negotiating vendor and employee contracts, to developing intergovernmental service agreements – it will be important for the Solicitor to have the flexibility to maintain current Law Department staffing levels as needed through FY2005.

LW01. Law Department Staff Reductions

Therefore, the City shall eliminate two assistant solicitor positions, beginning no later than January 1, 2006. The Coordinator leaves to the Mayor and the Solicitor the selection of such positions within the Law Department's structure.

Discounted Fiscal Impact – Reduce 2 Assistant City Solicitors

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$0	$173,466	$180,863	$187,658	$194,729

LW02. Modify All Ordinances and Other Constraints as Necessary to Implement Recovery Plan

The City shall enact such new ordinances and shall adopt such new resolutions and other official actions, and repeal, amend, or interpret such current ordinances, resolutions or other official actions, and take all other actions required, to accomplish the initiatives set forth throughout this Recovery Plan. The Law Department shall identify all needs for such actions, and lead in developing the appropriate legal vehicles for change.

Along with the recommendations outlined above, the following initiative(s) impacting the Law Department are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Office of Municipal Investigations, Citizens Review Board, and Police Integrity Unity

There are three entities within the City structure which review employee actions as they relate to citizens, fellow employees and work assignments. The entities are as follows:

Office of Municipal Investigations (OMI)

This office replaced the former Internal Affairs Division of the Public Safety Department. As a result of a consent decree with the United States Justice Department, the City established the OMI to investigate citizen complaints against police officers and other city employees, misconduct complaints against non-police employees, harassment and discrimination complaints and pre-employment background checks.

The office is staffed by a Manager, an Intake Coordinator, a civilian investigator, a Police Sergeant, three civilian investigators and three uniformed police investigators. The office conducts approximately 450 investigations a year. Reports with recommendations go directly to the Chief of Police or other responsible Department Head for non-criminal matters and to the District Attorney for criminal matters. The City Solicitor's office assists OMI in its investigative responsibilities.

Citizens Review Board

The Review Board is an independent agency established by voter referendum to monitor police activity and act in a community relations liaison role. The Board conducts public hearings when formal complaints are lodged against police officers. The Board is staffed by an Executive Director and three staff investigators. They rely on outside independent counsel for legal advice and service.

Police Department Integrity Unit

The Chief of Police has established an Integrity Unit which works within the Department to ferret out dishonest police officers and police tactics. The Integrity Unit is staffed by a Police Sergeant and three detectives and reports directly to a Police Commander.

Initiatives

OM01. **Increase Communication and Coordination between OMI & Citizens Review Board**
The roles of the three entities overlap, and the effectiveness of investigations can be weakened due to a lack of communication and coordination – particularly between the OMI and the Citizens Review Board. A liaison officer shall be appointed by the Mayor to force information sharing (when appropriate) and communications linking the three entities. An Assistant City Solicitor shall be assigned to work with representatives of all three entities to develop an overall investigation and reporting policy.

OM02. **Reduce & Redeploy OMI Investigators/Detectives**
Based on the number of investigations conducted annually by the OMI, the total number of police and civilian investigators/detectives in the OMI and Policy Integrity Unit shall be reduced from 12 full time positions to 9 full time positions in a configuration deemed most effective by the Chief of Police. These positions shall be redeployed to meet other public safety needs within the Bureau of Police.

OM03. **Explore Restructuring of OMI**
The City Solicitor's office shall review the current status of the 1996 Justice Department consent decree and the resultant audit process and results over the years to consider petitioning the

Justice Department to allow a modification of the consent decree to provide a restructuring of the OMI and its audit and reporting requirements.

OM04. **<u>Establish a New Staff Reporting Requirement</u>**
A restructuring of the OMI should be considered to continue the OMI's reporting on a line basis to the Chief of Police but establish a new staff reporting requirement through the City Solicitor's office.

Along with the recommendations outlined above, the following initiative(s) impacting these agencies are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter]

City Information Systems

The Office of City Information Systems (CIS) plans, acquires, installs, and supports the City's technology environment. The Department's five operating Divisions and staffing levels are as follows:

- Networking and Enterprise Computing (14 employees)
- Public Safety Systems (12 employees)
- Open Systems Development (7 employees)
- Software Development (7 employees)
- Operations and Client Services (5 employees)

Overall leadership and support, as well as specialized Geographic Information System program direction, are provided through the following additional units:

- Administration (9 employees)
- Geographic Information System (GIS) (1 employee)

One of CIS' major challenges for the next few years will be supporting the City's existing information technology infrastructure and applications, while incorporating new requirements. Pittsburgh outsourced its mainframe hardware in 1999 due to Y2K issues. Currently, CIS oversees approximately 1,000 personal computers, 300 printers and 100 network electronic devices.

CIS has also been working towards consolidating and standardizing the City's phone systems. There have been decreases in the number of Centrex lines, long distance costs and maintenance costs for the City's phone systems over the past 3 years.

In FY2004 City Council enacted budget, the budget for the City Information System department was $4,464,801 (excluding benefits). However, this figure does not capture all technology-related expenditures. Departments are able to make technology purchases, but are encouraged to work with or go through CIS to ensure the proper support is provided and that City standards are maintained. CIS is primarily responsible for providing and maintaining the City's information technology infrastructure. The industry standard is that for every 75 devices there shall be at least one information technology employee; in contrast, CIS reports the Pittsburgh ratio to be one for every 175 devices.

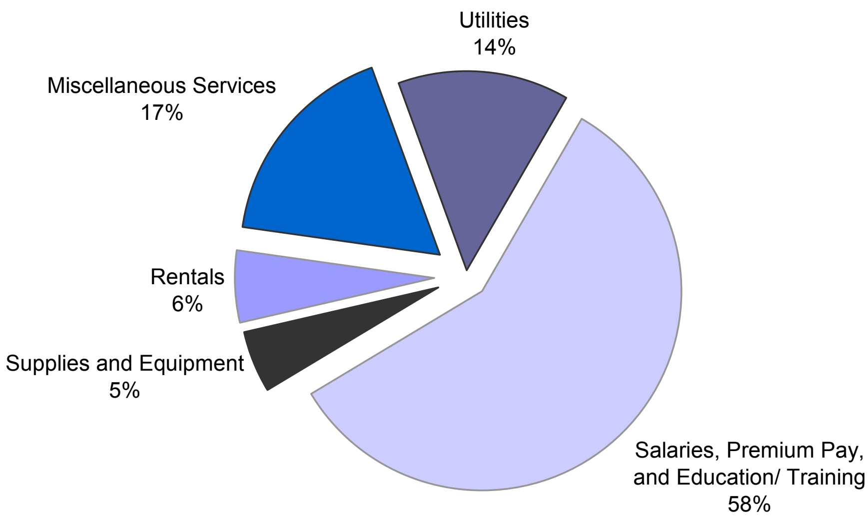
The table below shows how the CIS budget has been modified over the last two fiscal years, with a 25.8 percent reduction in overall funding.

Dept Name	2002 Actual	2003 Budget	2003 Estimate	2004 Proposed	2004 Enacted
CIS-City Information System	$5,949,709	$5,698,096	$5,248,183	$5,007,036	$4,464,801

The largest decreases in the budget are attributed to the recent migration of City data from mainframe computers. The City was paying $720,000 in FY2003, but the FY2004 budget only allots $264,000 for mainframe rental. A related expense is cost of the City's multiple maintenance contracts. In FY2002, CIS spent more than $1.3 million in this category, which has decreased by 47.6 percent to $728,850 in FY2004. Over the same period of time, aggregate salaries have decreased, but at a slower rate than the total CIS budget.

The CIS FY2004 budget, as enacted by City Council, reflects a decrease from the FY2003 level. These reductions were achieved through decreasing the number of consultant service contracts entered into and the amount budgeted for mainframe rental payments. The table below details CIS costs.

City Information Systems
FY2004 Enacted Budget



Personnel costs make up more than half of the CIS budget, with other major expenditure categories including miscellaneous services and utilities. It is anticipated that expenditures in the rental category will be eliminated as the migration from the mainframe is complete.

CIS has identified multiple initiatives for funding in FY2005 and future years covering data warehousing, disaster recovery and other issues. These items are not able to be funded in light of the City's current budget crisis. Some may be eligible for Productivity Bank funding, and others may be superseded or modified by efforts to increase cooperation with Allegheny County (see IG09 and IG10 in the Intergovernmental Cooperation chapter of this Recovery Plan). Other CIS initiatives will have to be funded by additional expenditure reductions in CIS or elsewhere.

Initiatives

CI01. <u>Centralize Telecommunications in CIS</u>

Currently, responsibility for the management of Telecommunications is shared between the Department of General Services and CIS. CIS has been acquiring an increasing level of oversight authority. This function shall be fully centralized within CIS, and the Office shall lead in implementing the following cost control measures.

a. Conduct equipment inventory
b. Redeploy units to critical users
c. Eliminate non-essential and/or non-cost effective cell phones and pagers;
d. Optimize telecommunication plans with usage patterns

Along with the recommendation outlined above, the following initiative(s) impacting CIS are detailed in other sections of this Recovery Plan:

- Exploration of consolidating City and County information technology and/or telecommunications functions and/or purchasing with the County [Intergovernmental Cooperation]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Equal Opportunity Review Commission

The Equal Opportunity Review Commission (EORC) encourages and ensures the participation of historically underrepresented groups in business opportunities with the City and related Authorities.

EORC provides support services to assist Minority and Women-owned Business Enterprises (MBE/WBE) in winning bids for services that they are qualified to provide. This support is offered in three primary areas.

Contract Compliance. EORC will conduct site visits and perform accounting services for MBE/WBE's awarded City and Authority contracts. The Commission will also provide contract monitoring for the MBE/WBE to ensure that the requirements of the contract are met, and the contractor provides monthly reporting to EORC.

Contract Review. Two committees monitor, collaborate and help organize contracts for the City, to ensure fair practices and equal opportunity.

- The Business and Employment Review Committee. City contracts greater than $75,000 are reviewed and monitored for participation diversity. Professional services over $25,000 are reviewed and construction contracts greater than $250,000 are reviewed by the Commission and appropriate City staff.
- The Professional Services Review Committee. Comprised of the City Solicitor, the Mayor's Budget Office, and the EORC Manager. All contracts under $25,000 must be reviewed by this group.

Community Outreach and Education. EORC provides seminars and workshops to increase the number of contracting opportunities that MBE and WBE's are aware of and to offer solutions to obstacles that may prevent these businesses for competing. EORC maintains alliances with public and private sectors groups.

Initiatives

EQ01. <u>Pursue Intergovernmental Cooperation Toward Equal Opportunity Program Goals</u>
Consistent with the broad joint purchasing initiatives detailed in the Intergovernmental Cooperation Chapter of this Recovery Plan, the EORC will work with other City and County officials to achieve consistency in programs to promote greater participation by historically underrepresented groups in business opportunities within the region's public sector. Opportunities for joint and/or consolidated program activities shall also be explored. To the extent that joint purchasing successes may reduce the number of contracts to be reviewed, the EORC shall explore opportunities for reducing overall program costs and/or redirecting resources to enhance community outreach, education, and efforts to remove contracting obstacles.

Along with the recommendations outlined above, the following initiative(s) impacting the EORC are detailed in other sections of this Recovery Plan:

- Joint purchasing [Intergovernmental Cooperation]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

7. Department of General Services

Department of General Services

The Department of General Services ("DGS") provides internal support services to other City agencies including maintenance, refurbishment, and repair of City buildings, vehicles and other fixed assets; the procurement of supplies, equipment and services; printing and graphics services; energy procurement and management; the production of government communications television programming; the administration of the City's cable communications franchise; and the inspection and regulation of telecommunications activities in the public rights-of-way.

- **Purchasing Services.** The Department's Purchasing Services Division uses conventional and electronic procedures to procure all goods (including commodities) and services for the entire City as well as many City authorities. This Division also oversees the operations of the City's Warehouse operations.

- **Printing & Graphic Services.** The Printing & Graphic Services Division provides customized and general printing and graphic services on a City-wide basis.

- **Energy Management.** Energy Management provides supply-side management of electricity, natural gas, steam, water, and sewer services to all City facilities; some City authorities partner with the Department in these efforts.

- **Fixed Assets Control.** DGS maintains records of City inventory (e.g., fixed assets with a value greater than $1,000) and ensures compliance with GASB 34 standards.

- **Bureau of Facilities Management.** Facilities Management provides a full range of services to maintain City government buildings, including government administration buildings, police, fire and medic stations, senior centers, recreation centers and swimming pools and public works facilities.

- **Bureau of Fleet Management.** The Bureau of Fleet Management provides complete maintenance, repair, fuel management, and parts management services for the City's fleet of vehicles. These functions are detailed separately in the Fleet Management Chapter of this Recovery Plan.

- **Bureau of Telecommunications.** The Bureau of Telecommunications licenses and inspects the installation and maintenance of telecommunications-related infrastructure in the public rights-of-way; administers the cable communications franchise for the City of Pittsburgh; collects all fees and charges associated with the aforementioned cable franchise and telecommunications licenses; currently operates the City's government communications broadcast television channels; and produces original programming for those channels.

- **Bureau of Administration**

In FY2004 City Council enacted budget, the budget for the Pittsburgh Department of General Services was $12,242,445 or 3.2 percent of the entire City budget. The table below shows how the Department of General Services budget (less fringe benefit costs) has been modified over the last two fiscal years.

2002 Actual	2003 Budget	2003 Estimate	2004 Proposed	2004 Enacted
$13,110,764	$13,242,011	$12,153,507	$10,958,662	$12,242,445

Opportunities remain to enhance the professionalism of City government through the application of better administrative tools. With the Department of General Services at the center of City operations, any improvements in DGS will translate into efficiencies for virtually every frontline agency.

Initiatives

GS01. Conduct Space Utilization Study and Sell Excess Property

The City is owner of over 300 structures, totaling over 2.1 million square feet of building space. These facilities range from the City-County Building in downtown Pittsburgh, to the Fleet Maintenance garage, to the numerous shelters found in City parks. While the City has recently conducted an inventory of City buildings and has shared some data on utility expenses, this data has not been analyzed to inform a strategy to lower costs. The building inventory would assist the City in understanding what buildings are under-utilized or could be sold. The utility information could be used to negotiate more advantageous contracts by leveraging the City's total usage of the utility.

The City shall undertake a comprehensive space utilization study, taking into consideration current and future space needs. Goals of the strategy shall include maximum collocation of operations with the County, Commonwealth and School District, in coordination with the nascent Pennsylvania Economy League space utilization analysis. The strategy shall also consider the potential relocation of government workers to the 5th & Forbes development site; and provide guidance on a reasonable property disposition strategy.

Once the comprehensive study has been conducted, the City shall establish a space management committee of senior officials assigned to meet periodically to review space needs, continue space consolidation, coordinate with other governments, and account for the capital and operating costs of space requirements.

The sale of City property, in addition to generating revenues from the sale, would have the effect of reducing operating costs such as maintenance personnel and/or contract costs, energy, and security. Initial analysis has indicated that up to five percent of City-owned property – 104,647 square feet – is excess and shall be sold. However, to avoid potential double-counting relative to other initiatives directed toward reducing facility costs (e.g., energy cost reduction measures detailed below), the potential fiscal benefits associated with such optimized space utilization and property disposition have not been quantified for this Recovery Plan.

GS02. Consolidate and Centralize Management of City Utility Costs

The City shall implement an energy cost and consumption reduction program. The purpose of the program is to build upon the efforts of the City, Allegheny County and the Pennsylvania Economy League. In 2003, these three groups conducted a joint analysis that included review of the 46 electricity accounts held by the City with either high usage levels (costing more than $10,000 per year) or a high rate (greater than $0.09 per kilowatt). Not only were significant savings identified as a result, but additional savings were estimated to be achievable through the implementation of demand reduction initiatives to lower consumption. The energy cost and consumption reduction program will seek to reduce costs by eliminating unnecessary or duplicative accounts, negotiating lower rates on remaining accounts, and implementing technological mechanisms and conservation measures to lower overall energy usage. As part of developing this program, the City shall also explore the potential for reaching a service agreement with Allegheny County to perform this function cost-effectively on behalf of the City. The potential fiscal impact of this initiative is discounted by 50.0% in FY2005 to account for start-up requirements.

In conjunction with the facility closures outlined above and the potential for joint utility procurement as described below and in the Intergovernmental Cooperation Chapter of this Recovery Plan, the City shall achieve at least a 5.0% reduction in its overall utilities budget of $8,286,900. The resulting savings projection of $389,345 per year has been discounted to reflect potential implementation challenges and delay from FY2005 through FY2007.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	50%	50%	25%	0%	0%
Fiscal Impact	$0	$194,672	$194,672	$292,009	$389,345	$389,345

GS03. **Establish Utility Cooperative with City, County and School District**

As also described in the Intergovernmental Cooperation Chapter of this Recovery Plan, the City shall also pursue a strategy to achieve additional energy cost savings in conjunction with the County and/or School District. Combining the usage totals of the three-taxing bodies can provide leverage when negotiating the lowering of rates and costs to the City, County and School District. The combination of accounts could result in a material cost reduction.

GS04. **Outsource Custodial Services**

The City has budgeted approximately $594,000 in FY2004 for custodial services maintenance. Of the total, $265,000 is for contracted custodial services - while the balance of $329,377 – is performed by in-house staff. The cost to maintain City-owned facilities is approximately $1.58 per square foot while contracted custodial costs are $.98 per square foot. Contracting with local custodial service companies for all facilities currently served by in-house staff would save the City just over $125,000 per year. The potential fiscal impact of this initiative is discounted to allow for the attrition and/or redeployment of displaced custodial workers. As positions are vacated, existing service contract coverage can be expanded. To the extent that new service contracts are required to implement this initiative, the City shall issue a Request for Proposals no later than September 1, 2004 with a contract in place no later than January 1, 2005.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	80%	60%	40%	20%	0%
Fiscal Impact	$0	$25,000	$50,000	$75,000	$100,000	$125,000

GS05. **Expand Provision of Online Purchasing to City Agencies**

General Services uses software to conduct online purchasing. Other departments order goods and services via the PeopleSoft financial management system. The City shall expand the implementation of the online purchasing request system to continue to reduce the time for processing purchases by granting the agencies greater responsibility in acquiring goods and services.

GS06. **Rationalize Telecommunications Management**

Currently, there is a fragmented telecommunication management structure. Both DGS and City Information System ("CIS") have responsibilities in this area. CIS manages the provision of City-owned telecommunications equipment (pagers, cell phones, etc.) and DGS regulates the telecommunications industry and operates the City's television channels.

The functions of the Bureau of Telecommunication are not aligned with the other functions of DGS. While the other functions of DGS provide support to the operation of frontline City departments, its role in telecommunications management is a regulatory one.

DGS provides the following services through the Bureau of Telecommunications:

- *Licensing* – administers the cable communications franchise and distributes telecommunications licenses
- *Inspection* – inspects the installation and maintenance of telecommunications infrastructure in the public rights-of-way
- *Collections* – collects franchise and licensing fees and charges

- *Operations* – produces original programming and operates government television channels

Working with the Coordinator, the City shall explore transfer of this function, either as an entire unit or in discrete units, to other City departments.

GS07. Assess the Implementation of an Online Timesheet System

Within each agency there are Clerks with duties (partially or totally) related to timekeeping. Citywide, there are a significant number of positions with "Clerk" included in the title. Many of these Clerks provide administrative support to the department's professional and management staff. A substantial portion of their working time is devoted to the process of preparing, verifying and submitting timesheets. The establishment of an automated time and leave system in Pittsburgh could produce significant savings, derived from various efficiencies, including:

- Reduced payroll staffing dedicated to the current manual process
- Reduced payroll processing time (reduction is administrative staffing support)
- Reduced unauthorized leave time
- Improved labor reporting
- Reduced payroll inflation (reduced hours paid due to the inaccuracy of an honor system)
- Elimination of timesheets, reducing production, storage and retrieval costs.

With a reduction in amount of administrative support required to process timesheets, the City might reassign clerical staff to departments with insufficient administrative support. Alternatively, positions might be eliminated to achieve savings.

To assess this opportunity, the City shall review available systems in use by other comparably sized governments and develop cost estimates for an application that would achieve the goals outlined above. The application shall be designed to modernize the manual payroll process and eliminate the need of double entries for time and leave collection and chargeback calculations. Potential compatibility with County systems shall also be assessed. Preliminary estimates developed by the Act 47 team indicate a potential product purchase price between $900,000 and $1,200,000, with annual maintenance costs of approximately 15 percent of the purchase price.

Given the significant size of this investment, the City shall also be required to develop a cost-benefit analysis detailing any specific staffing reductions, productivity gains, additional benefits, and payback period prior to committing to implementation. This assessment shall be completed no later than January 1, 2005. If implementation of such a system is determined to be cost-effective by the City and the Coordinator, then the City shall work with the Coordinator to identify potential funding mechanisms, such as the Productivity Bank described in the Finance Chapter of this Recovery Plan, from within the overall budgetary parameters of the Recovery Plan.

GS08. Eliminate Most City Cable TV Functions

The City, through the Department of General Services provides broadcast and production services for the City's television communications channels. The City posts information on government services and officials, televises Council Meetings, and also produces short vignettes on Pittsburgh landmarks and communities.

In a time of fiscal distress, the City shall direct its resources to critical and essential government services. The City shall eliminate the staffing and supplies dedicated for television production, continuing only the broadcast of City Council meetings on a limited basis. Other services shall be continued only to the extent that resources from other than the General Fund can be identified (e.g., School District and/or University partnerships, grants). Total FY2004 General Fund television production costs are detailed below.

Category	FY2004 Budget
Personnel Costs	$375,366
Supplies	$12,500
Equipment	$85,000
Misc. Services	$27,000
Total	**$499,866**

The fiscal impact of this initiative has been discounted in FY2005 to reflect potential transitional costs, and offset by an assumed payment of approximately $100,000 in contract or other costs to continue limited broadcasts of City Council meetings. This figure may require live broadcasts only, limited camera angles, and interrupted broadcasts when technical malfunctions occur. The City shall seek in-kind services from the School District to operate the Council broadcast function once the School District's cable function is more fully developed.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	25%	0%	0%	0%	0%
Fiscal Impact	$0	$300,000	$410,000	$430,500	$452,025	$474,626

GS09. Explore Outsourcing of Print Shop Functions or Consolidate with County

The City and County operate separate printing shops. The City shall explore the potential for savings by either consolidating the operations with the County or pursuing a joint contracting agreement with an outside vendor.

Along with the recommendations outlined above, the following initiative(s) impacting DGS are detailed in other sections of this Recovery Plan:

- Shared services with Allegheny County in purchasing [Intergovernmental Cooperation]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter]

Fleet Management

Fleet management services are currently provided by the Department of General Services Bureau of Fleet Maintenance ("the Bureau"). With a staff of 55 and an annual budget of over $8.0 million (not including fringe benefits or overhead), the Bureau maintains approximately 1,100 vehicles and pieces of equipment for all City departments and bureaus including Police, Fire, and Sanitation.

City vehicles are purchased and maintained by the Bureau. At the maintenance complex in the Strip District, the Bureau services all types of vehicles, ranging from police cruisers to fire trucks to sanitation vehicles.

In recent years, the Bureau has been under scrutiny because of dissatisfaction from user-departments such as Police, Fire, EMS, and Public Works. Performance measurements have been reviewed, revealing that:

- The Bureau is overstaffed compared to industry standards;
- Repair turnaround time is slow; and
- Vehicle availability is lower than industry standards.

While there are many dedicated employees working within this function, the City has proven unable to manage this vital support service effectively.

Initiatives

To improve fleet services and consequently other governmental functions that will benefit from improved fleet management, the City shall pursue the following initiatives:

FL01. **Managed Competition for Fleet Maintenance**

Many municipalities across the country have recognized that purchase, repair, and maintenance of vehicles are not core government functions. In order to guarantee the availability of adequate vehicle resources when needed to provide basic services, local governments such as Allegheny County have successfully used outside professional support. At the same time, other local governments – for example, Indianapolis, IN under former Mayor Stephen Goldsmith – have responded to competition by reforming in-house fleet operations to deliver improved results.

In Pittsburgh, the fleet operation has been marked by factors such as low vehicle availability and difficulty working within the constraints of cumbersome City procurement and personnel policies. Because these constraints make nimble and responsive fleet management difficult (if not impossible) to provide, the City has taken affirmative steps to outsource fleet services, having issued a Request for Proposals ("RFP").

The Act 47 team has reviewed the RFP, the RFP evaluation, and operations of the best private bidder, First Vehicle Services. First Vehicle Services performs fleet management services for multiple large government clients including, but not limited to, Allegheny County (PA), Arlington (TX), Atlantic City (NJ), Broward County Sheriff's Department (FL), Washington D.C. Police Department, Washington D.C. Water & Sewer Authority, Ft. Lauderdale (FL), and Montgomery County (MD). The Act 47 team's fleet experts have also toured City fleet maintenance facilities and Allegheny County fleet maintenance facilities (the latter managed by First Vehicle Services for the past five years). Members of the team have also met with the Director of the Department of General Services, his deputy responsible for fleet maintenance, and bargaining unit representatives.

If First Vehicle Services were to provide the services, there are two likely scenarios:

Scenario A
Fleet management services are outsourced to First Vehicle Services. A transition plan is developed and executed, and fleet management becomes an outsourced operation under the direction and control of the Department of General Services and the Pittsburgh Fleet Management Coordinating Committee (described below).

Scenario B
The same as Scenario A above*, but the current collective bargaining agreement ("CBA") with fleet employees must be assumed by First Vehicle Services for the remainder of its term* – until Midnight on December 31, 2006.

The question of which of these two scenarios takes place turns on the issue of whether an outside vendor must assume the CBA if fleet services are transitioned. This matter has not been resolved, however, First Vehicle Services is aware of this contingency and is prepared to work with the City and the Union if circumstances require. The City and the Act 47 team have informally discussed assumption of the CBA with First Vehicle Services, which has indicated that while cost savings will be mitigated, substantial savings in excess of $1 million annually are still projected. As a matter of conservatism, financial estimates in this Recovery Plan assume that fleet maintenance will be transferred with the CBA. However, the Act 47 team makes no presumption of law or precedent in this matter.

Target Costs[1]	Year 1	Year 2	Year 3
Current Pittsburgh Costs	$5,584,361	$5,751,892	$5,924,449
Scenario A	$3,861,654	$3,893,168	$4,025,758
Scenario B	$4,174,040	$4,303,668	$4,458,728
Scenario A Savings	$1,722,707	$1,858,724	$1,898,691
Scenario B Savings	$1,410,321	$1,448,224	$1,465,721

Average Savings Per Year	
FVS Scenario A Savings	**$1,826,707**
FVS Scenario B Savings	**$1,441,422**

To provide a further opportunity for the City to explore every available option to achieve the best results, the Coordinator has determined that a managed competition should be held between the First Vehicle Services proposal described above and the City's employees currently providing fleet maintenance services, members of the Pittsburgh Joint Collective Bargaining Council (PJCBC). On or before July 30, 2004, the PJCBC may submit a proposal in response to the First Vehicle Services' proposal described above. If requested, the City shall provide necessary technical support, as in other cities where public-sector workforces have successfully bid to retain service provision. The proposal must address the same scope of service set forth in the RFP and in the First Vehicle Services proposal, including all quantitative and qualitative measures of performance. In order to be selected, the PJCBC proposal must demonstrate a clear plan for achieving at least the level of savings set forth in Scenario B above, and must further include demonstrated capacity to deliver such services at those levels

[1] "Target Costs" refer to core fleet management costs and exclude administration, fuel, and accident/abuse repair costs, which are considered "Non-Target" costs. These terms are commonly used when allocating costs in an outsourced fleet management environment.

of quality and quantity within an equivalent timeframe. The decision as to the selected service provider under the managed competition shall be made jointly by, and at the complete discretion of, the Director of the Department of General Services and the Coordinator. Following this evaluation, the City shall move forward to negotiate either an internal service agreement or a contract with the outside vendor, as appropriate, no later than September 1, 2004.

Develop Performance Monitoring and Oversight Capacity
Prospectively, the ability to monitor and independently oversee privatized activities is essential. The key is that any such oversight must be truly independent. One technique for ensuring such independence is to place oversight responsibility in an entity that is not controlled by the unit responsible for the activity that has been privatized. This provides a more unbiased appraisal than might be otherwise possible. Therefore, a Pittsburgh Fleet Management Coordinating Committee ("PFMCC") shall be created to oversee outsourced fleet management operations. The PFMCC shall comprise several representatives of the largest fleet management user-departments, one representative of a smaller user department, senior City officials with fleet management oversight responsibility, and representation from other non fleet-related departments as appropriate. Prospectively, this Committee will provide guidance, oversight, and contract management.

Develop a Charge-Back Protocol
Under such a system – already planned for Pittsburgh when fleet services are outsourced – a centrally administered budget shall be created for certain non-target costs (fleet administration and fuel) and all other fleet-related expenses will be budgeted (i.e., "charged back") to user-departments. This system will create an incentive – at the departmental level - to maintain an optimally sized fleet and minimize operating costs. Because departments will be required to spend their own funds for vehicle acquisition, maintenance/repair, and fueling, a charge-back protocol will create a disincentive against maintaining unnecessary vehicle redundancy, seeking unwarranted repairs, or unnecessary vehicle usage. Additionally, a charge-back protocol will provide an incentive for departments to reduce the number and severity - and consequently the cost - of accident and abuse damage. The establishment of a charge-back protocol creates the appropriate dynamic between the centralized fleet management agency and the user-departments - that of a service delivery agency providing a service to its clients.

As noted above, the fiscal impact projections below assume savings will <u>at a minimum</u> reach $1.4 million by FY2005, with greater savings potentially achievable depending on the resolution of labor-management considerations. For the current fiscal year, the Act 47 team believes that implementation by September 1, 2004 is achievable, but has discounted the estimated four-month savings by 50 percent to reflect transition costs and potential implementation delay.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	50%	0%	0%	0%	0%	0%
Fiscal Impact	$240,237	$1,441,422	$1,441,422	$1,441,422	$1,441,422	$1,441,422

FL02. <u>Fleet Rightsizing</u>
As of September 2003, Pittsburgh had 83 vehicles assigned for 24-hour use (e.g. "take-home") for other than elected officials, or approximately 8.3 percent of the fleet. While Pittsburgh's current take-home vehicle policies are not unusually permissive, many of these take-home vehicles appear to be used primarily for commuting. The City can no longer afford to provide vehicles for non-emergency purposes. Moreover, the provision of non-essential take-home vehicles transmits a symbolically negative image to the City workforce and the public counter to the dire nature of the City's finances and the need for permanent reform.

Given the City's finances and the general trend among private and public enterprises to eliminate provision of passenger transport vehicles (e.g., sedans and SUVs), it is not necessary for many City employees to have municipally provided take home vehicles. All non-emergency personnel and even most emergency responders can use their own personal vehicles and be reimbursed when those vehicles are used for public business. Over the life of this Recovery Plan, hundreds of thousands of dollars can be saved or avoided by eliminating the costs of commuting wear and tear and avoiding replacement of non-essential take-home vehicles.

1. Policy Development

a. Reengineer Policies for Take-home Vehicles

The City shall immediately amend its take-home vehicle policy ("24 Hour Vehicle Use Policy, May 2002) to allow the assignment of take-home privileges only to City employees who:

- Are called out at least 12 times per quarter or 48 times per year to respond to emergencies for which they are primarily responsible and that require immediate attention to protect against imminent harm to life or property;
- Cannot use alternative forms of transportation (e.g., personal vehicles, mass transportation, taxis, or other forms of alternative transportation etc.) to respond to such emergencies; and,
- Cannot pick up a City-owned vehicle at a designated site without a negative impact on their ability to respond to emergencies requiring immediate response to protect life or property.

The existing policy shall be modified to eliminate all Category One, Two and Three 24-Hour Vehicles, except for those meeting the criteria described above. Although the policy shall be put into place immediately, a modest transition period to the end of calendar year 2004 may be allowed to implement an orderly move away from 24-hour vehicles. The new policy shall result in the reduction of the 24-hour vehicle fleet from the current 83 vehicles to approximately 52. This reduction would be achieved by eliminating 24-hour privileges for the 31 individuals who currently have such privileges but are not designated as performing public health or safety functions.

While some cost avoidance can be achieved through limiting vehicle usage to business mileage, more significant and lasting savings will be realized by completely eliminating vehicles from the fleet. Accordingly, the 18 vehicles in this complement of 31 that are sedans and SUVs shall be relinquished and sold. It is assumed that functionality provided by these take-home passenger vehicles can be better accommodated through alternative, economical means, or not at all. Cost savings will be generated immediately through fuel/maintenance avoidance and in the future through the elimination of vehicle acquisition requirements.

b. Institute New Policy for Retention of Operational Vehicles

Operational vehicles using less than 8,000 business miles per year shall be considered underutilized[2]. Given operational considerations, these vehicles are not

[2] Minimum usage standards are common in many state and local fleet operations, including New York City, Multnomah County, Oregon, and states such as Missouri, North Carolina, Virginia, Connecticut, and New Jersey. Some standards are as high as 14,000 miles per year, with the average being around 10,000.

automatically assumed to be unjustified, but in departmental vehicle classes where more than two underutilized vehicles are present, consolidation opportunities (i.e., from two vehicles to one) are presumed.

With respect to the take-home vehicles that are designated as public health or safety, 41 of the 52 remaining vehicles are traveling less than 8,000 miles per year, suggesting that they are not being used optimally. Overall, the 41 vehicles are providing 29.0 FTVEs. Unless their existence can be satisfactorily justified, these remaining take-home vehicle complement shall be reduced by 23 vehicles for a total of 29 take-home vehicles down from 52. Transportation needs shall be accommodated through use of personal vehicles or other transportation alternative. Including the recommended non-public health and safety reductions, the 24-hour take-home fleet would be reduced by 54 vehicles or 65 percent. This would bring 24-hour take-home assignments to approximately 3 percent of overall fleet size.

2. **Personal Auto Program ("PAP")**
Employees with infrequent emergency call-out responsibilities or basic passenger transportation needs can avail themselves of the City's existing program that provides a reimbursement to employees using personal vehicles for business-related travel.

3. **Automated Vehicle Sharing Program ("AVSP")**
Automated vehicle sharing can help reduce fleet size, reduce costs and improve utilization, by enabling multiple drivers to easily use the same vehicle. Available technology enables reliable, secure, and automated 24-hour a day, seven day a week access to vehicles in one or more locations. Automated scheduling and vehicle access systems process all administrative, scheduling, key management, usage tracking, and billing tasks.

The City of Pittsburgh shall explore the potential to build the external capacity to set up an automated vehicle sharing system. Currently, AVSP programs around the nation are provided through private or non-profit enterprises that are separate from the government. Under such programs, each driver is issued a unique credit-card sized proximity card and each vehicle is outfitted with a small "black box" that facilitates entry and tracks usage. Car keys are kept tethered in the vehicle. Drivers make their own reservations via the Internet in a few seconds. Reservations can be made up to a year in advance, for as little as one hour, on any vehicle in the system, depending upon predefined access parameters. The vehicle ignition is disabled until the reserving driver's proximity card is presented at the right time on the right vehicle. This technology enables secure access 24 hours a day, 7 days a week, without any administrative staff.

Fiscal Impact of Fleet Rightsizing[3]
While some appreciable savings will be realized by eliminating take-home privileges, more concrete reductions will be achieved through the total relinquishment of 18 vehicles. Cost savings are composed of maintenance and acquisition components. Cost savings associated with maintenance will be more immediate. These savings are illustrated below and discounted by 60 percent in FY2004, 50 percent because there will be only six months left in the year by the time reductions are implemented. An additional 10 percent discounted is applied and continued in each year thereafter as an offset to savings because it is assumed that some new business-related transportation costs (e.g., mileage reimbursements) will be incurred by those who formerly had a take-home vehicle

[3] Maintenance and acquisition costs are derived from industry standards and are a blended average of the types of vehicles that Pittsburgh shall relinquish from their fleet. Actual cost savings may vary, but will be in the range articulated herein.

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	60%	10%	10%	10%	10%	10%
Fiscal Impact (maintenance)	$15,747	$35,431	$36,317	$37,225	$38,155	$39,109

In addition to the operating savings captured in the chart above, the City will also avoid the capital expenditures associated with future vehicle acquisitions to replace the 18 vehicles that shall be relinquished, and may yield modest, one-time auction proceeds. At an average cost estimated at approximately $24,000, elimination of these vehicles from the fleet will reduce the need to spend $432,000 (18*$24,000) on the capital budget every eight-year cycle.

FL03. Realize the Full Benefits of an Automated Fleet Management Information System

Optimizing fleet management without benefit of accurate and accessible operational and budgetary information is difficult. Without such information, decision-making is essentially supported by anecdote and experience, rather than empirical evidence and analysis. Enhanced information tracking is necessary if Pittsburgh's fleet operations are to make progress. While Pittsburgh has installed an automated fleet tracking system, it is not being used effectively because of data entry deficiencies. Consequently, the regular, accurate, and comprehensive reporting protocols that inform effective decision-making are not in place. To correct these deficiencies, Bureau management shall improve oversight controls and training protocols to ensure data reliability.

FL04. Create an Annual Purchasing Plan ("APP")

An APP fixes yearly vehicle acquisitions at a certain level. An APP can cover an assortment or can focus on a single departmental vehicle class. While orderly acquisitions are always recommended, consideration of an APP is particularly appropriate in situations where a majority of a class's vehicles are aged, availability is low, and maintenance costs are steadily increasing. Further, the proposed agreement with First Vehicle Services will charge the City (and the departments directly) non-target costs for target repairs when they are performed on vehicles that are out of mutually agreed upon vehicle life-cycles. Failure to keep vehicles within these life-cycles will result in cost increases that will incentivize departments to make cost-efficient decisions about how to size and configure their fleet and develop an appropriate APP for same.

The Act 47 team has reviewed the City's current vehicle acquisition plan. In the context of fiscal distress, the team finds the plan's focus on acquiring public health and safety vehicles with bond and CDBG money to be appropriate. Prospectively, the City shall develop a more comprehensive plan that establishes annual vehicle purchasing targets for high-priority vehicles classes. As one component of this plan, the City shall also evaluate the purchase of pre-owned vehicles as a method of accommodating the City's light-duty vehicle purchasing needs. Pre-owned vehicles are less expensive than comparable new vehicles (approximately 14 percent less) while providing an equivalent level of service and quality.

FL05. Consider Future Bidding for a Fixed Price, Multiyear Fuel Management Contract

Over time, fuel prices can fluctuate significantly, due to economic, seasonal, or other factors. This volatility has been shown starkly in early 2004 as gasoline prices have spiraled towards $2.00 per gallon at the pump nationwide. By procuring fuel more strategically, monies can be liberated and spent on fleet management or other pressing City spending needs during downticks in fuel costing. When fuel costs trend upwards, fleet management spending priorities must be reordered, sometimes resulting in the deferral of important/planned maintenance or vehicle-purchasing activities. Given current high fuel costs, the Act 47 team recommends that implementation of this strategy be deferred, however, it shall be reevaluated on a quarterly basis in conjunction with the Coordinator.

Along with the recommendations outlined above, the following initiative(s) impacting the Bureau are detailed in other sections of this Recovery Plan:

- Capital funding polices for vehicle acquisition [Capital]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

8. Public Safety

Department of Public Safety - Administration

The Department of Public Safety provides Emergency Management and Homeland Security services for the City and coordinates the administration of the Office of Youth Policy.

Emergency Management and Homeland Security. This newly created department within Public Safety coordinates Emergency Management and Homeland Security funding for the City.

Office of Youth Policy. This office works with groups serving youth in the City to coordinate initiatives and bridge service gaps that may exist.

Initiatives

PS01. **Coordinate After-School Programs**

The City shall coordinate resources to fund non-duplicative, effective services based on the sound evaluation of youth after-school programs. Children are at greatest risk during the after school hours of 3 p.m. and 11 p.m. There is a great need for activities to meet the needs of children, and multiple public sector and private several community service agencies provide positive programs. For example, the City Department of Park and Recreation offers the Community Enrichment Program (CEP), in coordination with the Pittsburgh Public Schools, to offer after-school programming in public schools where no recreation center is readily available.

Along with the recommendations outlined above, the following initiative(s) impacting Public Safety Administration are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Bureau of Police

The Pittsburgh Bureau of Police (PBP) maintains an authorized strength of 900 sworn law enforcement officers who patrol over 58 square miles of land and water area. The Bureau's activities are varied and diverse with over 350,000 calls for service annually.

The Bureau has three distinct Branches – Operations, Investigations, and Administration:

Operations Branch
The Operations Branch functions as the uniformed, patrol branch of the PBP. It has been recently reorganized from six to five geographic zones. Each zone is staffed at a level based on size, demographics, and criminal activity. The Operations Branch also manages the City's Special Emergency Response Team (SERT), which provides tactical response ability for special incidents, as well as the Traffic Unit.

Investigations Branch
The Investigations Branch of the PPB is responsible for the investigation of all crimes that occur within the City, for the detection and arrest of criminals, and for the recovery of lost or stolen property. The Branch also identifies and develops strategies to address crime patterns within the City. Its two major Divisions are Major Crimes and Narcotics & Vice.

Administration Branch
The Administration Branch of the PPB encompasses Research & Planning, Support Services, Personnel and Finance, School Crossing Guards, and the Training Academy.

Budget

The FY2004 City Council Enacted Budget for the Pittsburgh Bureau of Police, excluding fringe benefits, totaled $63,168,256 or 16.3 percent of the entire City budget. With fringes, the Police Bureau exceeds 20 percent of total City spending. The table below shows how the Bureau of Police budget (less fringe benefit costs) has been reduced over the last two fiscal years.

Dept Name	2002 Actual	2003 Actual	2004 Proposed	2004 Enacted
PS-Police Bureau	$71,504,773	$67,306,000	$66,839,511	$63,168,256

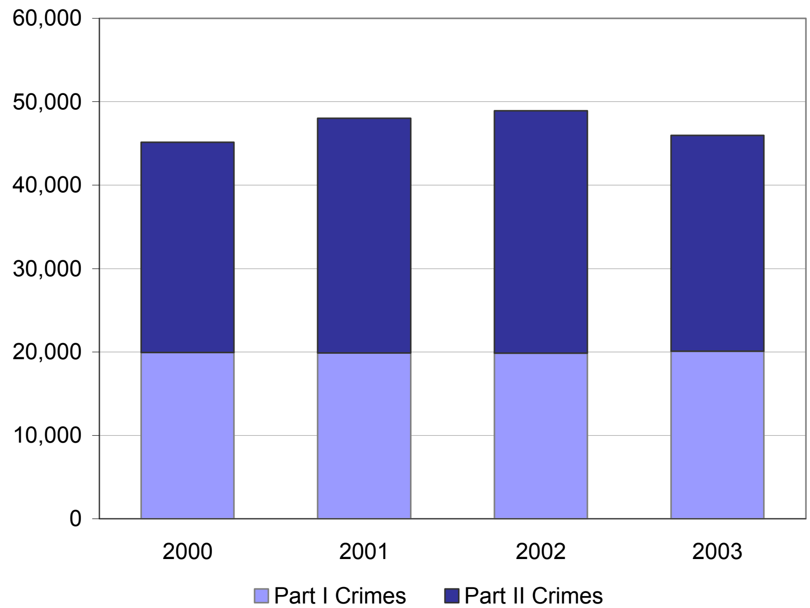
These reductions in the overall budget have been achieved through a variety of measures. In August 2003, the City laid off approximately 100 sworn police personnel, including the four members of the Mounted Patrol, for savings of $5.2 million in FY2004 ($10.6 million including fringe benefits). The City has also reached a cost-sharing agreement for School Crossing Guards with the School District, currently covering the FY2003-2004 school year only, anticipated to save $1.9 million. Other savings have been realized in recent years from measures including: eliminating vacancies; reducing the Local Law Enforcement Block Grant (LLEBG) subsidy for civilians; eliminating the Police Helicopter Unit; consolidating the Identification Section with the County; and installing black boxes in vehicles, which provide information about accidents that can limit or decrease the City's liability.

Sworn Police Staffing

Pittsburgh has approximately 900 sworn officers policing a city with a population of 334,563[1]. That amounts to 26.9 sworn officers per 10,000 City residents, above the national average for large municipalities of 22 sworn officers per 10,000 residents.[2]

Pittsburgh is also ranked among the safest urban centers in the United States. The chart below shows the change in the number of Part I crimes and Part II crimes over the past few years.[3]

Total Crimes
Pittsburgh, PA 2000-2003



Pittsburgh has also become one of the nation's leaders in officer performance assessment, developing the Performance Assessment and Review System (PARS)/Officer Management System (OMS). Some changes initially began as part of a reform of the Bureau that took place under a court-monitored consent decree, following a 1996 lawsuit against the PBP for allegations of police misconduct. By September 2002, the consent decree had been lifted.

Productivity Recommendations

Productivity improvements have been critical to enabling the Bureau to maintain public safety while absorbing significant budget reductions. As the City works to recover from fiscal distress, the Act 47 team does not recommend any increases to the Bureau's current on-board sworn headcount of 900 officers. At the same time, as detailed in the following, this Recovery Plan includes multiple initiatives to further improve productivity so as to strengthen the Bureau's service capacity without the addition of new officers.

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1 2000 United States Census

[2] "Law Enforcement Management and Administrative Statistics, 2000: Data for Individual State and Local Agencies with 100 or More Officers." Bureau of Justice Statistics, U.S. Department of Justice

[3] Part I crimes include four violent crimes (murder, forcible rape, robbery, and aggravated assault) and three property crimes (burglary, larceny-theft, and motor vehicle theft). Part II crimes included the following: forgery, fraud, embezzlement, vandalism, weapons violations, sex offenses, drug and alcohol abuse violations, gambling, vagrancy, curfew violations, and runaways.

PD01. <u>Civilianization</u>

The Pittsburgh Bureau of Police shall continue to maximize its sworn police on-street presence by advancing the civilianization of administrative positions within the Bureau currently staffed by sworn personnel. The Bureau has identified 38 positions currently being performed by sworn police officers that could be performed more cost-effectively by civilians:

Title	#	Office
Police Officer	5	Chief of Police
Police Officer	12	Warrant Office
Police Officer	2	Property Office
Police Officer	1	Crime Analysis
Police Officer	1	Mail Car/Property Room
Police Officer	15	Zones (Desk Officer)
Police Officer	2	Impound Lot
Total	**38**	

The City shall further pursue the following measures to identify the funding required to hire such civilians without reducing sworn headcount (but instead redeploying sworn officers into enhanced patrol):

a. *Review the productivity and necessity of all current civilian positions within the Bureau.* For example, an initial review of civilian duties in the PBP revealed three positions which may be duplicative of support provided through other City agencies. The initial Recovery Plan directed that the three positions listed below be eliminated.

Title	Salary
Public Information Officer	$71,135
Legal Advisor	$73,135
Fitness Coordinator (Volunteer Coordinator)	$30,236
Total	**$174,506**

During the public comment period on this Recovery Plan, extensive testimony was received from the rank-and-file and management regarding the importance of the Public Information Officer. The Coordinator found these comments compelling, and therefore directs only that the Legal Advisor and Fitness Coordinator positions shall be eliminated. While the Public Information Officer position may be maintained, the Police Bureau shall still achieve personnel savings of at least $174,506 from its budget to help fund the civilianization described above (with civilian Clerical Specialists receiving a top-step annual salary of $26,376, the resources dedicated to these three positions could allow for the eventual hiring of six Clerical Specialists). A more in-depth review of civilian positions may identify further opportunities to help afford civilianization and maximize on-street police presence.

b. *Reduce the hours for Impound Lot operations.* The towing of vehicles with multiple moving infractions is contracted through the Bureau of Police, with the City directly managing the operation of the tow impound lot. Hours of operation are from 7 a.m. to 10:45 p.m., Monday through Sunday, for a total of 110 hours -- well above many other major cities.

Impound Lot Hours of Operation

City	Mon –Fri	Saturday	Sunday	Total Hours
Philadelphia, PA	8 am-5 pm	Closed	closed	45
Cleveland, OH	12 pm – 7:30 pm	Closed	closed	38
Cincinnati, OH	7 am -9:30 pm	7 am - 9:30 pm	7 am - 9:30 pm	102
Baltimore, MD	8:30 am – 6 pm	9 am – 5 pm	closed	56
Pittsburgh, PA	**7 am – 10:45 pm**	**7 am – 10:45 pm**	**7 am – 10:45 pm**	110
Average				***70***

The lot is staffed by a group of nine employees, which includes one full-time officer, 2 part-time officers and six civilians. By limiting hours of operation, staffing needs could be reduced accordingly. By eliminating Sunday hours and compressing Monday through Friday hours to 8 am to 8 pm, and Saturday hours to 9 am to 5 pm, for example, the total operating hours would be reduced to 69.0 hours.

PD02. Deploy Non-Emergency Telephone Response Unit

Hours of PBP officer time are consumed taking reports at non-life threatening traffic accidents, in response to minor complaints, or at other calls that could be appropriately handled by trained civilian police technicians.

As detailed in the table below, over the last three years the PBP has received an average of 17,074 calls for non-emergency service. The Bureau has found that each call consumes approximately 30 minutes of an officer's time, or around 8,500 hours of sworn officer time per year. That is the equivalent of approximately 4.5 full-time sworn officers, assuming a conservative level of 1900 annual hours worked per officer.

	Calls	Hours
FY2000	17,561	8,781
FY2001	17,351	8,676
FY2002	16,311	8,156
Average	**17,074**	**8,537**

Provided the Bureau were able to identify vacant or redundant civilian positions to fill under the previous productivity initiatives, it shall explore the possibility of hiring civilians and retired police officers to respond to incoming non-emergency complaints and file associated police reports. While the productivity impact of hiring these civilians would not be as direct as that from police civilianization, it would provide another opportunity to maximize the on-street patrol presence and crime fighting focus of Pittsburgh police officers.

PD03. Installation of Mobile Data Terminals

Another strategy to expand the productivity of sworn officers in the PBP is to increase the use of automated field reporting and Mobile Data Terminals (MDT). These tools allow officers to spend more of their shifts on preventive patrol or responding to emergency calls, and less time managing paperwork. The City has already installed MDTs in 15 vehicles as part of a test phase of the project, and is beginning the process of contracting for the installation of the units in a total of 123 police vehicles. Other cities nationwide have moved towards the full deployment of these time-saving technologies. For example, the City of Philadelphia has installed MDT technology in 85 percent of its police vehicles.

The City expects that 108 additional MDTs in police vehicles will translate into an additional 30 minutes per day in increased productivity per officer, or 107,900 hours per year.[4] The PBP plans to install MDTs in 50 cars by the end of this year, or 52.8% of the entire police cruiser fleet, and will benefit from additional productivity equivalent to 26 full-time sworn officers, assuming a conservative level of 1900 annual hours worked per officer. PBP plans for the remaining vehicles to be outfitted with the technology as they become due for replacement (at an average rate of 10 vehicles per year).

It is estimated that it will cost $6,000 per unit to install the MDTs in the 108 remaining vehicles, for a total cost of $648,000, part of which will be funded through the COPS Technology Grant. The balance of this total will be funded from other local sources, potentially to include a Productivity Bank loan as described in the Finance Chapter of this Recovery Plan, if and when the Productivity Bank is expanded to include service improvement loans.

PD04. <u>Modify Operation of the Police Training Academy</u>

The City of Pittsburgh has developed a highly specialized training program that meets the rigorous standards required by the Commonwealth of Pennsylvania and the United States Department of Justice. The PBP Training Academy offers ethics and diversity training to augment training in police work. Training is provided 24 hours a day, seven days a week from the City's training facility, which includes eight police officers, one sergeant, and one commander.

According to the Bureau, the Training Academy could continue to provide the same quality of service and level of training for its officers, while shifting operations from a year-round schedule to a six-month schedule. This would allow the Bureau to deploy its ten sworn personnel into patrol positions for six months of the year, resulting in an additional 9,500 hours worked per year, assuming a conservative level of 1900 annual hours worked per officer. The City shall work with the Coordinator to determine whether a six-month schedule can be designed to accommodate important non-mandatory training.

Further, the Bureau shall explore the permanent closure of the City Training Academy, and operating the six-month schedule at the County police training facility, provided an agreement can be reached between the City and the County to do so. This would allow the City to realize one-time revenue from selling the Training Academy property, and potential recurring savings from avoided overhead costs (net of any payments to the County that may be negotiated), neither of which has been assumed in this Recovery Plan.

PD05. <u>Provide Pagers to On-Duty Officers with Court Case Responsibilities</u>

Pittsburgh police officers are routinely called upon to be available to provide court testimony. The District Attorney will request a police officer for every case, and in many instances, the police officer may not actually be required to testify. The City shall seek to reduce the number of on-duty hours that officers spend in court through the deployment of pagers. Officers whom the District Attorney identifies for potential testimony on that day shall be provided with a pager that will notify them when they are need to testify on a case. This will maximize the productivity of the force, by ensuring that only those officers who must testify are taken off patrol duties.

Update Fees to Recoup Service Costs

While most of the services provided by the PBP are financed through taxes, there are other services provided by the PBP that primarily benefit the direct user of the service. Many of these services are offered through the City-County Integrated Identification Program (ID Section). Services provided through the ID Section include background checks, fingerprinting, arrest processing and various permits.

[4] ½ hour per day * 830 non-administrative full-time sworn police officers * five days per week * 52 weeks per year

The ID Section was consolidated with the City's Bureau of Police in FY2003, and was planned as a break-even operation, with equal contributions from the City and the County. The FY2004 budget shows this operation spending $183,923 more than anticipated revenues. For the provision of these types of services, the Bureau shall attempt to recoup actual costs of the service provided. This will minimize the level of subsidy from general tax dollars for services that primarily benefit a limited population.

PD06. Increase Background Check Fee

Currently, the PBP performs routine background checks for private businesses. When providing background checks, walk-in requests are completed and returned at that time. Mail requests for reports and record checks are completed and mailed within 30 days. The PBP currently charges $10 for background checks, although it was reduced in FY2003 from a level of $40. Assuming 366 background checks per year (the three-year annual average), raising the fee from $10 back to $40 would generate $10,980 in additional recurring revenue for the City. Since PBP already has a system in place for processing background check fees, there will be no discounting of the fiscal impact of an increase in background check fees to $40.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$10,980	$10,980	$10,980	$10,980	$10,980

PD07. Increase Non-Forensic Fingerprinting Fee

Currently, the PBP charges customers (e.g., daycare center employees) $10 for two sets of fingerprint cards, although that rate was reduced from $40 in FY2003. Applicants bring their card to the ID Section and the fingerprint card is inked and returned to the applicant. Assuming 1,438 individuals receiving fingerprint services per year (the three-year annual average), raising the fee from $10 back to $40 would generate $43,140 in additional recurring revenue for the City. Since the PBP already has a system in place for processing revenues received from fingerprinting fees, there will be no discounting of the fiscal impact estimate for an increase in the fingerprinting fee.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$43,140	$43,140	$43,140	$43,140	$43,140

PD08. Adjust Taxicab Driver Identification Fee

The City currently charges new taxicab drivers a one-time fee of $40 for an identification card. The PBP previously has recommended that this fee be increased to $70. The table below shows fees charged in selected other communities.

City	Fee
Buffalo, NY	$78.75
Cleveland, OH	$75.00
Columbus, OH	$75.00
Minneapolis, MN	$59.00

Assuming 121 new taxicab identifications per year (the three-year average), raising the fee from $40 to $70 would generate $3,630 in additional recurring revenue for the City. Since the

PBP already has a system in place for processing taxicab ID fees, there will be no discounting of the fiscal impact of an increase in the taxicab ID fee.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$3,630	$3,630	$3,630	$3,630	$3,630

PD09. <u>Restructure False Alarm Fees</u>

As of FY2003, there were a total of 9,972 sites permitted to have alarms within the City of Pittsburgh. The PBP receives an average of 31,188 false alarms calls on an annual basis, which makes up 9.0 percent of the total calls that PBP responds to annually. Police officials expect this number to remain stable from FY2004-05 through FY2008-09. City ordinances authorize the PBP to charge a resident and commercial fee for each false alarm. The table below shows the current schedule of false alarm fees.

	Fee
False Alarm Fee (Burglar – Residential)	$15
False Alarm Fee (Burglar – Commercial)	$50

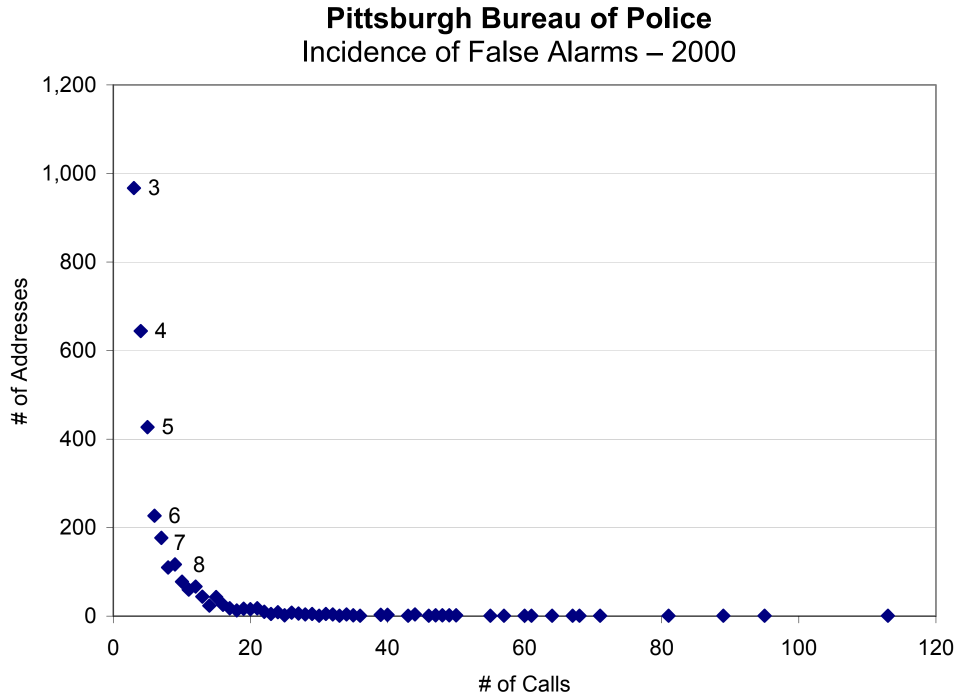
Prior to the installation of a burglar alarm, the owner is required to apply for and receive a permit. This allows the City to track the location of the alarms. In the event of a false alarm, an officer is often called away from patrol for more than one hour. The resident or company will be billed either the $15 or $50 fee on the fifth false alarm. In most cases residential owners are not billed for false alarms, and the City collected only $1,800 in false alarm fee revenues in FY2003.

The City shall make the following adjustments to the existing fee structure and false alarm program regulation, in order to recover the costs of officer manpower in responding to a false alarm call, and to discourage the unwarranted use of emergency personnel.

- Decrease the number of false alarms allowable prior to the assessment of the false alarm fee from four to two;
- Eliminate the distinction between alarms for residential or commercial properties;
- Increase the first false alarm fee from $15 (residential) and $50 (commercial) to a uniform fee of $50;
- Require institutions listed as exempt to pay this fee;
- Implement the following progressive fee schedule:

	Fee
Third Response	$50
Fourth Response	$100
Fifth Response	$150
Sixth Response	$200
Seventh Response	$250
Eighth Response	$300
Response in excess of eight, each	$500

An analysis of the City's Emergency Operations Center (EOC) call records in 2000 indicates that 80.4% of the false alarm calls received came from locations where more than two false alarm calls had already been received. A total of 24,477 false alarm calls were eligible for the false alarm fee that year. The chart below show the frequency of false alarm calls.



PBP has recently begun an effort to address this issue. Using the proposed schedule presented above and using the frequency percentages derived from the analysis of the 2000 data, the City would collect $619,450 each year in false alarm revenues from repeat offenders, a recurring increase of $617,650 per year over current levels. Although PBP already has the authority to collect false alarm fees, the fiscal impact of this initiative will still be discounted to account for potential implementation challenges and delays.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	75%	60%	50%	50%	50%
Fiscal Impact	$0	$154,413	$247,060	$308,825	$308,825	$308,825

PD10. Prisoner Processing Fee

The City-County Integrated Identification Program has been successful in merging two separate City and County operations, with programmatic overlap, into one. This has allowed both jurisdictions to lower operating cost contributions to a vital police support service. An opportunity exists to further reduce the net cost of this service to both entities. Most County courts charge defendants in criminal case court costs to recoup the costs of processing the case. State statute limits the charging of this fee to counties only. With this in mind, the joint City-County Identification Section shall apply a $200 processing fee for all prisoners. Because the ID Section is a joint operation, there is an opportunity to decrease the City's subsidy by working with the County to collect this fee. The ID section processed 40,584 actors in FY2003. Of this total 14,501 (36 percent) were attributed to the City and 26,083 (64 percent to the County). The table below shows the average number of cases processed over the last three years.

	FY2001	FY2002	FY2003	Average
Prisoners (City)	19,731	16,553	14,501	16,928
Prisoners (County)	20,370	22,010	26,083	22,821
Total	40,101	38,563	40,584	39,749

If the City is able to arrange with the County to directly receive revenues from cases attributed to it, and assuming 16,928 cases per year (the three-year average), with a conservative collection rate of 10 percent, the Bureau would realize additional recurring revenues of $338,560 per year. The fiscal impact of this initiative will still be discounted to account for potential implementation challenges and delays.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	100%	75%	50%	50%	50%
Fiscal Impact	$0	$0	$84,640	$169,280	$169,280	$169,280

PD11. Automated Traffic Light Enforcement

To improve traffic safety, red light camera technology has been authorized for use in 13 states, and more than 70 communities nationwide (including Philadelphia) have implemented programs. According to the Insurance Institute for Highway Safety, more than 900 people die and an estimated 200,000 people are injured each year as a result of crashes that involve running red lights. Further, the Institute has concluded that red light cameras not only deter red light running, but also reduce intersection crashes, including collisions involving injuries. Instituting red light cameras in Pittsburgh would allow the City to increase traffic enforcement more consistently without having to deploy additional officers and incur overtime expenses. Re-deploying officers previously dedicated to traffic enforcement and enabling those officers to be available to respond to calls could also recoup some of the costs associated with red light camera equipment, while allowing PBP officers to spend more time keeping the City safe.

A change in State statute would be required for the City to move forward on this initiative, as was authorized for Philadelphia in 2002 by amendment to the Motor Vehicle Code. Other cities across the nation have conducted studies to project the number of citations that would be issued under an automated traffic light enforcement program. In 2002, for example, the City of New Haven, Connecticut commissioned a study to quantify the estimated level of non-compliance with traffic signals at three intersections, with results indicating an average of 145 violations per intersection. Assuming similar incidence in Pittsburgh, a pilot program of cameras at ten intersections would yield an estimated 529,250 violations annually, with reduced red light running violations once cameras are installed estimated at 40 percent based on research in other communities.[5] Because not all red light violations would be paid, the projected revenue from tickets issued is further discounted by 38 percent to account for unpaid violations, a factor based on data from the first 18 months of implementation in New York City's program.

In Pittsburgh, red light violations currently carry a $104 fine, with the City receiving 45.7% of the revenues (the remainder going to the State and the court system), for an adjusted fee impact of $47.50 per citation. Based on the projections of paid tickets detailed above, and discounting for such factors as start-up delays, vendor charges, and violations that the City might have

[5] Insurance Institute for Highway Safety

otherwise realized through conventional policing, preliminary estimates of net revenues to the City from a ten-camera pilot range from $5.6 million to $7.3 million per year.

Given the expected cost-effective and positive impact of a red light camera program on Pittsburgh safety, the City shall actively explore implementation, including necessary changes to State law. Because the City does not now appear to have the required legal authorization to move forward, however, no revenues from this initiative are assumed in this Recovery Plan.

In addition to the recommended measures detailed above, the Act 47 team has reviewed multiple initiatives proposed by the City in its Five-Year Financial Plan 2004 – 2008, many of which would require increased spending. Where not specifically addressed elsewhere within this Chapter, the Coordinator has assumed that such spending initiatives can be funded, where warranted, from new grants, contributions, and/or reprioritization of existing budgetary resources.

Along with the recommendations outlined above, the following initiative(s) impacting the Police Bureau are detailed in other sections of this Recovery Plan:

- School Crossing Guard cost-sharing with School District [Intergovernmental Cooperation]
- Reevaluation of River Rescue [EMS]
- Staffing reconfiguration in the Office of Management Investigations and Police Integrity Unit [Office of Municipal Investigations, Civilian Review Board, and Police Integrity Unit Chapter]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]

Bureau of Fire

The Fire Bureau is divided geographically into five Battalions. As of January 1, 2004, the Bureau consists of:

- 35 fire stations;
- 30 Engine Companies plus 3 "Quint" Companies;
- 11 Truck Companies; and
- One Mobile Air Compressor (MAC) Unit.

The table below shows the location of each station, as well as the apparatus associated with that station.

Station No.	Location	Address	Company Type
Battalion One			
3	Strip District	1410 Penn Ave., 22	Engine
32	Spring Garden	900 Spring Garden	Engine
33	River Rescue	101 River Ave.	Truck
34	Perry High School	3914 Perrysville Ave.	Engine, Truck
35	Brighton Heights	1519 Orchlee St.	Engine
36	Marshal/Brighton	2800 Shadeland Ave.	Engine
37	Manchester	1124 W. North Ave.	Engine
38	Northview Heights	198 Essen St.	Engine
39	Troy Hill	1800 Ley St.	Engine
Battalion Two			
5	Hill District	2945 Wester Ave.	Engine
10	Upper Oakland	2500 Allequippa St.	Engine
12	Greenfield	4146 Winterburn St.	Engine
13	Hazelwood	200 Flowers Ave.	Engine, Truck
14	Oakland	259 McKee Pl.	Truck
18	Squirrel Hill	5858 Northumberland	Engine
19	Swisshelm Park	195 Homestead St.	Engine
Battalion Three			
6	Lawrenceville	3958 Penn Ave.	Engine, Truck
7	Stanton Heights	4603 Stanton Ave.	Engine
8	East Liberty	5714 Penn Circle W.	Engine, Truck
11	Baum Blvd.	800 S. Millvale Ave.	Engine
15	Homewood	7024 Lemington Ave.	Engine
17	Homewood	7601 Hamilton Ave.	Engine, Truck
Battalion Four			
4	Mercy Hospital	1324 Forbes Ave.	Engine, Truck
20	Hays	514 Baldwin Rd.	Engine
21	Allentown	212 Walter Ave.	Engine
22	Arlington	1945 Arlington Ave.	Engine
23	Carrick	1704 Brownsville Rd.	Engine
24	South Side	1729 Mary St.	Engine, Truck
25	Rt. 88 & 51	2406 Saw Mill Run	Engine
Battalion Five			
26	Brookline	630 Brookline Blvd.	Engine, Truck
27	Mt. Washington	96 Virginia Ave.	Engine
28	Beechview	1428 Beechview Ave.	Engine
28	Westwood	2100 Noblestown Rd.	Engine
30	Elliot	Steuben St.	Engine, Truck
31	Sheraden	3000 Chartiers Ave.	Engine

The Fire Bureau is composed of a total of 849 budgeted positions, of which 841 are sworn and 8 are civilian (position totals are as of January 1, 2004, as specified in the adopted FY2004 Budget).

Position Classification	Position Type	Budgeted Positions FY 2003	Budgeted Positions FY 2004	# Change FY03 - FY04	% Change FY03 - FY04
Fire Chief	Sworn	1	1	0	0.00%
Assistant Chief - Operations	Sworn	1	1	0	0.00%
Assistant Chief - Prevention	Sworn	1	0	-1	-100.00%
Deputy Chief	Sworn	5	5	0	0.00%
Battalion Chief	Sworn	21	21	0	0.00%
Firefighter Instructor	Sworn	6	6	0	0.00%
Fire Captain	Sworn	140	137	-3	-2.14%
Fire Lieutenant	Sworn	43	43	0	0.00%
Master Firefighter	Sworn	346	327	-19	-5.49%
Firefighter Fourth Year	Sworn	276	300	24	8.70%
Firefighter Third Year	Sworn	32	0	-32	-100.00%
Firefighter First Year	Sworn	24	0	-24	-100.00%
Manager Personnel & Finance	Civilian	1	1	0	0.00%
Clerk-Typist 2	Civilian	2	1	-1	-50.00%
Chief Clerk 1	Civilian	1	1	0	0.00%
Clerk Stenographer 3	Civilian	1	1	0	0.00%
Clerk Stenographer 1	Civilian	4	4	0	0.00%
Total		**905**	**849**	**-56**	**-6.19%**
Sworn		896	841	-55	-6.14%
Civilian		9	8	-1	-11.11%

Initiatives

FD01. Departmental Restructuring

The following table presents information from a National Fire Protection Association (NFPA) survey that provides national medians for the number of pumpers, aerial apparatus, and stations per 1,000 residents in cities with populations between 250,000 and 499,999. These medians are compared to the current Pittsburgh Fire Bureau configuration.[1]

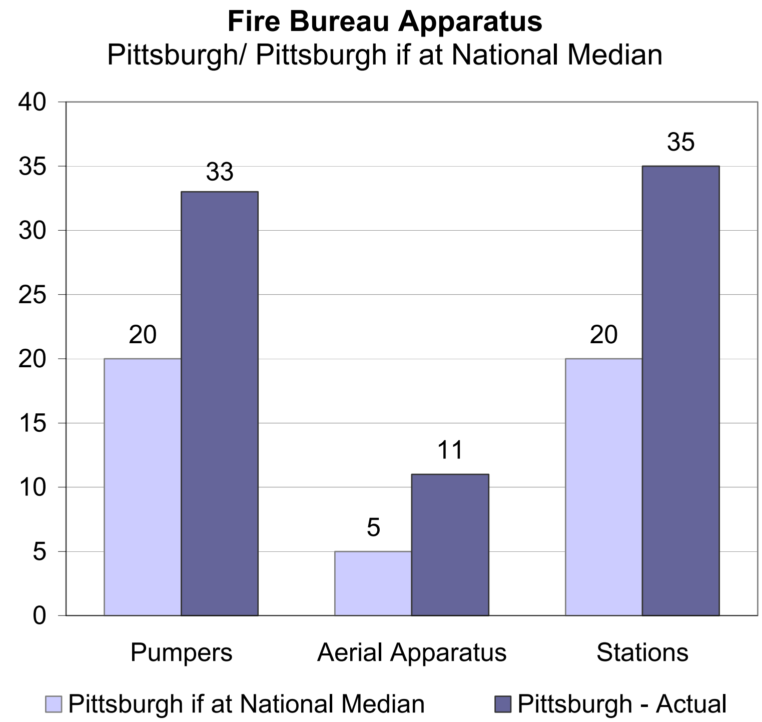
	Pumpers Per 1,000 Residents	Aerial Apparatus (i.e., "Trucks") Per 1,000 Residents	Stations Per 1,000 Residents
NFPA Survey	0.059	0.015	0.061
Current Pittsburgh	0.099	0.033	0.105

Note: These results reflect average apparatus and station rates per 1,000 people by population protected among reporting jurisdictions. The NFPA emphasizes that they do not reflect recommended rates or a defined fire protection standard. NFPA survey information as shown above is for cities between 250,000 and 499,999 residents.

In evaluating this data relative to Pittsburgh resource levels, it is important to note that such survey medians are neither recommended rates nor defined industry standards. Numerous local conditions – including, but not limited to, climate, housing stock, population density, terrain, daytime population, and road configuration – may all bear on the appropriate approach to fire safety in a given community.

[1] For this comparison, Pittsburgh's three "quints" – apparatus with some characteristics of both engine pumpers and ladder trucks – have been grouped with the City's engine companies.

With this caveat, current Pittsburgh Fire Bureau resource levels significantly exceed national medians for cities of similar size. While, again, the appropriate configuration for Pittsburgh should be developed with full consideration of relevant local factors, this high-level benchmarking indicates the potential for significant restructuring.



	Pumpers	Aerial Apparatus	Stations
Pittsburgh if at National Median	20	5	20
Current Pittsburgh	33	11	35
Difference	*+13*	*+6*	*+15*

Applying a more localized focus, the Act 47 team has identified a strong consensus that Pittsburgh Fire Bureau staffing levels and operational configuration are significantly greater than currently required given changes in population, advances in building materials and practices, and declining service demands:

- The City's Five-Year Plan proposes to reduce the Bureau by seven Engine companies and two Truck companies, for a reduction of 168 firefighters from the current minimum staffing requirement of 896[2] to 728.

- Multiple technical deployment studies have identified comparable levels of overstaffing and opportunities to safely reduce the Pittsburgh firefighting force.

[2] It may be noted that current Fire Bureau headcount is below the minimum staffing requirement. This results in guaranteed overtime to fill all assignments.

- Pittsburgh IAFF Local No. 1 has developed modified deployment plans encompassing multiple station closures, the reduction of five engine companies, and significant savings from lower staffing.

Going forward, the Intergovernmental Cooperation Authority (ICA) has commissioned an updated study of Fire Bureau staffing and configuration. The Act 47 team supports the ICA's commitment to address this important consideration, and looks forward to the results of this forthcoming analysis.

In light of the widespread agreement present that significant staffing reductions – and commensurate cost reductions – can be achieved while still maintaining public safety, the Act 47 team believes that savings in the City's spending on fire services must be a cornerstone of this Recovery Plan.

Therefore, the City shall finalize a Fire Bureau reconfiguration plan that shall accomplish, <u>at a minimum:</u>

- the reduction of 168 or more regularly scheduled positions;
- the closure of seven or more engine companies;
- the closure of two or more truck companies; and,
- the closure of seven or more station houses.

The City shall review the forthcoming staffing analysis commissioned by the ICA in developing its final plan to meet or exceed these minimum reduction goals.

Based on a combination of assumed personnel and overtime assumptions, even these minimum reductions are projected to save more than $10 million beginning in FY2006 when the existing IAFF collective bargaining agreement (with contractual staffing minimums) expires.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$0	$10,753,449	$11,022,285	$11,297,843	$11,580,289

In addition to the recommended measure detailed above, the Act 47 team has reviewed multiple initiatives proposed by the City in its Five-Year Financial Forecast and Performance Plan, many of which would require increased spending. Where not specifically addressed elsewhere within this Chapter, the Coordinator has assumed that such spending initiatives can be funded, where warranted, from new grants, contributions, and/or reprioritization of existing budgetary resources.

Along with the recommendations outlined above, the following initiative(s) impacting the Fire Bureau are detailed in other sections of this Recovery Plan:

- The function of arson investigation shall be assigned to Allegheny County. [Intergovernmental Cooperation]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter]

Bureau of Emergency Medical Services

The Pittsburgh Department of Public Safety – Bureau of Emergency Medical Services (EMS) is comprised of the following functions:

- Advanced Life Support (ALS) emergency medical response and transportation via thirteen ambulances;
- Medically directed rescue services for accident scenes, confined spaces, and other non-fire ground emergencies, delivered via two, specially equipped Rescue trucks;
- Leadership of a joint police-EMS River Rescue team and a joint EMS-Fire Hazardous Materials team; and,
- EMS billing and general administrative support.

Bureau staffing to deliver these services is shown in the chart below (position totals are as of January 1, 2004, as specified in the adopted FY2004 Budget).

Position Classification	Status	Number of Positions FY 2003	Number of Positions FY 2004	# Change FY03 - FY04	% Change FY03 - FY04
EMS Chief		1	1	0	0.00%
Deputy Chief		1	1	0	0.00%
Assistant Chief		1	1	0	0.00%
Assistant Chief		1	1	0	0.00%
Division Chief		1	1	0	0.00%
District Chief		10	10	0	0.00%
Patient Care Coordinator		1	1	0	0.00%
EMS Billing Supervisor		1	1	0	0.00%
Supervisory Clerk		1	1	0	0.00%
Account Clerk		2	2	0	0.00%
Clerk Typist 2		1	1	0	0.00%
Laborer		2	2	0	0.00%
Crew Chief		53	53	0	0.00%
Paramedic Fifth Year		93	98	5	5.38%
Paramedic Fourth Year		0	6	6	n/a
Paramedic Third Year		7	0	-7	-100.00%
Paramedic Second Year		6	5	-1	-16.67%
Paramedic First Year		3	0	-3	-100.00%
Emergency Medical Technician Senior		10	0	-10	-100.00%
Emergency Medical Technician 1		14	0	-14	-100.00%
Total		**209**	**185**	**-24**	**-11.48%**
Sworn					
Civilian					

According to departmental data, Pittsburgh's EMS system responds to approximately 56,000 calls per year, making nearly 38,000 transports. From a fiscal perspective, the breakdown of transports across payor classes is as follows:

Payor	Number of Transports	Percentage of Transports
Medicare patients	12,800	33.68%
Medicaid patients	9,600	25.26%
Commercial insurance	7,400	19.47%
Self pay	3,500	9.21%
Un-billed/Uninsured	4,700	12.37%
Total	38,000	100.00%

The current reimbursement level for these transports is roughly $6.9 million annually, with a budget for EMS billing of approximately $250,000.

Initiatives

EM01. **Continue to Explore Alternative EMS Organizational Models.**

In recent months, representatives of the City and the Pittsburgh medical community have come together in a joint Study Committee to analyze a potential transition to a hospital-based EMS system. Participants have included representatives from the University of Pittsburgh Medical Center, West Penn Allegheny Health System, Pittsburgh Mercy Health System, Fraternal Association of Professional Paramedics, Local 1 (FAPP), Center for Emergency Medicine, Allegheny General Hospital, and Children's Hospital. In a prior separate effort, other stakeholders have evaluated the potential benefits from integrating EMS and the City Fire Bureau. In both cases, significant time and creativity have been devoted to exploring potential cost savings and revenue enhancements under such alternative organizational structures.

In developing this Recovery Plan, the Act 47 team has reviewed the detailed reports produced by these working groups, and has interviewed City management, FAPP union leadership, and members of the regional medical community involved with these efforts. Based on this review, the Coordinator believes that the concepts under evaluation hold significant promise for improving both the quality and cost-effectiveness of Pittsburgh's EMS system, and recommends that these exploratory efforts continue. At the same time, however, the Coordinator has not found that any consensus framework has yet emerged with sufficient clarity and definition to be included as the basis for a quantified savings initiative within this Recovery Plan. As this process continues to evolve, the Act 47 team further notes the following views with regard to certain key considerations:

- Clear consensus has emerged that significant opportunities are available to improve EMS revenues through modified billing and collection practices, regardless of the organizational structure adopted for overall service delivery. Consequently, this Recovery Plan does include a specific Initiative EM02 for the immediate outsourcing of EMS billing.

- The Municipal Authority model currently under development by the Intergovernmental Cooperation Authority appears to hold promise as a structure for expanding hospital involvement in the EMS system while increasing flexibility to optimize the system's service mix and fee structure – e.g., special events coverage; geographic expansion; and non-emergency transport. At the same time, this structure would preserve many of the benefits of public sector involvement, including tort immunity and a focus on equitable access to services. The Coordinator believes that it is preferable that this structure be adopted and implemented by a group of the major hospitals in Pittsburgh.

- Given current financial strain in the healthcare industry, relatively low medical assistance payments for EMS in Pennsylvania, and the experience of urban systems nationally, it appears highly likely that an ongoing City subsidy for EMS will be required over at least the next several years regardless of the operational design in place. Proposals for alternative system design that feature little or no direct City subsidy typically rely instead on substantial user subscription charges that are generally equivalent to a new local tax.

- Combining the City's Fire and EMS systems is not recommended. While there are examples nationally of dedicated individuals in such combined systems working together to achieve positive results, these two, distinct public services feature significant differences that mitigate against full consolidation. For example, high-performing EMS systems typically adopt a system status management approach that varies the number and location of ambulances in service throughout the day on the basis of historical call patterns. Traditional Fire systems, on the other hand, tend to rely on fixed locations, with much less peak period staffing. The logistical and cultural obstacles to merging such distinct operations typically outweigh any benefits of enhanced coordination.

- Potential operational savings ranging from $1.0 million to $2.6 million per year have been identified from the incorporation of lower cost Basic Life Support (BLS) ambulances into the overall City EMS system as substitutes for all ALS coverage. This approach merits further exploration, but should be balanced against the impact on flexibility and quality of response.

EM02. <u>Outsource EMS Billing in Conjunction with Restructured Rates</u>

Analysis by the EMS Study Committee has identified multiple opportunities projected to increase net EMS revenues by approximately $2.5 million annually. Accordingly, the City shall move forward to implement the following changes in billing and collection rates and practices:

- Improve pre-billing procedures: Ensure that all transports result in a billable patient, obtain demographic/insurance information from all patients, ensure timely billing of transports (within 3-5 days), perform timely and recurring follow-up procedures; incorporate new technologies to streamline and automate such data collection and transmittal.

- Bill City residents directly for EMS services, consistent with current billing practices for non-residents. In addition to generating additional cost recovery, this measure will create stronger incentives for system users to cooperate with efforts to collect from third-party insurers.

- Increase current EMS rates, which have not been adjusted since 1999 and are below the current market, to the levels proposed by the Study Committee as set forth in the following table.

Charge Type	Current Fee	Proposed Fee	% Increase
BLS Base Charge	375	500	33%
ALS-1 Base Charge	450	650	44%
ALS-2 Base Charge	450	700	56%
Patient Loaded Mile	9.35	10	7%

- Outsource billing and collections. Major cities from coast to coast have successfully improved EMS revenues by leveraging the state-of-the-art billing and collections systems, expertise, and technology through the use of contracted collections. The City shall issue an RFP for EMS collections no later than September 1, 2004, with a new provider beginning service on or before January 1, 2005.

In the aggregate, the Study Committee projects potential revenue gains of $2.5 million annually from the multi-pronged approach outlined above. The Act 47 team has reviewed the Committee's findings, as well as vendor analyses of Pittsburgh's EMS billing and collections. In addition, the Coordinator has reviewed the experience of other governmental billing and collections operations that have successfully transitioned to outsourced operations. For example, through contracted billing in conjunction with ongoing rate structure adjustments, Nassau County, NY increased ambulance revenue collections from approximately $3 million per year in FY2000 to nearly $10 million by FY2003. Based on this review, the Act 47 team believes the $2.5 million projection to be achievable for Pittsburgh, with discounts applied to the first years of implementation to reflect start-up lag and general conservatism.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	25%	20%	10%	0%	0%
Fiscal Impact	$0	$1,875,000	$2,000,000	$2,250,000	$2,500,000	$2,500,000

EM03. Reevaluate River Rescue

The EMS Bureau leads the City River Rescue unit in conjunction with the Bureau of Police. At an estimated cost of nearly $600,000, two paramedic divers and one police officer provide river-based emergency response on two shifts for approximately five months of the year. The City's Five-Year Plan indicates that state and federal funding will be pursued in support of this service, given ongoing close coordination with the U.S. Coast Guard and other federal and state agencies. The Coordinator endorses this approach, and recommends that the City reevaluate the appropriate staffing levels for this service if non-local funding is not available to support current activity.

In addition to the recommended measures detailed above, the Act 47 team has reviewed each initiative proposed by the City in its Five-Year Financial Plan 2004 – 2008, several of which would require increased spending. Where not specifically addressed elsewhere within this Chapter, the Coordinator has assumed that such spending initiatives can be funded, where warranted, from new grants, contributions, and/or reprioritization of existing budgetary resources.

Along with the recommendations outlined above, the following initiative(s) impacting the EMS Bureau are detailed in other sections of this Recovery Plan:

- 911 Consolidation with Allegheny County [Intergovernmental Cooperation]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter]
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Bureau of Building Inspection

The Bureau of Building Inspections (BBI) is the administrator and enforcement agency for the City of Pittsburgh Building and Zoning Codes, in addition to regulating the licensing of building trade and contractor businesses. BBI is comprised of 66 employees including engineers, inspectors and an administrative staff. The Bureau is composed of three main divisions.

Engineering This core service is responsible for the review and approval of construction drawings and specifications, issuance of permits for all phases of construction, technical support and the inspection of properties for compliance with applicable codes.

Code Enforcement Code Enforcement is responsible for the inspection of property to enforce various sections of the Property Maintenance Code. In addition to general building code inspection, the division provides Electrical and Demolition Inspection.

Clerical This unit, which includes the Division of Licenses and Permits, is responsible for the daily management and coordination of all the divisions of the Bureau along with daily processing, reporting and fee collecting.

In FY2004, City Council enacted budget for the Pittsburgh Bureau of Buildings Inspections (BBI) is $2,736,102 or 0.7 percent of the entire City budget. The table below shows how the BBI budget has been modified over the last two fiscal years.

Bureau of Building Inspections

Bureau	2002 Actual	2003 Budget	2004 Enacted	Act 47 Baseline 2004
Building Inspections	**$2,491,266**	**$2,621,696**	**$2,736,102**	**$2,736,102**

BI01. **Implement Uniform Construction Code (UCC)**

In January 2004, the Pennsylvania Department of Labor and Industry (L&I) published its final Administration and Enforcement Regulation which requires that all municipalities within the Commonwealth must adhere to a uniform construction code and enforcement standards. This document will provide the regulatory structure for implementing Act 45, the “Pennsylvania Uniform Construction Code” (UCC).

The UCC is comprehensive and incorporates codes from all trades related to building construction. Every municipality must notify L&I of intent to “opt-in”, which means that it will administer and enforce the UCC, within 90 days of the publication of the Administration and Enforcement Regulation in the Pennsylvania Bulletin. The opt-in period runs from April 9, 2004 through July 8, 2004.

There are several options available to implement the new code. The City may:

- designate an employee to serve as the municipal code official to act on behalf of the municipality;
- Retain the services of one or more construction code officials or third party agencies to act on behalf of the municipality;
- Two or more municipalities may provide for the joint administration and enforcement of this act through an intermunicipal agreement;
- Enter into contract with the proper authorities of another municipality;

- Enter into an agreement with L&I for plan reviews, inspections and enforcement of structures other than one-family or two-family dwelling units and utility and miscellaneous use structures.[1]

The City shall evaluate these alternatives and proceed with the approach that balances the goals of short-term cost minimization and long-term viability.

BI02. <u>Minimize and Recover Costs of UCC Administration and Enforcement Compliance</u>

The City has developed a plan to meet the requirements of Act 45 by FY2008. This plan includes staff augmentation, salary enhancements, and expanded training for existing staff. As estimated by the City in its Five-Year Financial Forecast and Performance Plan, these Act 45 requirements would cost $189,503 in FY2005 and rise to over $500,000 annually by FY2008.

Some of the key performance challenges that BBI must address as a result of this Code include:

- Plan Review/Permit Approval Process: Code mandates 15 day residential and 30 day commercial permit approvals; the City currently completes these requests in 31 and 34 days respectively.
- Specialized Examiner Duties: A variety of trade specific approvals will be required for construction projects, and one approach is to hire or train employees to meet these requirements. Another approach would be contract out these duties to certified construction code official that is not an employee of the municipality
- Board of Appeals: The City must appoint a Board consistent with UCC requirements to hear appeals on decision of the code administrator.

To address the requirements of UCC while avoiding new, net costs to the City, the Act 47 team recommends that the City implement a two-pronged strategy to (a) reduce the expenses associated with this program while (b) increasing fees to fully recover those costs that can not be avoided. In tandem, this approach will eliminate any net budget increase.

With regard to new costs, the City shall:

1. Enter agreement with one or more state-certified providers of construction code services to review permit requests to ensure compliance with UCC. While the City Building Code Official still retains the final authority to approve or deny permits, prior to submission to the City, applicants must have plans reviewed by a certified provider. The applicant would be responsible for the cost of plan review, thereby reducing the City's costs.

2. Add one additional Plan Examiner to enhance BBI's ability to conduct plan reviews within the required timeframe. The starting salary for this position is $46,970;

3. Expand staff training to maintain certification. However, requiring the use of private contractors for plan review services as outlined above will decrease the number of City personnel required to be trained, thereby reducing this new obligation.

Position	FY2005	FY2006	FY2007	FY2008	FY2009
Plan Examiner	$46,897	$46,897	$46,897	$46,897	$46,897
UCC Training Costs	$16,820	$16,220	$15,620	$17,220	$17,220
Total	$56,817	$63,717	$63,117	$62,517	$64,117

[1] Commonwealth of Pennsylvania, Department of Labor and Industry, Act No. 45 Uniform Construction Code, Chapter 5. Adoption and Enforcement by Municipalities.

To recover the additional UCC costs outlined above, as well as associated costs for employee benefits and other direct program needs, the City shall revise its current fee structure. Already, BBI adjusts it fees annually to account for inflationary increases. As the new UCC program rolls out, a more significant fee increase shall be adopted to recover the additional costs concurrent with the customary BBI annual adjustments.

Enforcement Productivity Enhancements

To enhance the productivity of the City's existing code enforcement corps, technology shall be used to provide inspectors with information to more efficiently complete their duties. BBI receives approximately 10,000 requests for service annually. The current process for dealing with these requests is partially manual, which decreases the efficiency of the bureau and puts BBI in a reactive mode.

The City shall pursue several strategies to move BBI to a more technologically advanced position and allow inspectors greater access to information and enhance their productivity.

Electronic Data. BBI shall pursue the transfer of all data into electronic form by digitizing old data, such as past applications and inspection info, and by continuing to enter new data directly into electronic systems. Putting old data into an electronic form will allow the Department to purge, track and research data more effectively. The City shall examine the feasibility and costs of digitizing information, and determine the range of historical information that would need to be included. Such an investment would:

- Reduce the hours spent looking up information and improve the Departments' ability to track information in the future;
- Facilitate coordination between divisions and departments to improve control, over both revenue and interdepartmental activities;
- Improve the quality and timeliness of customer service through more accessible information and project a more competent image to the public; and
- Develop standardized forms of inputting and reporting to increase the Department's efficiency and facilitate more effective monitoring.

Handheld Computers. The Department has 43 inspectors, each with responsibilities that include enforcing the City's Property Maintenance Code, Business Licensing Code and Building Code. As an integral part of the Department, inspection productivity could be improved through technology investments. The current system of performing and recording inspections leads to redundant data entry and is not conducive to information sharing. Handheld computers would allow inspectors to make more site visits each day, would standardize the reporting of data and would facilitate the Department's transition to electronic data recording.

BI03. <u>Deploy Handheld Computers for Inspectors</u>

Over the past three years, BBI reports an average of 271 inspections per business day and 70,505 inspections per year. At each individual site, the inspector records his/her information and then re-enters the data into a report once he returns to the office. The data from these inspections is not always inputted into a computer, so whenever past information is needed, someone must pull the individual file. In a situation where another division or department needs information regarding specific codes, permits or violations they must call the main office to manually retrieve the data.

Currently there are a total of 43 inspectors in the Department performing building, mechanical, electrical, zoning, and code inspections. The City shall provide handheld devices to inspectors to reduce the amount of hours spent manually recording and inputting data, and also allow for coordination between divisions. These devices will also provide inspectors with access to each other's inspection records, which would be useful in situations where an inspector is out on leave or retires.

The cost of the handhelds and the software will vary depending on which other departments chose to purchase the computers and what system was used. However, it is estimated that the total upfront cost per inspector would be about $2,500 for each piece of hardware, with potential additional cost for software, training and maintenance.

The fiscal impact of this initiative is in part related to the cost of acquiring the handheld computers, which should reduce operating costs and increase revenues. This initiative will also enhance the productivity of BBI inspectors. Consequently, BBI shall pursue funding for this investment from the new City Productivity Bank, to be established in FY2005 as outlined in the Finance Chapter of this Recovery Plan.

BI04. **<u>Improve Online Permitting Functions</u>**

The City shall pursue the development of an effective and comprehensive web presence for the Department to improve public perception and administrative processes for inspectors and applicants alike. Creating an interface where applicants could access information, obtain answers to their questions, and eventually download applications would increase productivity and make the Department more user-friendly. As a phase in developing this website, the Department might install terminals at its office and at other strategic locations (e.g. Planning, City Hall, Public Safety Complex). These terminals would provide information on site and give broader access to electronic business.

Along with the recommendations outlined above, the following initiative(s) impacting BBI are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

9. Department of Public Works

Department of Public Works

The Department of Public Works (DPW) is comprised of three bureaus that include a total of seven operating divisions.

- **Administration**. Responsible for information management, long term planning and all accounting functions for the department. DPW is also responsible for the permitting, management and enforcement of the public right of way, and ensures that all uses and work is done in accordance with City standards.

- **Operations**. Maintains the city's infrastructure. Divisions include: Park Maintenance, providing daily and seasonal maintenance of City parks, including 171 city-owned parks and four regional parks; Street Maintenance, responsible for asphalt, concrete slab and brick and block stone street resurfacing; Maintenance, conducting street cleaning, snow and debris removal, street repair and litter removal; Painting, installing street signs, stop and yield signs, parking signs, directional and safety signage and traffic lane markings, and; Forestry, coordinating planting and pruning of all City-owned trees.

- **Environmental Services**. Provides daily collection of municipal solid waste; enforces and monitors public compliance with City ordinances governing solid waste management. The Animal Control Division enforces ordinances governing the City's animal population and animal owners. The Rodent Control Division educates the public on rodent infestations.

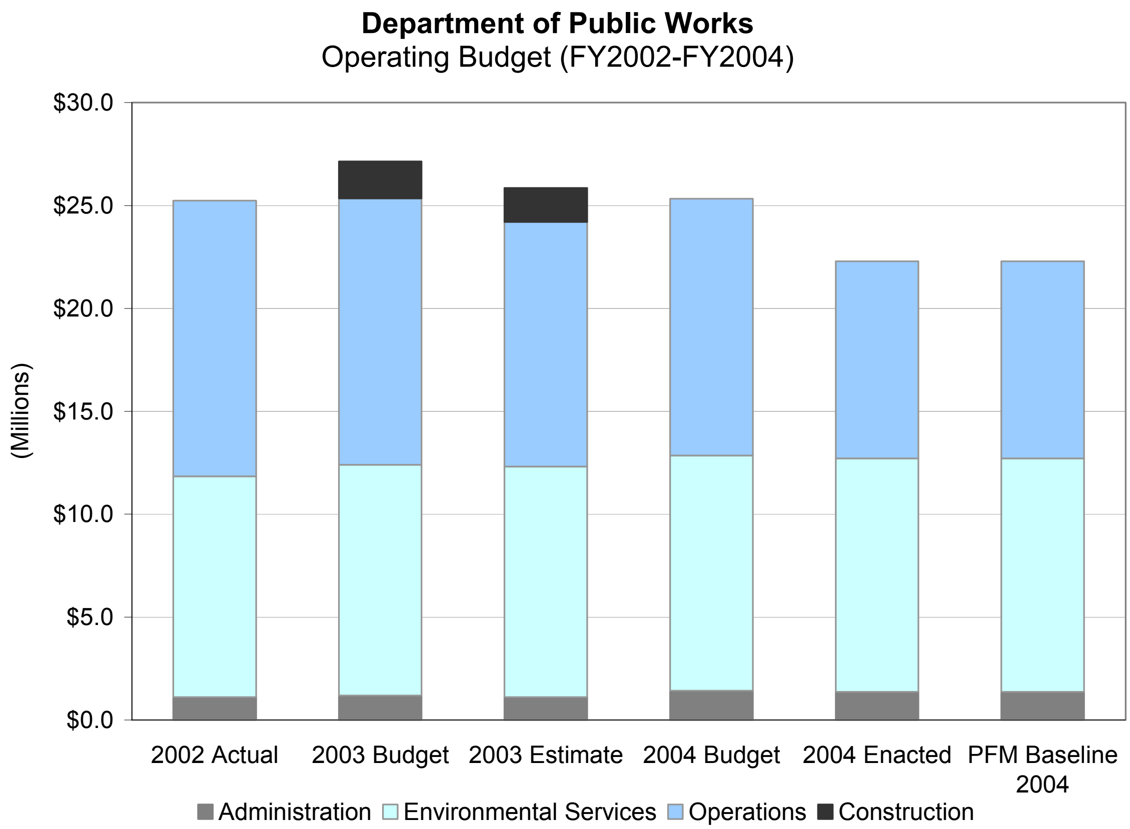
The FY2004 City Council enacted budget for the Pittsburgh Department of Public Works was $22,290,318 or 5.7 percent of the entire City budget, even without including fringes. DPW is a front line agency, with hundreds of employees maintaining the City's infrastructure and interacting with residents daily. The table below shows how the Department of Public Works budget has been modified over the last two fiscal years.

Department of Public Works

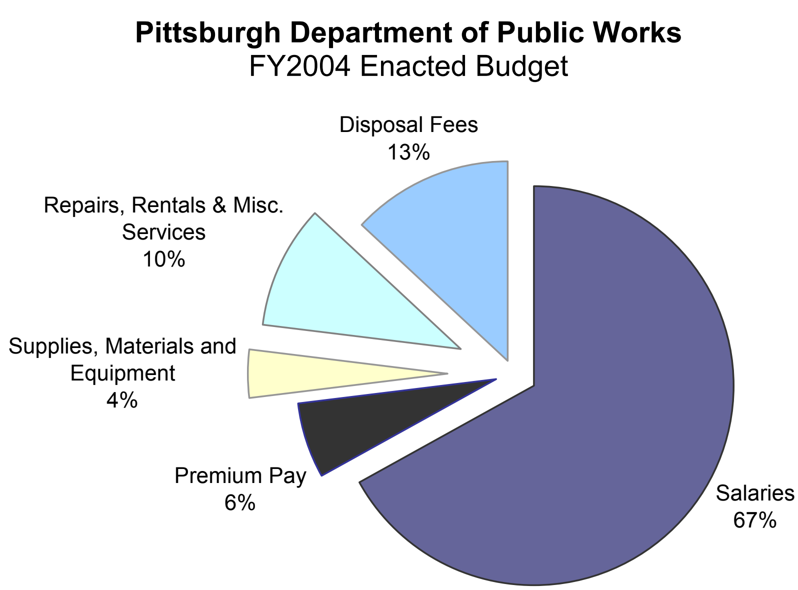
Bureau	2002 Actual	2003 Budget	2004 Enacted	Act 47 Baseline 2004
Construction	-	$1,787,396	-	-
Administration	$1,106,949	$1,186,622	$1,368,996	$1,368,996
Environmental Services	$10,733,560	$11,370,465	$11,345,474	$11,345,474
Operations	$13,399,016	$12,939,180	$9,575,848	$9,575,848
Total	$25,239,525	$27,283,663	$22,290,318	$22,290,318

Within DPW, there have been differing levels of reductions across the three bureaus. While funding for Environmental Services has remained level, the Operations budget has seen a $3.8 million dollar decrease since FY2002. This change in the Operations budget, however, was primarily due to the reduction in personnel assigned to rodent control and graffiti removal. There was also a substantial reduction in the materials category; a total of $690,000 in expenses was eliminated, including $266,316 in general materials, $121,053 in heavy equipment replacement parts and $73,842 for salt purchases. Also, funding for the Construction Division has been shifted to the capital budget in FY2004.

The chart below shows the change in the DPW budget between FY2002 and FY2004, indicating a significant decrease. Again, however, many reductions have been attributable to accounting changes (i.e., shifting personnel to non-General Fund funding source), rather than direct reductions in service.



As the chart below shows, approximately 73 percent of the DPW budget is for personnel-related costs, while a substantial portion, 13 percent, is for disposal fees (landfill).



Environmental Services
The City's Environmental Services Division has seen substantial improvement in operational efficiency over the past two years. With the help of CitiStat, all City routes have been analyzed to identify inefficiencies, and have been restructured to ensure that adequate service is provided to all parts of the City. However, the City's fiscal crisis demands that every operation be examined with an eye for greater efficiency. With approximately 135,000 tons collected in 2003, this is a major operation. Many of the surrounding jurisdictions have contracted out Municipal Solid Waste (MSW) services to private vendors. Large cities around the country, including Indianapolis and Phoenix, have competitively bid their solid waste collection operation; in many cases, the existing city workforce has won these competitions when provided with an even playing field. In addition to this alternative, other strategies or investments shall be examined as savings solutions.

One recent trend in municipal management is the assessment of fees for the provision of Municipal Solid Waste services. These fees may include Pay-As-You-Throw (PAYT), Bulky Trash Collection Fee, Yard Debris Fee, and Tire Disposal Fees. While separate garbage fees are often found in suburban jurisdictions, and have been suggested by some as an option for Pittsburgh's recovery, they are much less prevalent in urban areas because of:

- Higher tax rates assumed to cover all basic services;
- More challenging fee collection environments;
- Widespread short-dumping in response to even modest fees;
- Inability to deduct trash fee from federal taxes, in contrast to costs rolled into property tax.
- Regressive nature of fee structure in comparison to tax approach.

There is no evidence that a trash fee in Pittsburgh would be easily collectible or would exceed current tax collection amounts, or that it would limit disposal amounts. In addition, community feedback from public meetings and stakeholder interviews did not indicate broad support for such a charge given the current City tax environment. In light of these factors, this Recovery Plan does not recommend imposition of a new garbage fee at the current time.

To contain and reduce current solid waste costs, the Act 47 team mandates the following initiatives:

PW01. <u>**Contain Landfill Disposal Costs**</u>
The City has seen a 43.1 percent increase in refuse disposal costs since FY2002, from $2,054,769 to $2,940,000 in the FY2004 budget. This budget figure is based upon a estimated landfill disposal fee of $23 per ton. The City has been able to negotiate a more favorable fee of $20 per ton, and therefore will achieve savings in FY2004. These savings may be negated by a potential liability of approximately $1.0 million related to the payment of state tipping taxes in FY2003. The City shall continue to pursue internal and external management strategies to lower disposal fees at the county landfill. Strategies already underway include encouraging more recycling by City residents and moving to a more limited bulk trash pick-up schedule.

PW02. <u>**Explore Trash Transfer Station Options**</u>
One of the largest cost drivers in the refuse disposal operation is the cost associated with driving to and from the county landfill. This cost includes personnel hours, fuel, and equipment. The operation of a transfer station would reduce refuse expenses, including trash hauling costs such as the need to send compactors and drivers on lengthy trips. This would reduce the wear on the trucks and allow the City to reduce its fleet size. The City shall continue to explore the acquisition of an appropriately located site for a transfer station.

PW03. <u>**Semi-Automation/Automation on Refuse Trucks**</u>
Automated Trash Collection ("ATC") and Semi-Automated Trash Collection ("SATC") are MSW systems in which mechanical aids lift refuse receptacles off the street and into a truck. The City currently has some refuse vehicles equipped with ATC or SATC mechanisms. Benefits to the

City could include reduced labor-related expenditures (per crew staffing reductions from three (one driver, two collectors) to one (one driver/operator)); improved collection efficiency, lower workers' compensation costs. As the City makes fleet purchases over the next several years, refuse vehicles shall be acquired with ATC/ASTC systems where cost-effective and operationally efficient.

PW04. <u>Managed Competition of Municipal Solid Waste Services</u>

Over the next three to five years, the City shall implement a managed competition pilot program to evaluate the cost effectiveness of contracting out this function and to create a more competitive service delivery dynamic overall. The City shall provide necessary technical support for managers and personnel in the Department of Public Works, as in other cities where public-sector workforces have successfully bid to retain service provision:

A. No later than January 1, 2005, the City shall issue a Request for Proposals to competitively bid MSW services for approximately 10 percent of Pittsburgh households. To provide an opportunity to evaluate contracted services, the City workforce shall not compete for this initial pilot service area, and outsourced services will begin no later than May 1, 2005.

B. In the next phase of the pilot, a service area including approximately one-third of the City's households shall be competitively bid. In this stage, the City workforce shall be included among the bidders in competition with private contractors, and City management shall make a good faith effort to partner with union representatives to develop a technically sound and competitive in-house bid. A Request for Proposals covering this phase of the pilot shall be issued during FY2006, with services by the successful bidder for the target area to begin no later than January 1, 2007.

C. Throughout the pilot program, contracted MSW service providers shall be required to operate vehicles with SATC/ATC systems if deemed cost-effective and operationally efficient.

PW05. <u>Pursue Maximum Reimbursement/Funding from Act 101 programs</u>

The City currently receives funding through the "Municipal Waste Planning, Recycling and Waste Reduction Act" (Act 101) of 1988 to support planning for the processing and disposal of municipal waste. The Act also authorizes grants to counties and municipalities for planning, resource recovery and recycling. It provides the authority for imposing and collecting fees, requiring municipalities to implement recycling programs. For FY2004 City of Pittsburgh will receive $700,000 for the purchase of two recycling trucks and educational programs. This amount is equal to 90 percent of the annual cost of the DPW recycling program. As a financially distressed city under Act 47, the City is eligible for reimbursement for 100 percent of its costs. This is projected to result in an additional approximately $78,000 of Act 101 reimbursement eligible expenses beginning by FY2005. The City shall apply for this additional funding and evaluate additional opportunities to maximize reimbursements from the Commonwealth.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$78,000	$78,000	$78,000	$78,000	$78,000

Street Maintenance

The maintenance and repair of the City's transportation infrastructure is the responsibility of DPW. Opportunities exist to reduce the City's expenditures related to this program, and to generate revenues that can be dedicated to this program.

PW06. Asphalt Plant

The City operates an asphalt plant that supplies City construction crews with materials to conduct street maintenance repairs and street resurfacing projects. The plant can provide the City with an easily accessible source of asphalt, but not a price that is competitive. Various analyses have shown that the plant only becomes efficient at a production level that is above the City's demand for street maintenance activities.

No later than August 1, 2004, the City shall advertise the facility for sale, with operation of the asphalt plant to cease at the end of the 2004 road maintenance season. Thereafter, the City shall sell the building and equipment, and retain the site. Estimates for the fiscal impact of closing and selling the asphalt plant have ranged from $200,000 to $400,000. In this Recovery Plan, $250,000 is assumed to be received by 2005, representing a moderately conservative projection. In addition to this one-time revenue gain, multiple analysts believe that recurring operating savings will be achieved from external procurement of paving materials. Because of the time required and uncertainty associated with developing such supply channels, however, no specific savings have yet been quantified for this Recovery Plan.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$250,000	$0	$0	$0	$0

PW07. Consolidate Rights-of-Way Rental Regulation

DPW is authorized to manage the public rights-of-way and to assess an occupancy privilege for the use of public streets and alleys for placing underground facilities. This is often separate from, and in addition to, any pavement-breaking fee charged for specific repairs or installations.

DPW collected $493,500 in revenues for usage of the ROW for the purposes of construction or business operations in FY2003. In addition, DGS, which is the City's regulatory agent for the telecommunications industry, collected $3,429,905 from the companies that it regulates in FY2003. This fragmentation of ROW management is inefficient and uncoordinated.

Each time a roadway or sidewalk is opened to insert, repair or inspect utility infrastructure, there is a cost associated with the early replacement of the asset. This repair or replacement cost can total tens of millions of dollars for a city the size of Pittsburgh. To address these costs, the City shall coordinate its management for ROW management and implement the following:

- **Consolidate ROW management in DPW** – Currently, both DPW and DGS have responsibilities related to the management of public space. This bifurcated structure does not allow for a comprehensive and coordinated approach. ROW management shall be consolidated within DPW.

- **Explore Implementation of a Rights-of-Way rental fee** – this fee would be charged to private occupants of the public right-of-way, annually, on a lineal foot basis. The rental rate would be based upon the value of adjacent property, and the amount collected dedicated for the maintenance of City streets.

- **Strict Enforcement of ROW Regulations** – Council has empowered DPW to enforce the regulations for excavating the public ROW. Stricter enforcement ensures safer streets, fewer disruptions, and less expense to the City for street maintenance.

The implementation of a ROW fee and increased enforcement efforts will result in enhanced revenue generation.

Animal Control Services
The City currently provides a animal control program for City residents, and Allegheny County provides a similar service to County residents, except for those in the City. The initiatives below identify opportunities for cost savings and operational efficiency by working more closely with the County.

PW08. Competitively Bid Animal Control Services

Animal Control Services is responsible for patrolling streets and parks to enforce animal control regulations. Animal Control is also responsible for the collection and disposal of all dead animals throughout the City. The program requires four vehicles and 11 officers, who have code enforcement authority to cite animal owners who are guilty of infractions. Animal Control Officers also support law enforcement and code enforcement officers in cases where aggressive or abandoned animals are involved in their operations.

In many communities, there is a municipal office that enforces regulations, but the collection and storage services are provided by private businesses. For example, one private company currently provides pet control services to over 60 communities in Allegheny County. Service is available on a 24 hour, seven days a week basis. At the June 4, 2004 public meeting on this Recovery Plan, staff from Animal Control provided detailed testimony as to the nature and extent of their services, as well as their training and conduct. Particular attention was paid to the types of service provided in the City versus suburban areas of Allegheny County, the relative costs of such services, and the different roles played by public- and private-sector providers in this field.

The cost to the City to provide animal control services is approximately $850,000. Based on regional rates and fees, this Recovery Plan projects annual savings and/or increased revenues of over $100,000 from Animal Control. To capture these savings and revenues, the City shall revise its fees for Animal Control services to generate additional revenue while maintaining prices at an affordable level. In addition, the City shall competitively bid the full array of Animal Control services no later than October 1, 2004, with the successful bidder to begin service delivery by March 1, 2005. The Coordinator believes that many of the services currently provided by Animal Control may not be offered by any private provider (especially enforcement services), or that current City service levels may not be provided by the private sector.

As a result, the current Animal Control staff is expected to be able to put together a strong proposal to continue to provide these services. The City shall provide necessary technical support for managers and personnel in the Department of Public Works, as in other cities where public-sector workforces have successfully bid to retain service provision, to prepare a technically sound and competitive in-house bid on all services currently provided by Animal Control.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	50%	0%	0%	0%	0%
Fiscal Impact	$0	$52,138	$104,276	$104,276	$104,276	$104,276

PW09. Transfer Animal Registration Responsibility to County

Allegheny County currently serves as the Commonwealth's agent for the sale and distribution of animal registration documents. The County provides this service for all municipalities in the County except for the City of Pittsburgh. The City shall transfer responsibility for licensing animals within the City to the County. Current costs to the City for collecting and processing registration fees is $71,495. The City and County shall pursue a funding arrangement that allows the County to collect a per registration fee that covers its cost of administration as well as the cost of animal-related City services currently funded by animal registration. The latter amount shall be transferred to the City.

PW10. Eliminate Spay and Neuter Voucher Program

Consistent with the City's Five-year Financial Forecast and Performance Plan, the voucher program for subsidizing the spaying/neutering of household pets shall be eliminated.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$47,000	$47,000	$47,000	$47,000	$47,000

Operations Cost Recovery

The Department of Public Works provides a variety of maintenance services to the City's park system and park-related facilities. In exchange for the use of many of these facilities, the department will collect fees. DPW shall adjust the fees charged to recoup a greater portion of the costs associated with providing the service.

PW11. Evaluate Ballfield Permit Fee Increases

The Department of Public Works manages the rental of park facilities, including ball fields and park shelters. There are a total of 128 fields, each approximately 1 acre in size. Park facilities are maintained by DPW staff to ensure that they are in good operating condition and free of hazards. This includes grass cutting, field maintenance (dragging dirt infields, fertilizing and over seeding grassy areas) and bench/bleacher repair and maintenance. DPW has recently restructured its fee schedule for park ballfields as presented below.

Ballfield Fee Schedule

	FY2003
(1) Spring Day (1hr 45 min ends before 7:45pm)	$20.00
Season - Spring Day (1hr 45 min ends before 7:45pm)	$150.00
(1) Spring Evening (1 hr. 45 min after 7:45 pm)	$25.00
Season - Spring Evening (1 hr. 45 min after 7:45 pm)	$300.00
(1) Fall Day (3 hr ends before 5:30 pm)	$25.00
Season - Fall Day (3 hr ends before 5:30 pm)	$175.00
(1) Fall Evening (3 hr after 5:30 pm)	$35.00
Season- Fall Evening (3 hr after 5:30 pm)	$350.00

The cost of maintaining the City's recreation fields is estimated $623,943, as detailed below.

	Per Field	#	Total Cost
Landscape Maintenance	$570	128	$72,960
Field Maintenance	$2,777	128	$355,456
Light Maintenance		n/a	$100,000
Electricity		128	$95,527
Annual Field Maintenance Cost			**$623,943**

In FY2003, the City issued 328 field use permits generating $49,325 in revenues, thereby achieving a cost recovery ratio of 9.3% of field maintenance costs. To improve the level of resources available for adequate maintenance and to reduce overall subsidies, the City shall work with the Coordinator to evaluate potential fee structure adjustments so as to recoup between 15% - 25% of its cost. This evaluation will include benchmarking of the new fee levels required to achieve such cost recovery relative to other regional facilities, as well as an assessment of the impact on access to these facilities. If such cost recovery can be achieved without compromising regional competitiveness and/or affordable access, then revenue gains of $30,000 to $80,000 annually might be achieved. Pending the evaluation outlined above, however, this Recovery Plan does not include quantified savings from this initiative.

In addition to the recommended measures detailed above, the Act 47 team has reviewed multiple initiatives proposed by the City in its Five-Year Financial Plan 2004 - 2008, many of which would require increased spending. Where not specifically addressed elsewhere within this Chapter, the Coordinator has assumed that such spending initiatives can be funded, where warranted, from new grants, contributions, and/or reprioritization of existing budgetary resources.

Along with the recommendations outlined above, the following initiative(s) impacting the DPW are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

Department of Engineering and Construction

The Department of Engineering and Construction (DEC) includes the following three operating units.

Administrative Unit. Responsible for administrative, personnel and financial activities within the Department. Includes functions, such as payroll, accounts payable, processing of contractor and consultant invoices, preparing reimbursement requests, and preparing reports.

Design. Comprised of graduate and registered engineers, architects, technicians and support staff. This group is responsible for the design projects approved in the Capital Improvement Program (CIP) related to Bridges, Structures, Streets, Traffic Planning, Traffic Engineering and Maintenance. This group also manages design work in City-owned buildings and facilities (parks, playgrounds and swimming pools).

- **Traffic Control Unit**. Maintains Traffic Control System
- **Architecture**. Design services for City buildings.

Construction Services. Oversees CIP construction contracts. Including day-to-day monitoring, inspection of construction work, structure inspections, materials testing and review and approval of payments from contractors.

The City has a Capital Budget that averages $45 million from FY2005 through FY2008. DEC plays a large, central role in the implementation and management of the CIP. More than 50 percent of the $31 million FY2004 Capital Budget is slated for projects that DEC currently has oversight for implementation. The FY2004 enacted General Fund budget for DEC included just $111,378 in miscellaneous expenditures, reflecting the transfer of $2.7 million in salaries to the capital budget. Over time, as discussed in the Capital Chapter of this Recovery Plan, the City shall audit positions funded on the capital budget and ensure that the relevant employees spend the preponderance of their time on capital work. In the short term, this Recovery Plan also includes a Finance Chapter initiative to begin pay-as-you-go funding of a portion of the City's capital program so as to minimize undue incurrence of additional debt.

Engineering and Construction Reorganization

Engineering and Construction was created in 1984 as part of a reorganization of DPW, Parks and Recreation, Land and Buildings, and the Water Authority. DEC took engineers and architects from these agencies to create the department.

In many municipalities, Public Works will include construction and maintenance of infrastructure elements. As a stand alone department, DEC does not benefit from the synergies and savings associated with being a part of a public works organization, such as a greater awareness of maintenance needs that will inform investment decisions.

The City shall undertake a reorganization to eliminate the Department of Engineering and Construction, as it exists, and reassign the duties and functions to the Department of Public Works. Although this transition can be undertaken immediately, the numerous organizational changes and shifts proposed in this Recovery Plan mean that a limited transition period is acceptable.

Initiatives

Through the following set of initiatives, the City shall eliminate the Department of Engineering and Construction, achieving economies via consolidation and integration of DEC functions. This transition will begin in 2004, all positions and budgetary resources shall be transferred no later than January 1, 2005 with the start of the new fiscal year, and full economies are projected to be put into place over the course of FY2005. With the exception of $111,378 in various expenses, any fiscal impact of this restructuring would be achieved on the City's capital budget.

EC01. Transfer DEC Personnel to Department of Public Works
Current DEC personnel shall be transferred to the Department of Public Works no later than January 1, 2005. This Recovery Plan envisions the eventual establishment of a comprehensive capital program operation within Public Works. When fully established, this group shall include managers, engineers, project inspectors, other planning and construction staff, and support staff. It may be augmented with others proficient at project management, capital project finance, and other disciplines so as to provide capital budget development, project design and construction support, and project financing and oversight. The Coordinator will work with the City to develop the mission, goals and structures of the new, reconstituted capital program group.

EC02. Transfer Traffic Control Maintenance and Traffic/Transportation Planning to DPW-Streets
The Traffic Control Maintenance Division shall be transferred to the Department of Public Works, Streets Division and coordinate activities with the street maintenance crews no later than January 1, 2005. The Traffic/Transportation Planning Division has historically provided approvals for traffic signs, conducts analysis for stop signs, and prepares intersection designs. This Division shall also be transferred to the Department of Public Works by the same date, with the appropriate organizational assignment to be made by the Director of Public Works.

EC03. Consider Elimination of the Land Survey Staff
The City shall investigate the relative efficiency of contracting for this service on an as-needed basis. In the meantime, the following three positions shall be transferred to DPW for this function no later than January 1, 2005:

	FTEs	Salary	Total Cost
Survey Party Chief	1	$36,319	$36,319
Land Survey Specialist	1	$28,507	$28,507
Land Survey Rod Specialist	1	$26,376	$26,376
Total	**3**		**$348,742**

EC04. Abolish DEC Director Position
Without an Engineering and Construction Department there is no need for a department head. The position of Director of DEC will be abolished no later than January 1, 2005.

EC05. Eliminate Remaining Operating Costs Associated with DEC
The remaining balance of DEC expenses in the operating budget is comprised of $111,378 in various expenses. This budget shall be eliminated in FY2005. The Department of Public Works must absorb the costs associated with the programs that are transferred.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$235,963	$238,747	$241,602	$244,527	$247,525

Along with the recommendations outlined above, the following initiative(s) impacting DEC are detailed in other sections of this Recovery Plan:

- Establishment of pay-as-you-go capital financing and other capital budget reforms [Capital Chapter]
- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].

Capital Budget

Many aspects of the City's capital budget are discussed elsewhere in this Recovery Plan. In the Debt chapter, the City's current inability to gain access to the capital markets for borrowing is outlined. In the Engineering & Construction chapter, the transfer of personnel to the capital budget is described. In the Economic & Community Development chapter and the Planning chapter, the City's development efforts are described.

The limitations on current borrowing are severe, and have created a temporary reliance on alternative sources of capital investment, such as Community Development Block Grant funds and Urban Redevelopment Authority bond proceeds. In FY2004, remaining amounts of general obligation capital money are being used to fund staff. Most capital projects are funded only if they are eligible for some other program, such as the Community Development Block Grant.

A large, aging, complex City such as Pittsburgh cannot maintain its basic infrastructure for long on this basis. For that reason, this Recovery Plan anticipates that beginning in FY2006, the City will be able to reenter the capital markets and borrow $25 million per year for capital projects.

CB01. Pay-As-You-Go Funding

Because of its financial crisis, the City has diverted much of its engineering personnel and vehicle spending to the capital budget. In the long run, this approach will consume limited and valuable capital dollars that must be dedicated to basic infrastructure renewal. Because the City is unlikely to be able to borrow in FY 2004 and FY2005, and because it will need a source of funding for critical capital priorities, vehicles and some construction personnel, this Recovery Plan anticipates that each year beginning in FY2005, operating funds will be used to support a portion of the City's capital requirements.

Rating agencies and financial experts consistently identify this approach as a best practice. One rating agency notes that the "benefits of pay-as-you-go capital funding are several and profound,"[1] citing its effect on debt levels, financial flexibility and compliance with asset investment guidelines. In Pittsburgh's case, this source of funding will be the only new capital available in FY2005, so $7.5 million is included in the first year. In the future, this portion of the City's capital spending may be used in part to support certain long-term vehicle purchases and qualified capital personnel expenditures, as well as traditional capital priorities.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$7,500,000	$7,500,000	$5,000,000	$5,000,000	$5,000,000

CB02. Capital Funding Policies

The City has traditionally funded vehicles with capital, even short-lived rolling stock such as police cruisers. This year, Department of Engineering & Construction personnel and other expenditures have been shifted to the capital budget due to the financial crisis.

There is a reasonable case to be made for the support with capital funds of certain personnel engaged full-time in capital-related activities. Likewise, some vehicles with extremely long life-cycles – such as fire apparatus – may reasonably be purchased with capital funds. However, the wholesale purchase of vehicles and payment of salaries and benefits with capital funds is rarely appropriate. In essence, these practices support current and short-term expenditure with

[1] "Impact of Management Practices on Municipal Credit," FitchIBCA, May 4, 2000, page 4.

payments that must be made over a much longer time.

As a result, the Coordinator directs that the City shall undertake a study of the appropriate types of vehicles and personnel that should be supported by the capital budget. By FY2006, it shall begin to implement a transition plan to move non-qualifying expenditures to other funding sources. Those sources may include the pay-as-you go capital payment noted above for some interim period. However, the City's ultimate goal should be to move non-qualified expenditures into the operating budget. Due to the City's current financial condition, this transfer will have to be managed to eliminate impact on the operating budget during the period through FY2009.

CB03. <u>Capital Program Management</u>

With the assignment of most capital personnel to the Department of Public Works, the City shall begin to develop an integrated capital program management structure. Capital projects shall be developed and implemented on a centralized basis through the Department, with a centralized finance and construction information system. Prior to submission to City Council in the capital budget, projects should be fully analyzed for their financial impact on the operating budget and other capital priorities, and placed in an overall ranking or priority system.

Among other steps, the City shall:

- Institutionalize systems to accurately define current and future debt and debt service levels for use as a basis for budget and project planning.
- Establish the financial and administrative groundwork to allow the City to transition its capital spending toward longer-lived projects and using pay-as-you-go financing for more projects that have historically been financed through debt, as anticipated in initiative CP02, above.
- Create formal guidelines for what investments will and will not be eligible for capital funding, and guidelines to help establish the relative priority of proposed projects.
- Developing monitoring and reporting systems to communicate the status of the City's capital budget and projects to all stakeholders.
- Conduct an audit of existing capital projects to eliminate projects from the capital budget that are completed or no longer needed, and to determine the status, scope, and funding of currently approved projects.

10. Department of Parks and Recreation

Department of Parks and Recreation

The Department of Parks and Recreation (DPR) is composed of multiple units, with functions and services as described below.

Community Recreation The Division is comprised of Community Recreation facilities that provide a wide range of sports, education, leisure and community-service programs.

- **BIG League.** The BIG League program is a cooperative effort between the City, the Pittsburgh Pirates, and the Roberto Clemente Foundation. The program goal is to create a comprehensive recreational program that will provide increased quality athletic and educational opportunities in Pittsburgh neighborhoods.

- **Frick Environmental Center.** Provides educational, social, and recreational experiences to increase environmental awareness.

- **Frick Woods Nature Reserve.** Coordinates management of 150 acres designated as a nature reserve.

- **Seasonal Rink Operations.** Oversees the year-round daily admissions, and various fee-based programs and special activities.

- **Farmer's Market.** Offers seasonal Farmer's Markets in various City neighborhoods.

- **Aquatics.** The Aquatics Division operates and maintains the City's outdoor swimming pools and Oliver Bath House indoor facility. The division provides staff support for the Community Enrichment Program's after school aquatics classes and other fee-based programs.

Community Affairs

- **Special Events.** The Division manages civic celebrations and sporting events; Community Visual and Performing Arts Programming; the USDA Summer Food Service Program; and Scheneley Rink Complex and Markets.

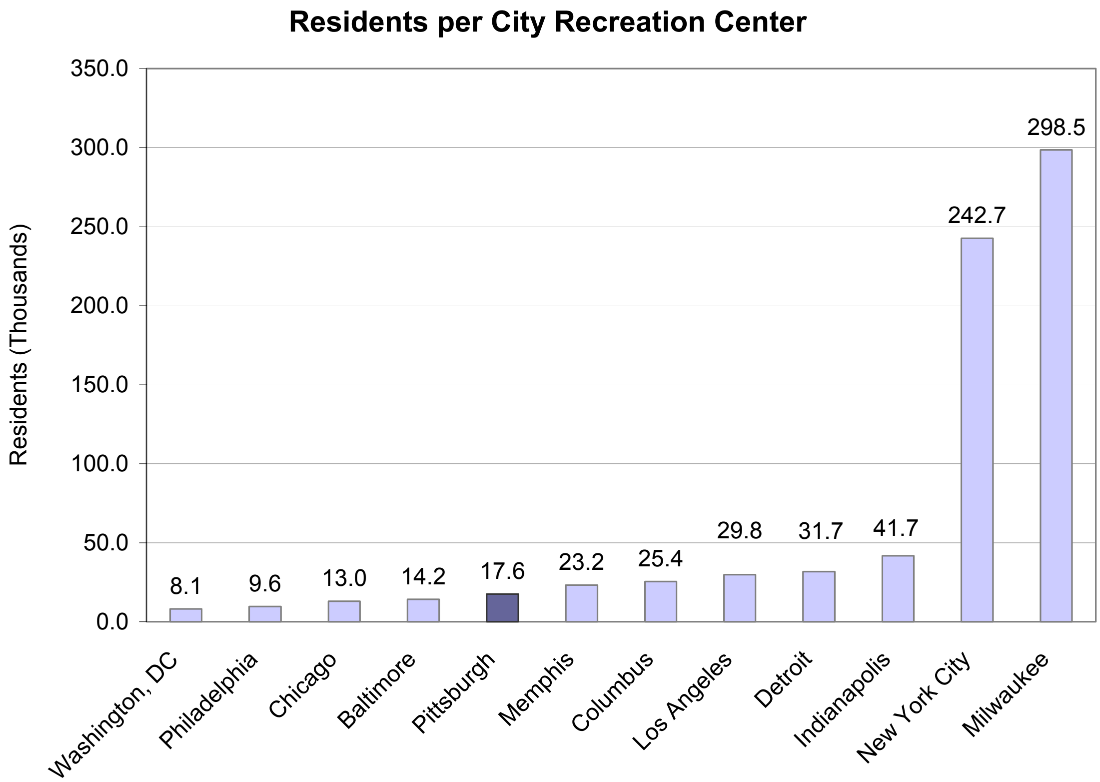
- **Senior Interest.** The City operates Senior Community Centers providing service within four cluster areas. Services include nutrition, socialization, recreation, outreach, information and referral, and volunteerism.

- **Summer Food Service Program.** The City uses federal funds to provide free and accessible breakfasts and lunches to city youth under 18 years old.

Administration Oversees the development of the Operating and Capital budgets, accounting and payroll functions, financial and programming reports and presentations for the Allegheny Regional Asset District, human resources, labor relations, staff development, and general administrative functions.

In addition to General Fund revenues from the City, DPR receives funding from a variety of sources, including federal Community Development Block Grant funds and state lottery revenues for senior center operations, Regional Asset District (RAD) funding for the maintenance of four regional parks in the City (Highland, Schenley, Frick, and Riverview) and several trust funds that have been established for the maintenance and operation of City facilities and programs.

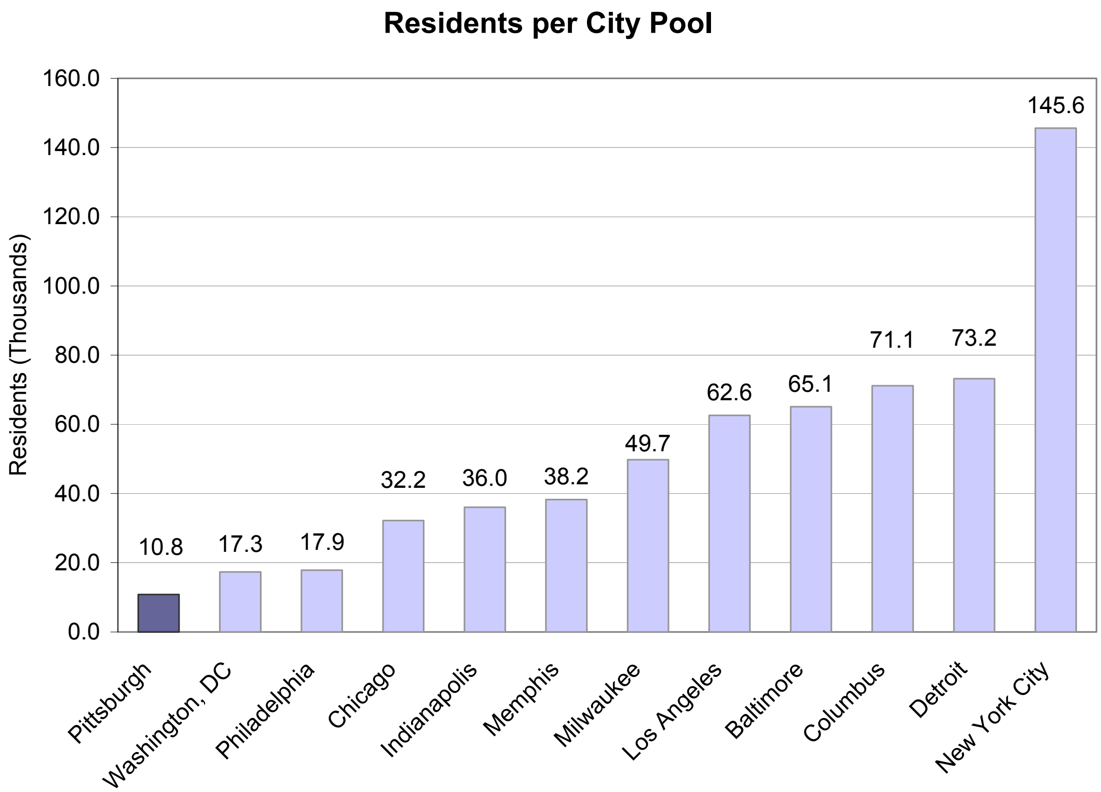
Management at DPR believes that a fundamental change in the way the City views its recreation program is necessary to deliver a product that will be competitive and sustainable. The recreation program that exists in Pittsburgh today is not well aligned with the needs of the residents of the City. Designed for a City with double the residential population of Pittsburgh today, recreation center attendance levels are now low, and the City lacks adequate resources to maintain such facilities. As indicated in the chart below, for example, Pittsburgh has a lower resident to recreation center ratio than many larger cities[1].



For Pittsburgh to be near the median of the cities surveyed, nine recreation centers would be eliminated leaving a total of 10 facilities. The current large number of facilities has also forced the department to spread its resources to staff all of the facilities. In turn, this has decreased the level and quality of service provided, which impacts the competitiveness of DPR programs.

Similarly, an analysis of the City's swimming pools revealed that the number of swimming pools per capita was the lowest of the cities surveyed. This information is reflected in the following chart.

[1] Among those cities with more Recreation Centers per resident, it may be noted that, as of May 26, 2004 Philadelphia is actively considering widespread closures as part of its ongoing FY2005 Budget process.



These statistics indicate that DPR may have invested too heavily in these facilities. Alternatively, DPR may not be providing sufficient levels of service in other areas, such as viable after-school educational programs. In FY2004, as a result of budget constraints, the City did not open any swimming pools for the summer. However, this severe service cutback did not address the need for a long-term strategy for sustaining an appropriate number of such facilities.

In the FY2004 City Council enacted budget, the budget for the Department of Parks and Recreation of $2,588,791 (not including fringe benefit costs), or less than one percent of the entire City General Fund. The table below shows how the Department of Parks and Recreation budget has been modified over the last two fiscal years.

Dept Name	2002 Actual	2003 Budget	2003 Estimate	2004 Proposed	2004 Enacted
Parks and Recreation	$5,728,007	$5,468,865	$4,886,753	$4,260,750	$2,588,791

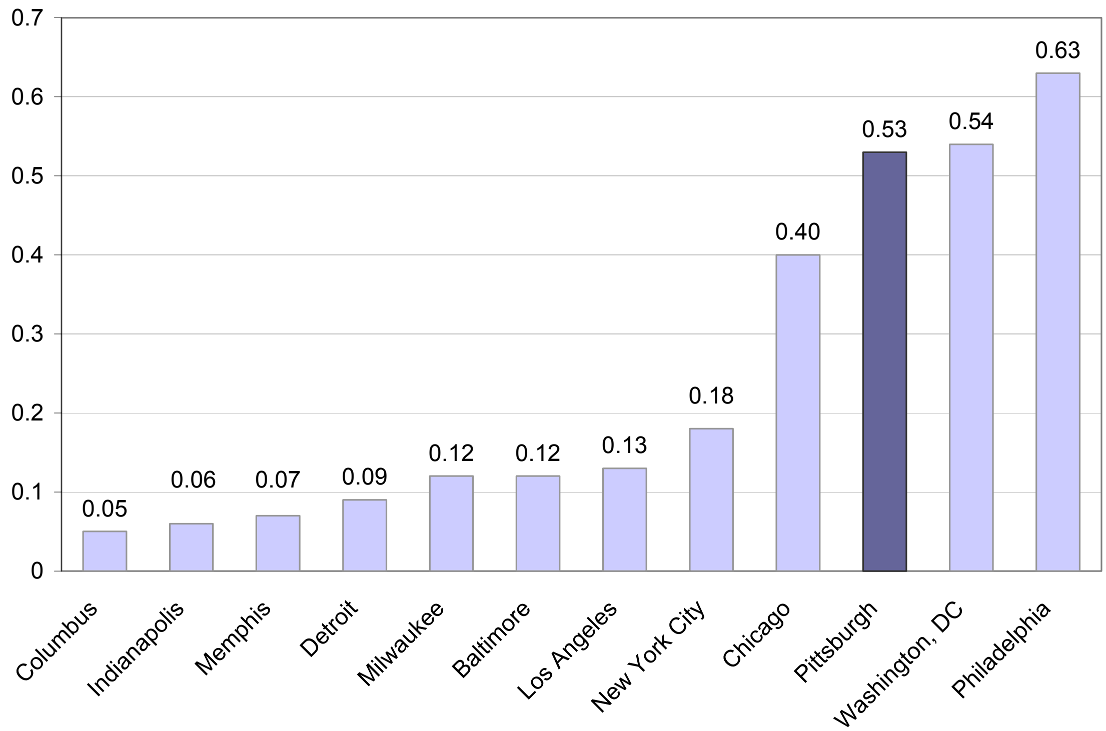
Initiatives

PR01. <u>Operate a Sustainable Number of Swimming Pools</u>

The City owns and operates a total of 32 swimming pools, including one indoor pool. These pools have not been used to their maximum capacity. As part of budget savings efforts, the City did not fund outdoor swimming pools or recreation centers in FY2004. For this year only, a group of non-profit organizations, foundations and other businesses have partnered to ensure that there is some level of summer recreational program – seeking to fund the operation of 16 outdoor swimming pools and 7 recreation centers for the summer.

Not only does Pittsburgh have a high number of swimming pools per capita, but as the chart below shows, in comparison to other cities it has a high ratio of pools per square mile. Because the City only encompasses approximately 58 square miles, this level of facility density is inefficient. Reducing the number of pools will allow DPR to optimize service and meet the demands of City residents.

Pools per Square Mile



Consequently, the City shall decrease the number of swimming pools from 32 to a maximum of 11 outdoor pools (eight funded by the City; three funded by the RAD). The remaining pools shall be permanently closed.

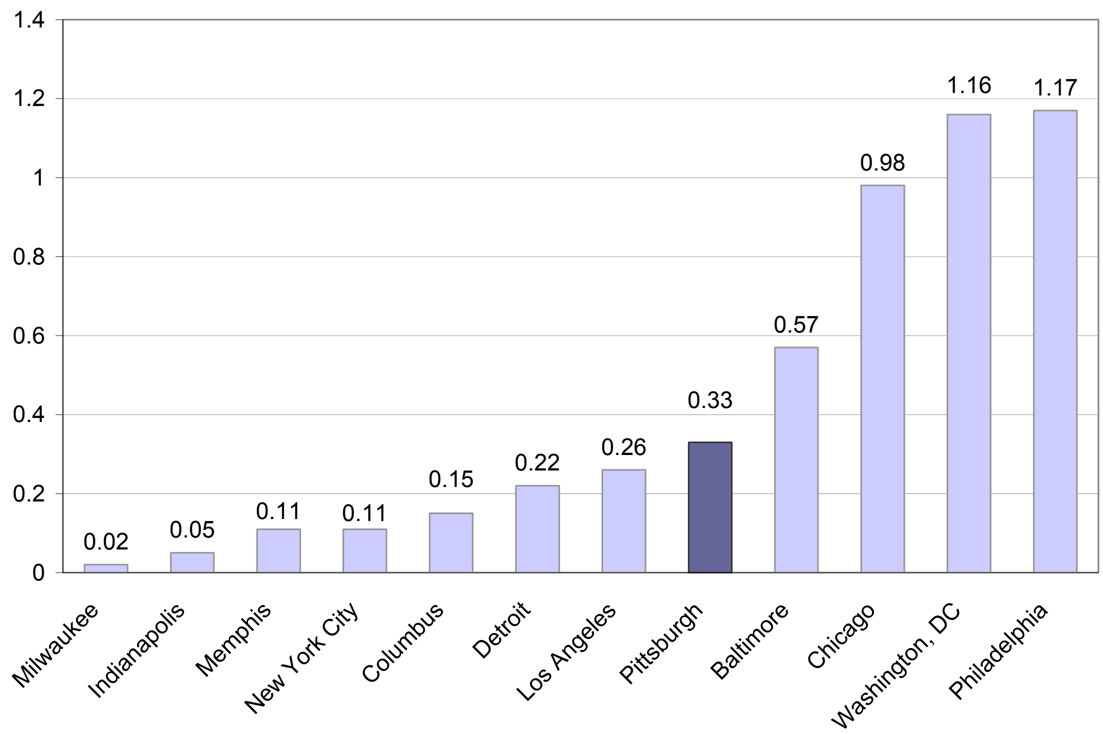
The department's FY2004 enacted budget allocates $569,064 for the Aquatics program, but does not include any funding for the operation of outdoor swimming pools. The FY2003 budget for personnel to support the operation of swimming pools (i.e., Lifeguards, Pool Aides, and Summer Laborers) was $903,094. Based on analysis of a sampling of eight City pools, the annual cost of operation averages just below $50,000 ($48,396). Accordingly, the estimated cost for the City to fund the operation of eight pools would be approximately $350,000, with potential variance depending on the particular facilities selected by the City to continue. DPR shall implement this operational change during FY2005.

Discounted Fiscal Impact on Baseline

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($350,000)	($358,750)	($367,719)	($376,912)	($386,335)

PR02. Operate a Sustainable Number of Recreation Centers

The City owns and operates a total of 19 recreation centers. Similar to the usage challenges experienced with the swimming pools, the recreation centers are not being used to capacity. As with swimming pools, Pittsburgh has a higher number of Recreation Centers per square mile than many other urban centers.



In FY2003, the City's recreation centers served a total of 556,300 visitors. The Department's FY2004 budget did not fund the operation of recreation centers. The following table presents the average cost to operate one recreation center, based upon DPR's averages for number of employees per center (3) and non-personnel costs ($24,872).

FY2005-06 Estimated DPR Average Recreation Center Costs

	Salary	Benefits	Total Compensation	FTEs	Non-Personnel	Total Avg. Cost
Center Director	$30,711	$10,749	$41,460	1	$0	$41,460
Recreation Leader	$25,089	$8,781	$33,870	2	$0	$67,740
Recreation Leader P/T	$16,395	$5,738	$22,133	1	$0	$44,267
Non-Personnel Costs					$24,872	$24,872
Total				4	$24,872	$178,339

Going forward, the City shall operate a maximum of ten (10) recreation centers at an estimated annual cost of $1,783,390. DPR shall implement this operational change during FY2005.

Discounted Fiscal Impact on Baseline

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($1,783,387)	($1,827,972)	($1,873,671)	($1,920,513)	($1,968,526)

PR03. Reduce City Staffing of BIG League Baseball

The Department of Parks and Recreation (DPR) provides support to the BIG League Baseball program, which is offered by a group of private and nonprofit entities. The program goal is to create a comprehensive recreational program that will provide increased quality athletic and educational opportunities in Pittsburgh neighborhoods. Approximately 6,000 children participate in leagues from Little League to summer leagues for high school youth.

With the prevalence of Little League baseball, the model used in most communities is that of several independent baseball leagues that may use city facilities to conduct league and tournament games. In most such instances, there is little involvement of city staff with the administration of the league.

This initiative would continue to allow BIG League to access city facilities at no cost, but would reduce the City's role in these programs by eliminating positions primarily dedicated to this program. Currently, DPR provides field scheduling, supplies & equipment, coordinates umpires and referees, and monitors fields. Going forward, DPR will assign fields and coordinate other activities with league leadership on a more limited basis using general on-board staff. The City shall eliminate all DPR positions assigned exclusively/primarily to the BIG League program. The estimated compensation savings cited below would be partially offset by unemployment benefit costs.

Position	#	Type	Salaries	Total Cost
Sports/Fitness/Rec Supervisor	1	Permanent	$48,923	$66,046
Sports/Fitness Coordinator	1	Permanent	$45,027	$60,786
Recreation Assistant, PT	6	Permanent	$10.94	$65,640
Recreation Assistant, PT	9	Seasonal	$8.14	$36,630
Total				$229,103

DPR shall implement this operational change in FY2005-06.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$202,880	$207,952	$213,151	$218,480	$223,942

Senior Center Subsidy

While the provision of Senior Care Centers is often a county-provided service, many larger cities offer these facilities. The table below shows the number of Senior Community Centers by City, with Pittsburgh serving among the lowest number of seniors per center.

City	# of Centers	Senior Pop.	Seniors per Center
Baltimore, MD	15	85,921	5,728
Cincinnati, OH	15	40,654	2,710
Columbus, OH	6	63,031	10,505
Philadelphia, PA	5	213,722	42,744
Pittsburgh, PA	15	55,034	3,669

PR04. <u>Include Fringe Benefits in Senior Center Reimbursement Requests</u>

The 15 senior centers operated by the City of Pittsburgh are owned variously by the City, the Housing Authority or private entities. An annual contract, based upon the level of State funding received by the County, provides the City a basis for expenditures (for which it is reimbursed on a quarterly basis by the County, substantially from state funds).

While the City has seen an increase of 3.3 percent ($23,210) in its annual allocation from the County for FY2004, there remains an opportunity to increase that amount. In previous years, reimbursement submittals to the County and Commonwealth for expenses related to the Senior Center have not included fringe benefit costs. In FY2003, Senior Center personnel expenses included $387,613 in fringe benefit costs. Having this cost confirmed and approved as an eligible cost, and including that amount in the quarterly requests will result in an increase in revenues. DPR shall seek to implement this change during FY2006, after presenting the rationale to County officials and receiving verification of the acceptance of the eligible expense.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	100%	0%	0%	0%	0%
Fiscal Impact	$0	$0	$387,613	$406,994	$427,343	$448,710

PR05. <u>Explore Alternative Means of Providing Services to Seniors</u>

One example of City intergovernmental partnership to deliver recreational services to the residents of Pittsburgh is the Community Enrichment Program (CEP) operated in conjunction with the Pittsburgh School District. CEP was created by City Council and charged to bring recreational programs into communities that had no direct accessibility to any of the 18 community recreation centers. The program worked with the School District allowing access to schools in these communities, and DPR providing recreational and educational programming. This program is one example of better leveraging existing assets to deliver needed programs. Where opportunities such as this exist, the City shall capitalize. For senior programs, the City shall explore such options as contracting program operations, developing shared operating arrangements with the County, and/or concentration of resources in a more limited number of facilities.

PR06. <u>Increase Swimming Fees</u>

The following table shows a material difference in the fees charged by the City compared to those charged for County-run pools, particularly in the Family Pass category. Though not reflected in the table, the county's fee structure is more diverse, with a greater number of categories to differentiate cost for service. To improve revenue generation and cost recovery, the City shall increase its pool fees to the "Initiative" levels shown in the far right-hand column below.

Pool Tag	Pittsburgh (current)	Allegheny County	Pittsburgh (Initiative)
Family Pass	$40.00	$110.00	$60.00
DPA Family	$20.00	n/a	$30.00
Additional Family Member	$6.00	$15.00	$10.00
DPA Additional Family Member	$3.00	n/a	$4.00
Adult Pass	$20.00	n/a	$30.00
DPA Adult	$10.00	n/a	$15.00
Youth Pass	$10.00	n/a	$15.00
DPA Youth	$5.00	n/a	$7.00
Adult/Junior Daily Admission	$3.00	$4.00/$3.00	$4.00
Non-Resident Pass	$50.00	n/a	$45.00

Using the new “initiative” fees, the following table projects FY2005 sales based upon the assumption of a 25.0% decrease in the number of swimming pool attendees due to the closing of many City pools. The projected amount of revenue collected in FY2005 would be $218,899 (FY2005 Projected Sales * Pittsburgh Proposed Fees). The undiscounted fiscal impact would be $20,684 ($218,900 projected FY2005 revenue – $198,216 total FY2003 revenue).

Pool Tag	FY2003 Sales	Projected FY2005 Sales
Family Pass	3,016	2,714
DPA Family	515	464
Additional Family Member	1,489	1,340
DPA Additional Family Member	385	347
Adult Pass	858	772
DPA Adult	86	77
Youth Pass	1,177	1,059
DPA Youth	238	214
Adult/Youth Daily Admission	8,169	7,352
Non-Resident Pass	34	31
Total	**15,967**	**14,370**

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$20,684	$20,684	$20,684	$20,684	$20,684

DPR shall implement this change for FY2005.

PR07. <u>Increase Marketing of Mellon Tennis Center to Generate Revenues</u>

The Mellon Tennis Center is an indoor tennis facility located in Mellon Park. Currently the facility is operating at 63% of capacity, which is ahead of the projections included in the construction financing business plan. The facility was recently improved with a professional grade playing surface, showers and restroom facilities. There are a total of five courts that may be reserved on a weekly basis (Permanent Court Time) or advanced booking (Occasional Court Time). The facility collects court rental for use during the months of October through April. Within the existing Department Budget, the City shall work actively to promote this facility in an effort to maximize revenue generation. Given the quality of the facility, user fees for the Mellon Tennis Center are already above those charged by the County for use of its general courts. The County charges $8 per hour for use of one court. The Mellon Tennis Center base fee is $20 per hour, and can be as high as $30 per hour during peak usage timeslots.

Along with the recommendations outlined above, the following initiative(s) impacting DPR are detailed in other sections of this Recovery Plan:

- Multiple labor-management changes [Workforce and Collective Bargaining Chapter].
- Across the board reductions of 5 percent in materials and supplies and miscellaneous contracts [Finance Chapter].

11. Economic & Community Development

Economic and Community Development

The decline of the steel industry has had a significant impact on southwestern Pennsylvania's economy. As traditionally strong industries have declined, the region's emerging industries have begun to tap into other local natural and knowledge resources. Firms in several key industries, including biomedical technologies, information and communication products and services (such as software and robotics), metalworking, electrical equipment, medical equipment manufacturing and chemicals and plastics call Pittsburgh home. As a recent study conducted by Deloitte & Touche, LLP confirms, manufacturing remains critical to the region, accounting for nearly 13% of the region's output. Although the region does have a modest degree of specialization in moderately technology-intensive industries, specialization and employment in technology-intensive industries lags both regional and national peers. There is, therefore, an opportunity to drive employment and economic growth by investing in strategic projects to attract or build industries with moderate to high technology intensity. However, with its wealth of educational and research institutions, the region is developing a Research and Development ("R&D") infrastructure and economic base of entrepreneurs that can be capitalized upon to attract research and technology-intensive industries.

Continued diversification of the City's economic base must be aggressively pursued. Creative efforts are attracting new investment in existing businesses and the successful recruitment of new investment to the region. Despite these efforts, economic development remains a slow market-driven process requiring the support and commitment from the City, the County, the Commonwealth, the Federal government and the private and quasi-public sectors. Better communication and greater coordination from these stakeholders are necessary to guide the City's economic and community development.

Pittsburgh's Economic and Community Development Landscape

The City of Pittsburgh has many creative economic and community development agencies. Additionally, the City is served by County and regional economic and community development agencies, as well as a host of non-profit and quasi-governmental organizations. These entities are staffed by competent and experienced professionals and are directed by a cadre of board members representing nationally and internationally known business, educational, and healthcare institutions, as well as the arts, the professional service fields, government and the general public. Pittsburgh possesses the economic and community development resources necessary to build on its past success and continue to progress on every key development front.

From time to time, a city must step back and refocus its economic and community development efforts back to basics - creating value for all its residents and the surrounding communities. Pittsburgh is no different. Pittsburgh is the core of southwestern Pennsylvania and as such defines the region. The City enjoys a diversified business community, including international corporations, small businesses, and emerging companies. World class educational institutions, research facilities, hospitals, cultural groups and professional sports teams are all located in Pittsburgh. The City is truly an exciting venue for living, working and recreation.

The framework and momentum are in place to further diversify and strengthen the City's economy and offer its residents one of the most livable cities, rich in diversity and alive with opportunity. From these resources and energy a refreshed and refocused strategy to guide the community and economic development organizations must emerge. Consensus must replace the conflict and competition that currently exists among economic development agencies. The economic and community development initiatives in this Plan are meant to promote further cooperation and collaboration and call for a focused overall community and economic development plan for the City. Through the blending of existing plans and priorities, the City will strengthen its efforts to promote and participate in building renewed consensus.

Initiatives

The following specific strategies initiated by this Recovery Plan for the economic and community development of Pittsburgh are based on the City's needs, its existing resources and assets and the assistance available from the federal government, the Commonwealth, Allegheny County and the economic and community development groups operating within the City, and the greater southwestern Pennsylvania region:

ED01. <u>Coordinate Community and Economic Development Efforts with Key Stakeholders</u>

Despite possessing creative economic and community development agencies and being served by competent county and regional economic and community development agencies as well as a host of non-profit and quasi-governmental organizations, the City requires a comprehensive strategy that builds on the efforts of these organizations. A large number of economic development organizations, community development corporations ("CDCs"), and related groups exist with overlapping functions. Greater cooperation and coordination among these organizations is necessary to address the organizational and delivery system inefficiencies that currently exist in the City's economic and community development efforts. Through increased interaction with these groups, the City's economic and community development community will minimize redundancies and competitiveness and emerge with a collectively supported common strategy and priority.

To that end, a forum must be established in which stakeholders in the economic and community development of the City regularly come together to identify, debate and prioritize those strategic projects which are aimed at retaining and strengthening the City's existing businesses, attracting new business investment, maintaining and developing a quality affordable housing stock in the City, providing attractive residential neighborhoods and commercial areas for City residents and visitors, while expanding the City's tax base. A Pittsburgh Community and Economic Development Forum (the "Development Forum" or the "Pittsburgh Development Forum") will include (but over time is not necessarily limited to), among others, the Mayor, the Allegheny County Chief Executive, the Executive Directors of the City's Urban Redevelopment Authority ("URA"), the Public Parking Authority of Pittsburgh, the Sports and Exhibition Authority, the City's Housing Authority, the Port Authority of Allegheny County, the Allegheny County Department of Economic Development, the Regional Industrial Development Corporation, members of non-profit economic and community development groups, and representatives from private industry and educational and health care institutions. Additionally, the Commonwealth's Secretaries of the Departments of Community and Economic Development, Banking, Transportation, Environmental Protection and Conservation and Natural Resources, and the Executive Director of the Pennsylvania Housing Finance Agency shall be invited and encouraged to serve as *ex officio* members of the Forum.

The specific duties, responsibilities, and administration of the Pittsburgh Development Forum will be established by its constituent members, upon consultation with the Coordinator. Its first assignment will be to obtain the formal commitment of its members. The Development Forum will encourage cooperation and trust among its constituent members. It will work towards reducing the amount of competition among members for limited county, state, federal and private resources. The Development Forum's collaborative efforts will create a less fragmented, more focused development strategy for the City.

The Pittsburgh Development Forum will produce an annual comprehensive economic and community development blueprint for the City (the "Pittsburgh Development Blueprint" or the "Development Blueprint") on or before March 1, outlining the City's strategic projects which have received support from a majority of the Development Forum's members as "priority projects" for the economic and community development of the City. The Pittsburgh Development Blueprint will be used as a tool to steer and coordinate county, state and federal government investment, as well as to attract private developers and funding to the City. The Development Blueprint should consider and be consistent with the County's Comprehensive Plan. Each strategic project will possess a multi-year funding plan developed by the specific project's sponsoring/organizing agency and endorsed by the Development Forum.

The Development Forum may add or remove priority projects from the City's Development Blueprint as they are completed or as priorities change. Initially, the Development Blueprint should include the following value-added projects, which are already underway and described and defined by the organizations which support them:

Nine Mile Run – Summerset at Frick Park.
Summerset at Frick Park is one of the City's most ambitious housing initiatives. It is the transformation of an environmentally degraded wasteland to a shining new community spanning the Squirrel Hill and Swisshelm Park neighborhoods. When completed, the 238-acre phased project will include a total of 713 housing units comprised of 336 single-family homes, 121 townhouses, and 256 apartment units. Currently, 100% of the available units are occupied. Summerset replaces a slag heap owned by Duquesne Slag which once used the site to store the by-product of steel making operations throughout the region. Additionally, the project will provide a 100 acre extension of Frick Park along Nine Mile Run to the Monongahela River. A collaborative effort of the URA and Summerset Land Development Associates (a partnership of several private developers), Summerset not only creatively reuses an industrial site but also provides a new significant revenue stream for the City. The URA-led project will replace a property generating no current City revenue with a neighborhood that will generate more than $2.8 million in taxes annually, as well as a one time $3.6 million in transfer tax revenue for the City. Summerset at Frick Park will stand as a model of a well-planned and attractive neighborhood within the City of Pittsburgh, designed to retain and attract hundreds of residents.

South Side Works
Occupying the site of the former LTV Steel Mill along the southern bank of the Monongahela River, the South Side Works has re-emerged as an engine for prosperity and as a powerful economic symbol along the Monongahela River. Vacant when purchased by the URA, the site has been redeveloped as a joint venture among the URA, several South Side community organizations and private developers. At full development, the South Side Works is expected to attract $250 million in private investment while creating 5,400 jobs and up to $3.8 million in new annual tax revenues for the City.[1] The South Side Works is home to an eclectic group of businesses and industry. The development contains office buildings (Quantum One, Federal Bureau of Investigation); headquarters facilities (International Brotherhood of Electrical Workers); research centers (McGowan Institute for Regenerative Medicine); warehouse and distribution facilities (UPMC Distribution Center); and athletic amenities (UPMC Sports Performance Complex, Pittsburgh Steelers and University of Pittsburgh practice fields).

The Southside Works Project includes infrastructure improvements, residential, retail and entertainment developments. Importantly, among these developments are The Residences at South Side Works, a 270-unit residential complex along the riverfront between 25th and 26th Streets, which will feature a mix of one-bedroom and two-bedroom units, as well as two-bedroom townhouses – all to be leased at market rates; a mixed-use complex which will contain a 200-room hotel, 610,000 square feet of office space, 360,000 square feet of entertainment, retail, and restaurant space; and 84 multi-family

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1 Urban Redevelopment Authority, Annual Report 2002.

units of loft residential space. This dense urban development on a 123-acre site also calls for construction of several parking garages to be owned by the URA.

Magee-Women's Hospital Research Center
The Magee-Women's Hospital Research Center project is a 7-story addition to an existing 50,000 sq. ft. building that currently contains the Magee-Women's Hospital Research Institute. The Research Center will create 70,000 square feet of laboratory, office, animal holding areas and support facilities for ovarian cancer research and other research programs. Magee-Women's Hospital, an affiliate member of the University of Pittsburgh Medical Center, through which state and federal funds for this nationally-ranked education/medical services complex are funneled, maintains an internationally acclaimed program in infant and women's health services and research. The hospital's Department of Obstetrics, Gynecology and Reproductive Sciences is the top funded academic program of its kind by the National Institutes of Health ("NIH"). The clinical Research Center at Magee is the only NIH-funded clinical research center devoted exclusively to women's health. Completion of this project will strengthen the hospital's international reputation as a leader in women's health services and research.

Schenley Plaza
The Schenley Plaza Project involves the creation of a world-class public plaza at the center of Oakland's education, research, cultural and recreation institutions that will replace what is currently an asphalt parking lot. Schenley Plaza is located adjacent to the lower campus of the University of Pittsburgh and at the entrance to Schenley Park. Forbes Avenue, Schenley Drive, Roberto Clemente Drive, the University of Pittsburgh's Hillman Library, and the Forbes Quadrangle bound the property. Because of the Plaza's proximity to destinations generating parking demand, such as the Forbes Avenue commercial district, Cathedral of Learning, The Carnegie, Hillman Library, the William Pitt Student Union and several classroom buildings in the area, it is currently the site of a Pittsburgh Parking Authority-leased surface parking facility. The facility is well used and serves a considerable demand. The lot contains a total of 278 parking spaces; additional on-street parking around the Plaza accounts for 67 metered spaces. However, according to a study commissioned by the Oakland Task Force Parking Advisory Committee and the Oakland Investment Committee of the Allegheny Conference on Community Development, it has been determined that a loss of these spaces resulting from the closure of the Schenley Plaza Lot can be mitigated. The Schenley Plaza Project calls for the creation of approximately 110 additional on-street metered spaces. The study of Oakland's existing parking situation projects that existing parking infrastructure will absorb the remainder of the displaced Schenley Plaza parking patrons.

It is anticipated that the financial effects on the City and the Pittsburgh Parking Authority of closing the Schenley Plaza Lot can be offset by equalizing all on-street metered parking rates in the Oakland area. The current on-street rates have not been adjusted in the Oakland area for over 20 years and are, with the exception of University of Pittsburgh-owned lots, well below market parking rates. Any rate adjustments, coupled with the creation of additional on-street metered spaces and the increased use of parking spaces in University of Pittsburgh and private lots, should result in an increase in the collection of parking revenue.

Convention Center Hotel
The Convention Center Hotel Project involves the creation of a 500-room hotel adjacent to the new David L. Lawrence Convention Center. This Project is needed to attract major trade association meetings, conventions, and other gatherings to the new David L. Lawrence Convention Center, hailed by many as the largest environmentally sensitive "green" building in the world. When combined with the existing hotels in the area, there

will be approximately 1,300 rooms adjacent to the Convention Center. The success of the Convention Center is a key component of the region's strategy to maintain downtown Pittsburgh as the entertainment and retail hub of southwestern Pennsylvania. It will attract tourists and conventioneers, a key opportunity for selling the City to potential new residents, businesses and investors.

LTV Coke Works Mixed-Use Redevelopment
The LTV Coke Works Mixed-Use Redevelopment Project plans for 700,000 sq. ft. of office/research and development ("R&D") space as well as approximately 1000 residential units of various types. Built in a dense, urban environment, the development will complement the existing Hazelwood community by providing community-focused retail opportunities for Hazelwood and neighboring communities. The site will provide opportunities for businesses to locate near the universities in Oakland, with potential for a large campus-style office/R&D development, effectively extending the existing Pittsburgh Technology Center Office and Research Park in Oakland up to the banks of the Monongahela River. This Project may qualify as a Keystone Innovation Zone, a Commonwealth-designated zone established in communities hosting institutions of higher education. Keystone Innovation Zones are designed to foster innovation and create an environment that supports company growth and formation.

The African-American Cultural Center
The African-American Cultural Center Project involves a state-of-the-art exhibition and performing arts center in Pittsburgh's Cultural District intended to celebrate the contributions of people of African descent to the art, culture and history of America and includes a mixed-use office/hotel tower. The Cultural Center will increase the vitality of the neighborhoods immediately around the new Convention Center, including the Strip District and the Cultural District by featuring live performances, lectures, seminars, retail shops, a 300-seat theatre, a 90-seat music café, and a special gallery dedicated to the photographs of Charles "Teeny" Harris. Additionally, the Cultural Center Project will provide additional off-street parking for the central business district.

Junction Hollow Research and Development Technology Center
The Junction Hollow Research and Development Technology Center calls for the creation of 300,000 square feet for technology and research companies spinning off from, or recruited as a partner with, Carnegie Mellon University. The Center is designed to incubate new technology companies and attract companies which can then grow to occupy larger space in the network of facilities located throughout the City and greater southwestern Pennsylvania region. This project is consistent with the Commonwealth's Keystone Innovation Zone Program by designating a zone in a community which hosts institutions of higher education where those institutions, the City and local businesses can create future entrepreneurial opportunities.

Pittsburgh Riverfront Trail Connections
The City's riverfront trails are a major quality of life asset, encouraging cycling to work and providing an off-road route for cyclists. The 17 miles of trails along the City's 36-miles of riverfront are used for both recreation and commuting. The economic benefits of trails are becoming increasingly evident. The Three Rivers Heritage Trail System spurs both tourism and the development of new business. In fact, Pittsburgh's Three Rivers Heritage Trail System has become a national benchmark of urban trail system designs and economic benefits.

This expansion of the Riverfront trails will provide connections at the Hot Metal Bridge, Smithfield Street Bridge ramp, Convention Center Park, and the North Shore Park, reducing the need for trail users to enter City streets and state highways to complete their trip. The work of many organizations, including the Pittsburgh Riverlife Task Force and the Sports & Exhibition Authority, this public/private collaboration will build, enliven, and maintain the Three Rivers Heritage Trail System and Three Rivers Park. These efforts must be encouraged to ensure that our rivers and shorelines become beautiful, safe, inviting places for commerce, tourism, and recreation.

North Shore Transportation Improvements
The North Shore Transportation Improvements are part of the ongoing redevelopment of Pittsburgh's North Shore. To date the redevelopment has included PNC Park, Heinz Field, a new riverfront park, a new 900-space award-winning parking garage and a new local street grid. Del Monte and Equitable Gas have recently broken ground for construction of state-of-the-art office buildings. Other developments underway or anticipated on the North Shore include a major expansion of the Carnegie Science Center, a new 6,000 seat amphitheatre, and a new mixed-use commercial retail and residential development.

The North Shore Transportation Improvement Project involves extension by the Port Authority of Allegheny County of the region's light rail system from the Golden Triangle to the North Shore, and an additional 1,000 space parking garage. To support both existing and pending developments, local access must be further enhanced on the North Shore through improvements to the West End Bridge North approach, the Brighton Road extension, Canal and Market Streets, and an intermodal transportation center.

ED02. <u>Strengthen the Relationship Between the Urban Redevelopment Authority and the City's Neighborhood-based Community Development Corporations.</u>

Despite being faced with several barriers, such as an overabundance of vacant and abandoned properties creating health and safety issues, weak business districts and social institutions, the City's community-based development organizations have made the City's neighborhoods enjoyable places to live, do business, work and raise families.[2] However, they consistently find themselves in need of capital, technical expertise, training and information to continue enriching the City's neighborhoods with affordable housing, commercial, industrial and community facilities. Unfortunately, these groups feel as though they are competing with the City and other neighborhoods for these limited resources. At times, there has been a perception among the City's community development corporations ("CDCs") that the City is unwilling to invest consistently in its own neighborhoods.

More partnering among economic and community development agencies in applications for grants, state and federal funds and private loans must become a priority. The URA has succeeded with several developments in recent years (*e.g.*, Crawford Square, South Side Works, Nine Mile Run) and has the capacity to build upon those successes. The URA should continue to do what it does well – site acquisition, preparation and/or remediation, and development of large scale projects in the City. However, the URA must continue to promote neighborhood scale development to be spearheaded by the City's CDCs. The CDCs are more in tune with specific neighborhood needs and expectations and may have access to state and federal funds for redevelopment for which the City would not otherwise qualify. The URA should not abandon its role in neighborhood development, but should emphasize neighborhood development through the provision of technical, financial assistance and process support to the CDCs.

The City's CDCs are well-organized, thanks in large part to groups such as the Community

[2] These organizations include Oakland Planning & Development Corp., South Side Local Development Corp., Bloomfield Garfield Corp., Neighbors in the Strip, Friendship Development Associates, Hazelwood Initiative, Hill Community Development Corp., Manchester Citizens Corp., North Side Leadership Conference, West Pittsburgh Partnership, and the East Liberty Development Inc., among others.

Technical Assistance Center ("CTAC") and the Pittsburgh Partnership for Neighborhood Development ("PPND"). They are eager to assist the City in redeveloping the City's inventory of vacant properties. The roots of increased coordination between the CDC community and the URA are beginning to take hold, as illustrated by the City neighborhoods' recent application to the Commonwealth for participation in the Elm Street component of the New Communities Program.

It is estimated that the City and/or the URA hold title to thousands of vacant properties in the City, with delinquent tax liens several additional thousands of parcels, which are not on the City's tax rolls, generate no income for the City and, are often blighted and decaying properties.[3] The City and the URA must explore ways to expand the role and empower the CDCs, neighborhood groups and private developers to pursue solutions to turn these liabilities into assets. One of the chief impediments to divesting the City of these properties and those being sold to satisfy tax liens is the process by which the City disposes of properties. The process of clearing title to these properties at Treasurer's sales is long, complicated and costly.

The City and the URA should review the City's Land Bank Program in which properties are deposited and preserved until they are sold or developed. Ways to streamline the transfer of title should also be explored. The City should consider increasing the frequency of the sales to monthly sales. The City and URA shall encourage partnering with the CDCs wherever possible.

Two key areas where URA – CDC partnering makes the most sense are human resources and financing. The growth of the City's CDCs has been stagnant over the past decade. Operating support from the City has shrunk dramatically in last 2 years forcing CDCs to reduce staff and increasingly rely on volunteers rather than skilled development professionals. Ways to strengthen the human resource capacity of the CDCs may be found through strategic partnerships – partnerships which will enable CDCs to add expertise and better utilize the public and private funding made available to both the CDC and private developers.

The funding mechanisms available to CDCs for operating support are fragmented, of diminishing efficiency, increasingly costly, and a source of tension among funders. For example, City Planning funds the Advisory Commission on Community Based Organizations ("ACCBO"), which distributes funds to community-based organizations in the City to pay staff and other expenses; grants and donations are made by City Council members; State funds are funneled through the URA (Main Street Funds are administered through the URA's Economic Development Department and Elm Street Funds would be channeled through the URA's Housing Development Department); and the Pittsburgh Partnership for Neighborhood Development ("PPND") channels private grant and loan funds.

The current community development funding system is therefore too complicated a maze of multiple applications, multiple reports, and multiple financial and disclosure requirements. Currently, the URA competes with the City's CDCs for operating dollars. For example, Main Street money, which could be directed to specific neighborhood projects, instead funds an administrative position at the URA. The URA charges fees on CDC financing, while holding down CDC developer fees to unreasonable levels. The URA should cede its role as an intermediary funding agency to PPND. PPND currently assumes that role for private funders and lenders and has the capacity and technical skill necessary to provide a "one stop shop" for the City's CDCs. PPND collaborates with many public, private and non-profit entities and is becoming known as a leader spearheading creative initiatives in the City's neighborhoods. PPND's mission is heavily focused on making business development infrastructure investments in CDCs, which serve as catalysts for neighborhood change and development.

[3] According to Allegheny County's inventory of tax-exempt property, at the start of 2004, the City owned 9,148 parcels with a taxable value of $1 million. The URA owned 1,841 parcels with a taxable value of $1.6 million.

URA funding for neighborhood development projects has shrunk over the past decade, most drastically in the last two years as the City's diminished borrowing capacity has forced the City to use Community Development Block Grant ("CDBG") funds to buy equipment rather than fund development. As the City emerges from financial distress, the use of CDBG funds must include a significant percentage increase to CDCs to finance for neighborhood development.

The URA-administered Pittsburgh Development Fund (PDF) has been focused on private development efforts for major projects involving riverfront development and industrial site reuse. At least a portion of the PDF should be earmarked for project financing for the smaller scale investor, like the individual homebuyer restoring a house, a small business owner renovating a facade or other neighborhood investments. Such programs currently exist at URA, such as the Housing Recovery Program and Streetface, but they have been underfunded in recent years due to the diversion of CDBG funds and the concentration of PDF monies being put toward large scale developments such as Crawford Square housing, Lincoln Apartments on the North Shore, the South Side Works, Harbor Gardens and the Lawrenceville Shopping Center.

ED03. **<u>Strengthen the City's Existing Business Base</u>**

The City and the Development Forum must place priority on efforts to strengthen and develop new initiatives to assist the City's existing businesses. While continuing to work to accommodate the demands of the City's large corporations, such as ALCOA, PPG, USX, Mellon and PNC, efforts must be made to better address the needs of small and start-up businesses. Smaller businesses, which traditionally make up an overwhelming percentage of jobs, must have predictability in the cost of doing business within the City. The City must address many of the "quality of life" issues that City businesses view as impediments to their productivity and expansion, including the exploration of more efficient and expedient zoning and permitting regulations, parking and transportation needs, and a predictable and less expensive process of establishing sewer and water connections in the residential areas of the City. Additionally, a favorable taxation environment is necessary to drive economic development. Specific recommendations discussed elsewhere in this Recovery Plan address the burdensome taxation environment which has been perceived by the City's business community for decades, such as a reduction in the parking tax rate to 30% and a reduction in the rate of the Business Privilege and Mercantile taxes in order to lessen the impact of these taxes based on gross revenues, rather than profits.

Developers and existing businesses wishing to expand need programs to fill capital funding gaps (*i.e*. venture funds and minority business assistance). The URA has the capacity to assume the financial intermediary role through its industrial development corporation, which already functions as a financial intermediary for many of the Commonwealth's business assistance programs. Additionally, the URA-administered PDF provides this type of financial assistance to existing, re-locating and start-up business. Since its creation in 1994, the PDF has provided funding to most major real estate development projects in the City including Crawford Square housing, Lincoln Apartments on the North Shore, and the South Side Works. Without support from the PDF in the form of equity investment, loan or grant, Pittsburgh would not have been able to invest in these and other important projects over the past decade. The PDF was capitalized through the issuance of a $60 million bond. Debt service on the bond is paid via a portion of the City's share of the Regional Asset District 1% sales tax. PDF loan repayments are recycled and lent to support additional development.

The PDF has supported nearly 50 projects or initiatives through the end of 2003 in the following key areas: riverfront development; industrial site reuse; downtown development; neighborhood development; expanding opportunities for minority and women-owned business enterprises; and supporting technology-related research and development. The PDF was invested in each of these areas extending approximately $105 million in loan, grant or equity financing to projects with total cost estimates of approximately $1.5 billion. These projects have created or retained approximately 11,523 jobs, created 2,470 additional housing units, and created over $2 million in real estate tax revenue.

The PDF application process is fair and individual projects are reviewed by professionals from a variety of fields and disciplines before loans are extended. Before receiving PDF funding, two advisory boards consisting of developers, bankers, lawyers, business leaders and real estate professionals evaluate each project application and make a recommendation to the URA Board of Directors on whether or not a PDF loan should be extended and, if so, at what level. Prior to approval of PDF financing, the applicant must provide documentation to the URA that private financing has been secured for the remainder of the cost of the project.

The Pittsburgh Development Fund's loans are being repaid; eleven of these investments have been repaid in full, with several more pending. By year's end, the PDF has or will have leveraged $13 of additional investment for every $1 of PDF investment. This includes $10 of private funds and an additional $3 of public funds, much of which were obtained competitively and could have gone to projects anywhere in the country.[4]

On the small business front, the City should explore ways to match small businesses with the necessary institutional assistance, whether it be education or financing. The City can assist the small business sector in locating a variety of services from private or non-governmental sources. The City should work with CDCs in promoting small business development in the City's neighborhoods. The City, working through the URA's Industrial Development Corporation, can assist the CDCs and, in turn small businesses, in establishing mixed-use office and/or commercial or retail space for small business and tapping into state resources such as low cost loans through the Pennsylvania Industrial Development Agency.

ED04. <u>Pursue Strategic Value-added Business Investments and Development</u>

Pittsburgh is fortunate to possess many assets which can provide the springboard for economic growth. The City serves as the headquarters for many international corporations and leading financial institutions, and as home to cultural and entertainment attractions that are known throughout the world. Pittsburgh is the home to world-renowned colleges, universities, hospitals, engineering and research facilities. Unfortunately, the painful economic restructuring of the past decades has left its mark on the City with acres of abandoned industrial property, deteriorated retail districts, vacant historic buildings and miles of underutilized riverfront property. These very visible problems make it difficult to attract and retain the businesses that are essential to the City's economy. To successfully compete in the changing world economy, the City must actively seek new investment in key industries which build upon the region's existing strengths. Efforts to market Pittsburgh, and the greater southwestern Pennsylvania region must continue to be a priority of a comprehensive economic and community development strategy.

The City's business and industrial recruitment efforts should be targeted to investments which complement the region's existing assets. The technology competencies of the City's educational and research programs, skilled labor force, and existing firms give the City a competitive edge in attracting and retaining manufacturing and service-oriented firms in several key industries, including biomedical technologies, information and communication products and services (such as software and robotics), metalworking, electrical equipment, medical equipment manufacturing and chemicals and plastics.

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[4] Urban Redevelopment Authority, <u>Pittsburgh Development Fund Impact</u> (March 2, 2004); <u>see</u> <u>also</u>, Pennsylvania General assembly, Legislative Budget and Finance Committee, <u>Study of Pittsburgh Development Fund</u>, (May 2004).

The City must take a proactive role in building on these key industries by:

- Developing incentives and mechanisms to better link research to technology and commercialization within the City;
- Nurturing and developing entrepreneur-based enterprises that encompass these key industries (e.g., incubators modeled after the Digital Greenhouse and the Life Sciences Greenhouse);
- Investing in and developing the City's talent pool in these core industries from entry-level to senior level personnel; and
- Building capacity within the City's economic development organizations to help firms involved in key industries locate, expand or start up in Pittsburgh.

An example of strategic investment which builds on the City's existing assets is the recent creation of the Pittsburgh Life Sciences Greenhouse, a bold initiative between Carnegie Mellon University and the University of Pittsburgh. Specifically, the Life Sciences Greenhouse taps into the City's existing sizable and robust bioscience research enterprise and positions the City as a leading national and international center for life science research and industry.[5]

According to an October 2001 study conducted by the Technology Partnership Practice of the Battelle Memorial Institute for the University of Pittsburgh, Carnegie Mellon University and the Pittsburgh Regional Alliance,[6] total life science research spending, encompassing biology, medical and other life science fields across all universities in the Pittsburgh region exceeded $225 million in fiscal year 1999. Nearly 60% of university research conducted in the Pittsburgh region is found in the life sciences and growth in overall life science research at the City's universities has outpaced that of the nation in recent years, growing at 37% versus 28% for the nation between 1995 and 1999. This growth was led by medical sciences, which grew at a rate of 41% compared with 32% nationally.

In addition to advancements on the life sciences front, other strategic ways to tap into the Pittsburgh research base, its further enhancement, and its future development must be pursued. The following four core research areas have been identified that build on the existing and emerging research strengths of the region's research institutions:

- Drug discovery tools and targets build on the Pittsburgh region's strengths in pharmacology, combinatorial chemistry, imaging, bioinformatics, and computer science. The drug discovery targets would focus on cancer, where the Pittsburgh region has substantial depth already through the University of Pittsburgh Cancer Institute;

- Therapeutic strategies for neurological and psychiatric disorders draw on the region's broad strengths in psychiatry, brain imaging, cognitive neurosciences, neurosurgery, pharmacology, robotics, bioinformatics, and computer science. Pittsburgh is well positioned to link research in overall systems involved in brain functioning with molecular research on neurological and psychiatric disorders. The City can also leverage research into clinical practice through its strong translational research capabilities;

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[5] In research funding from the National Institutes of Health (NIH), the gold standard of biomedical research funding, the University of Pittsburgh School of Medicine, with its affiliated hospitals, stood ninth (9th) among all institutions for fiscal year 2000. The City of Pittsburgh stood twelfth (12th) in NIH funding among all cities for fiscal year 2000, which encompassed all institutions receiving funding including universities, independent research institutions and hospitals. What is particularly impressive is that Pittsburgh's strong ranking in biomedical research is generated with only one medical school, whereas most other leading regions have two schools or more.

[6] Battelle Memorial Institute, Pittsburgh BioVenture/Life Sciences Greenhouse Prospectus (October 2001).

- Tissue/organ engineering and regenerative medicine is driven by the Pittsburgh region's strengths in gene therapy, stem cell research, and tissue and organ bioengineering. This area draws on Pittsburgh's pioneering work and leading position in organ transplants and its highly rated capabilities in orthopedic surgery and sports medicine. This area has potential to revolutionize medicine heralding an age in which the effects of diseases and injuries can be reversed;

- Biomedical devices and diagnostics link not only with many of the region's bioscience, computing, and engineering strengths, but also with an existing private sector bioscience employment base of more than 5,000 employees. This core focus area also benefits substantially from the close links found in the region between research and clinical practice. Key research drivers for biomedical devices and diagnostics include robotics, artificial intelligence, nanotechnology, biomedical engineering, and surgery.[7]

Certainly, Pittsburgh's strong research enterprise is not limited to the life sciences. The universities are leaders in the fields of engineering and the computer sciences. In particular, Carnegie Mellon University is among the nation's leading computer science and engineering programs with rankings of 3rd and 8th respectively.[8] Carnegie Mellon's leading national rankings in computer sciences and engineering, coupled with the University of Pittsburgh's medical complex and growing bioengineering and bioinformatics efforts, place the City in a strong position for further development of its knowledge base. Such growth is even more likely to be achieved by strengthening the collaborations between these institutions, with support from the City and Commonwealth wherever possible.

ED05. Pursue Site Development Initiatives and Infrastructure Improvements

The legacy of a long industrial past has left few sites that are readily available for business location and/or expansion. The URA's successes in site preparation and development along Second Avenue and across the Monongahela River at the South Side Works should serve as a model for planning, remediation and development efforts. These efforts must continue to attract private development. With the assistance of the programs of the Governor's economic stimulus package, such as the Brownfield Redevelopment Program and the Business in Our Sites Program, increased state resources should be available to assist the URA and the County in their efforts to prepare former industrial sites for private commercial and residential development. These programs can provide flexible loans and grants to the City to acquire and prepare key sites for development, spurring future economic growth in areas that need it most. Another model for reusing former industrial sites is to imitate the efforts of the Regional Industrial Development Corporation ("RIDC") to redevelop the Westinghouse East Pittsburgh plant in Turtle Creek into the mixed-use facility now known as the Keystone Commons.

Construction and rehabilitation of highway and other transportation connections to former industrial sites and their surrounding communities must become a priority as part of a comprehensive site development strategy. Without appropriate infrastructure, many of the priority projects identified above, as well future Development Blueprint projects, cannot be realized. While each project is likely to contain an infrastructure improvement or creation component, the City, working with state and federal transportation authorities, must be cognizant of the impact development will have to area traffic flow.

In southwestern Pennsylvania, the development of two new expressway systems by the Pennsylvania Turnpike Commission (PTC) will close major gaps in the transportation infrastructure and provide the access and mobility in the region. Completion of the Mon/Fayette Expressway and Southern Beltway projects will create about 100 miles of new limited-access

[7] Battelle Memorial Institute, Pittsburgh BioVenture/Life Sciences Greenhouse Prospectus (October 2001).
[8] Battelle Memorial Institute, Pittsburgh BioVenture/Life Sciences Greenhouse Prospectus (October 2001).

roadway to Pittsburgh's south and west, in Allegheny, Washington and Fayette counties. The Mon/Fayette system will stretch some 70 miles south from Pittsburgh through the Monongahela River Valley and western Fayette County to Interstate 68 near Morgantown, West Virginia. It will improve access to redevelopment sites in the economically depressed Mon River towns where the steel and coal industries once flourished. It also will provide faster and safer travel options for through traffic, particularly commercial vehicles that now use existing north-south arteries such as Pa. Route 51, Pa. Route 88, Pa. Route 837, and Pa. Route 857, as well as U.S. Route 40.[9]

Expansion of the Port Authority of Allegheny County's light rail system must be encouraged. The City should continue its support of developing a light rail connection between the Downtown and the North Shore Development. Attention should be placed on improving the connection between Oakland and Downtown, possibly along Second Avenue or along the East Busway. Changes to mass transit routes should be made, including efforts to reduce bus congestion on key Downtown retail corridors.

ED06. <u>Develop a Comprehensive Housing Strategy</u>

The City must review existing housing strategies to develop a more fundable, comprehensive strategy. The strategy must address the need for demolition and/or rehabilitation of dilapidated, abandoned and substandard housing and the development of a downtown housing stock. Additionally, the strategy must seek to return real property to the City's tax rolls. It is anticipated that by year's end, there will be as many as 16,000 parcels exempt from real estate taxation with an assessed value of almost $7 million – none of which is being taxed.

Blighted Housing Stock

Efforts should be made to divest the City and the URA of many of the blighted and abandoned houses currently in their inventories. The goal of the City's Vacant Property/Blighted Housing Program must be to return these properties and/or parcels to the City's tax base in a timely and efficient manner. Whatever program is pursued, it should involve transferring many of the properties/parcels to community development corporations or neighborhood associations which have access to private and public funds limited to neighborhood residential development, such as the Commonwealth's Elm Streets Program.

For example, the City's Vacant Property/Blighted Housing Program must continue to follow the form of the City's Land Bank Program, as discussed above. Alternatively, the City's Vacant Property/Blighted Housing Program offers an opportunity for further cooperation with the County to address the issue of blighted properties in the City. The City shall consult with the County and successful programs operating in other municipalities, after which it should consider alternatives which best suit Pittsburgh.

Downtown Housing

According to the Pittsburgh Downtown Partnership, research has confirmed that the greatest near-term potential for Downtown residential development exists in three key areas: Market Square, the Cultural District, and First Side.[10] These areas have been identified as possessing important strengths to Downtown residential development. The areas contain a critical mass of buildings suitable for adaptive reuse, access to the waterfront, a scale that is amenable to residential living, and the potential for supporting and sparking parallel developments in retail, entertainment and offices. Downtown residential development in these key areas will increase the attractiveness of downtown for further residential investment. In turn, new residential development will anchor future

[9] Information provided by the Pennsylvania Turnpike Commission.
[10] Pittsburgh Downtown Partnership, <u>The Pittsburgh Downtown Plan: a Blueprint for the 21st Century</u>; Community Design Center of Pittsburgh, <u>Streetscapes Study</u> (prepared for Downtown Living Initiative (February 15, 2004).

retail development. It is hoped that demand for downtown housing is likely to grow in response to future investments in the new retail, restaurant and entertainment offerings and related transportation and parking improvements that will follow these initial developments.

Downtown residential development must be attractive to a broad spectrum of individuals – from the downtown college student to the young professional to empty nesters. The downtown housing stock must include rental, as well as ownership opportunities for individuals of all socioeconomic backgrounds.

New zoning and building code strategies will have to be examined to address many of the issues that will arise in the adaptive reuse of many of the existing buildings as they are converted into residential units. A detailed study must be conducted of potential free or reduced overnight residential parking for each potential new housing development, including incentives to developers who add to the Downtown parking inventory. Use of municipal garages and creation of a Downtown residential permit program must also be explored. A vibrant downtown residential neighborhood will strengthen the Golden Triangle's role as a regional office, retail, and entertainment destination.

ED07. Increase Participation by Commonwealth and County Officials

The City must increase participation by government officials, specifically those at the Commonwealth and County levels. Active participation by the Commonwealth's Secretaries of Community and Economic Development, Banking, Transportation, Environmental Protection, and Conservation and Natural Resources and the Executive Director of the Pennsylvania Housing Finance Agency as *ex officio* members of the Pittsburgh Development Forum will incorporate state involvement into the setting of City's development agenda. A Development Forum, which includes Commonwealth involvement in the planning stage, will only aid the City in its regional and state-level development efforts and influence the allocation of funds for the priority projects listed on the Development Blueprint under a variety of state programs. For example, the Forum could seek assistance for Development Blueprint projects from the Pennsylvania Department of Community and Economic Development through existing programs, as well as new funding opportunities such as:

- The Business in Our Sites Program which provides flexible loans and grants to the City to acquire and prepare key sites for development, spurring future economic growth in areas that need it most;

- The Second Stage Loan Program which provides guarantees for bank loans to second stage manufacturers and technology companies;

- The Infrastructure & Facilities Improvement Program which provides multi-year grants targeted to manufacturing, hospital, large retail and convention center projects to assist with the payment of debt service. The program will help make expansion, construction, demolition and improvements of buildings or infrastructure possible, as well as ease the costs of eradicating existing environmental hazards on project sites; and

- The New Pennsylvania Venture Guarantee Program which allows the Commonwealth to partner with the investment community by providing guarantees to venture capital companies that invest in Pennsylvania businesses.

Pittsburgh's distressed status under Act 47 affords the City priority funding consideration under these programs.

The City and the Development Forum must be assured that regional and state development administrators, policy makers and legislators will attach priority to development opportunities that emerge from the Forum. Such support from the Allegheny County Chief Executive and the Governor for many of the City's development projects is apparent, illustrated by the County's 2004 -2005 State Request recently presented to the Governor and the Allegheny County State Legislative Delegation and the Governor's inclusion of many of the projects in his economic stimulus package.

The County's State Request identified several of the development projects listed above as priority projects for the County as well. The Governor's Economic Development Stimulus Program lays the groundwork for assuring that these, and future, Development Blueprint projects are realized. In addition to this recent City-County cooperation, additional steps have been taken to improve the working relationship between the City and the County on an administrative level. The Economic Development Working Group, created as a result of the City-County Summit, has identified several areas where the City and the County can increase their level of shared services, coordination, cooperation and consolidation in the area of economic development. These strategies include:

- "Fringe community development"- jointly planning and developing projects involving the approximate 20 suburban communities which border the City;
- County utilization of the URA's Real Estate Loan Review Committee;
- Consistent program procedures and guidelines in an effort to reduce confusion among potential applicants and strengthen the housing and business finance programs offered by each agency;
- Joint technical assistance; and
- Development of a mission statement and policies that encourage minority and women-owned business participation on all economic development projects.

12. Revenues

Revenues

The City's revenue sources are key to its long-term fiscal health, yet for years its primary revenue streams have been stagnant or declining. The City cannot continue on this path. An increase in revenue – either from existing sources, new sources, or both – is a necessary component for the creation of a fiscally sustainable City government. This chapter first recaps the discussion on the local demographics and the economy found in the Introduction to the Recovery Plan, in order to help explicate the key determinants of the level and stability of many revenue types. The chapter then examines recent and current trends in City revenues, as well as future revenue projections absent any corrective action or efforts to increase revenue. Finally, it identifies the Act 47 team's proposals to raise new revenue and alter certain characteristics of the City's current revenue structure, and projects the proposals' fiscal impact over the next five years.

Local Demographics & the Economy

In many ways the City of Pittsburgh in recent decades presents an archetypical case of the fiscal consequences of a long-term "hollowing out" of an urban core, in which a steady decline in population and economic activity results in a financially troubled City government. From 1960 to 2000 the U.S. Census Bureau reports that the City's population has fallen almost 45 percent, from 604,332 to 334,563. Pittsburgh's situation is not unusual, but is somewhat more severe than that of other large urban jurisdictions in Pennsylvania. Among the many cities of population over 35,000 in the Commonwealth that lost population from 1970 to 2000, Pittsburgh's decline of almost 36 percent is the largest.

Despite the resident population trend, the City is near the state's large-city average on several indicators of income and wealth, and the trend in these indicators for the City has been generally favorable. At $28,588 in 1999, median household income is between the average and median for large Pennsylvania cities, while 1999 per capita income of $18,816 is the second-highest of this peer group. The latter statistic would appear to indicate a high level of employment among Pittsburgh residents, as discussed below. The one lagging indicator is residential home value. Median home value in 1999 was $59,700, and trailed state large-city median and average. Pittsburgh's median home value was well below the Commonwealth median of $97,000.

With respect to recent trends in its labor force, Pittsburgh has performed comparably to the larger metropolitan region and the state as a whole. This is somewhat unusual for older core cities. Recent data shows that the size of Pittsburgh's resident labor force has been very stable in recent years at approximately 155,000. The City also enjoys a significant non-resident employee presence. The City's analysis of Occupational Privilege Tax receipts data indicates that the number of jobs in the City increased nearly 1.8 percent between 1990 and 2000, even as City population decreased 9.55 percent over the same time period. This trend appears to have been predated by similar results in the 1970s and 1980s – a pattern of decline in the number of City residents with much more stable overall employment levels and "daytime population".

Revenue Trends: Past, Present, and Future

Pittsburgh's major revenue sources have grown slowly over the last decade, and, without significant modifications to the present revenue structure, this slow growth is likely to continue into the foreseeable future. This section highlights the City's recent revenue history and describes this report's "baseline" revenue forecast – the forecast of future revenue through 2009 under current trends and laws and absent any corrective action.

Municipal Revenue Overview

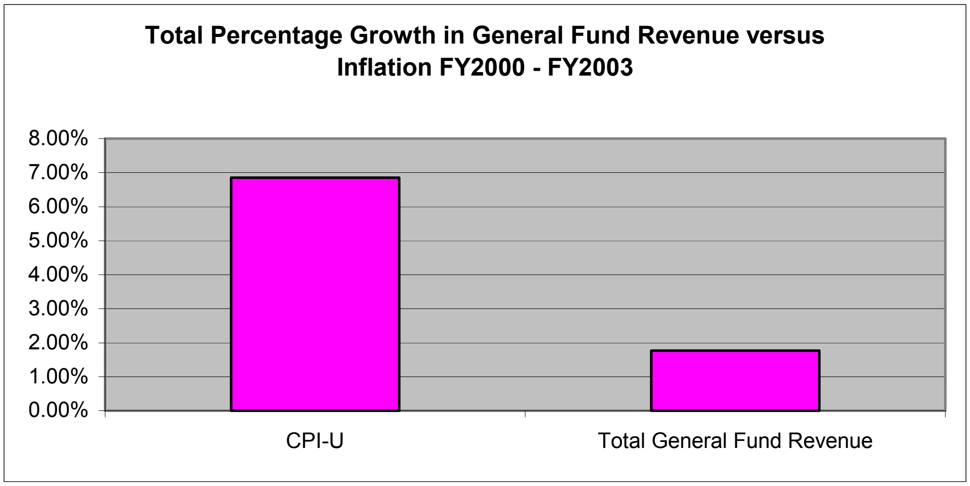
The City's revenues since Fiscal Year 2000 ("FY2000") are shown in the table below, in descending order from the largest revenue sources as of FY2004. Several points are worth noting. First, revenue from four taxes - Real Estate, Earned Income, Parking, and Business Privilege – are expected to account for 70% of all General Fund receipts in FY2004 (each of these four taxes is discussed in greater detail below.)

Second, the City's General Fund revenues are essentially stagnant, especially relative to inflation and if the extraordinary 2004 increase in the Parking Tax rate is taken into account. The performance of the City's revenues with respect to inflation is shown in the chart below graphically depicts the fact that since FY2000, the rate of inflation (6.85%) has been nearly four times the rate of growth of the City's General Fund revenue (1.77%). In "real" (i.e., inflation-adjusted) terms, there has been a *decrease* in the financial resources available to the City to provide services over this period.[1] When the City's final results for FY2003 are published, it is possible that this picture could deteriorate further.

[1] In real terms, the City's General Fund revenue decreased roughly 4.76% between FY2000 and FY2003.

City of Pittsburgh
General Fund Revenue
FY2000 – FY2004

Description	ACTUAL FY2000	ACTUAL FY2001	ACTUAL FY2002	ACTUAL FY2003	BASELINE FY2004	% Change FY2000-FY2004	% of Total FY2004 Revenue
Real Estate Taxes, Current Year	$111,156,676	$118,148,674	$121,186,716	$122,361,365	$120,374,680	8.29%	32.89%
Earned Income Tax	$49,326,022	$49,275,581	$46,977,928	$46,018,000	$47,215,061	-4.28%	12.90%
Parking Tax	$30,097,245	$30,901,652	$30,943,807	$30,642,669	$43,500,000	44.53%	11.89%
Business Privilege Tax	$39,818,318	$43,171,347	$43,965,485	$42,573,099	$42,950,387	7.87%	11.74%
Breakeven Centers	$20,093,470	$16,224,659	$16,872,555	$18,001,000	$17,680,350	-12.01%	4.83%
Act 77 - Tax Relief	$13,499,194	$13,245,894	$13,391,706	$13,452,000	$13,746,771	1.83%	3.76%
Amusement Tax	$7,706,356	$9,635,866	$9,421,493	$9,462,000	$9,407,945	22.08%	2.57%
Deed Transfer Tax	$8,680,371	$7,931,095	$9,818,269	$9,153,775	$8,442,458	-2.74%	2.31%
Provision of Services	$6,093,547	$6,539,895	$6,922,371	$7,146,521	$7,813,775	28.23%	2.14%
Fines and Forfeits	$7,155,417	$7,275,478	$7,869,230	$7,160,000	$7,692,724	7.51%	2.10%
Mercantile Tax	$7,038,452	$7,297,418	$7,314,519	$7,814,000	$7,622,973	8.30%	2.08%
Authority Payments	$7,387,500	$8,712,500	$7,762,500	$7,287,500	$7,287,500	-1.35%	1.99%
Act 77 - Operations Support for Regional Assets	$5,488,500	$5,608,000	$5,732,000	$5,859,000	$5,902,700	7.55%	1.61%
Rentals and Charges - Depts.	$5,684,751	$4,543,068	$4,302,893	$4,703,380	$3,935,475	-30.77%	1.08%
Real Estate Taxes, Prior Years	$3,386,252	$2,689,330	$997,163	$1,639,236	$3,892,169	14.94%	1.06%
Penalties and Interest	$1,852,105	$2,144,269	$2,778,754	$3,176,000	$3,414,407	84.35%	0.93%
Occupation Privilege Tax	$3,253,185	$3,109,499	$3,132,989	$3,224,057	$3,256,248	0.09%	0.89%
Federal and State Grants	$1,969,752	$3,817,734	$2,510,111	$2,186,185	$3,196,586	62.28%	0.87%
Reimbursement, CDBG	$985,907	$960,359	$589,515	$482,092	$1,754,503	77.96%	0.48%
Act 77 - Civic Arena Debt Service	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	0.00%	0.44%
Public Service Privileges	$925,090	$1,026,813	$955,873	$981,204	$1,125,000	21.61%	0.31%
General Government Licenses	$815,682	$693,210	$719,181	$651,130	$740,000	-9.28%	0.20%
Non-Profit Payment for Services	$1,956,583	$2,125,422	$726,773	$620,000	$650,000	-66.78%	0.18%
Interest on Bank Balances	$5,706,648	$4,308,034	$962,347	$505,000	$500,000	-91.24%	0.14%
Delinquent Receivables-Magistrates Court	$679,613	$694,104	$628,384	$658,000	$500,000	-26.43%	0.14%
State Utility Tax Distribution	$1,009,810	$540,153	$458,364	$499,753	$450,000	-55.44%	0.12%
Liquor and Malt Beverage Licenses	$404,650	$12,000	$816,950	$419,000	$430,000	6.26%	0.12%
Institution and Service Privilege Tax	$562,490	$512,690	$502,376	$433,411	$413,186	-26.54%	0.11%
Miscellaneous Not Otherwise Classified	$3,056,910	$523,801	$3,345,961	$298,000	$300,000	-90.19%	0.08%
Joint Operations	$118,750	$56,250	$142,435	$38,000	$100,000	-15.79%	0.03%
Sale of Public Property	$0	$0	$0	$0	$50,000	N/A	0.01%
Business Licenses	$73,251	$41,184	$28,402	$66,000	$30,500	-58.36%	0.01%
Pittsburgh Development Fund	$1,500,000	$0	$0	$0	$0	-100.00%	0.00%
Trust Fund Closeouts	$1,749,175	$11,687	$0	$0	$0	-100.00%	0.00%
Trust Fund Revenues	$365,000	$67,500	$0	$0	$0	-100.00%	0.00%
TOTAL	**$351,196,672**	**$353,445,166**	**$353,377,050**	**$349,111,374**	**$365,975,399**		



Total Percentage Growth in General Fund Revenue versus Inflation FY2000 - FY2003

Overall, the City's four largest taxes bring in about 80 percent of major revenues and well over two-thirds of total General Fund revenues. While each of these key revenues – property tax, earned income tax, business privilege tax, and parking tax – will be considered separately below, it is important to note that the individual and cumulative level of growth in these revenue sources has been modest in the prior five years, and is projected to remain modest for the remainder of the forecast period if the 2004 parking tax rate increase is excluded. From 1998 through 2002, revenue from these four sources grew by just 9.4 percent, and actually declined from 2001 to 2003.

Over the five years from 2004 to 2009, the Act 47 team estimates that these categories in total will grow by only 10.6 percent, driven largely by expected property tax reassessments in 2005 and 2008. Significantly, these amounts are routinely below the projected annual rate of inflation. The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters report for the second quarter of 2004 suggests that the annual average rate of long-term change in the Consumer Price Index will be 2.5 percent. The future aggregate annual growth for Pittsburgh's four largest revenue sources exceeds this figure only in 2006 and 2009, immediately following expected County property tax reassessments.

Four Largest Revenue Sources, City of Pittsburgh, 2000-2009 ($000)

	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 BASELINE	FY2005 Projection	FY2006 Projection	FY2007 Projection	FY2008 Projection	FY2009 Projection
Real Estate Tax, Current and Prior	$114,543	$120,838	$122,184	$124,001	$124,267	$121,619	$127,712	$129,602	$131,213	$135,769
Earned Income Tax	$49,326	$49,276	$46,978	$46,018	$47,215	$48,360	$49,532	$50,733	$51,416	$52,108
Business Privilege Tax	$39,818	$43,171	$43,965	$42,573	$42,950	$43,595	$44,685	$46,025	$47,406	$48,828
Parking Tax*	$30,097	$30,902	$30,944	$30,643	$43,500	$44,488	$45,498	$46,531	$47,588	$48,668
Total	**$233,785**	**$244,187**	**$244,071**	**$243,234**	**$257,932**	**$258,061**	**$267,427**	**$272,891**	**$277,623**	**$285,374**
Annual % Growth		4.45%	-0.05%	-0.34%	6.04%	0.05%	3.63%	2.04%	1.73%	2.79%
Cumulative % Growth		4.45%	4.40%	4.04%	10.33%	10.38%	14.39%	16.73%	18.75%	22.07%

*Note: Parking tax projection assumes that the 50% rate imposed in 2004 continues through 2009
Source: PEL; PFM

Moreover, Pittsburgh residents face an aggregate tax burden that is one of the highest in the region. Just looking at the four largest taxes, in comparison with County neighbors, City residents face average aggregate property taxes, the highest combined earned income tax, the second highest business privilege tax and an extremely high parking tax. The Allegheny Conference has compiled statistics indicating that the City has the fifth-highest relative tax burden in Allegheny County. These factors are perceived to contribute significantly to the City's declining population and static property tax base.

Economic analyses completed over the last decade in Philadelphia, which also has comparatively high taxes, indicate that raising taxes in such cities leads to a cycle of decline. In their review of taxing capacity in Houston, Minneapolis, New York City and Philadelphia, one team of researchers found that "a city's revenue capacity is limited by the mobility of its residents and firms," and that there is a point at which higher taxation is counterproductive. This group pointed out that its "results reveal a fundamental tension between the interests of city public employees, poor households within the city, and city taxpayers. Tax increases unmatched by tax-financed, compensating service benefits for taxpayers – whether property owners, consumers, or firms – will drive those taxpayers from the city." Their research found this to be the case for the cities studied, all but Minneapolis found to have reached their taxing limit.[2] In similar research focused exclusively on Philadelphia, economic analysis found that raising the City's taxes – higher than those of regional peers – would "drive tax base and jobs from Philadelphia."[3]

In contrast, tax reduction can be rejuvenating for older cities with unattractive tax structures. Recent research completed for the Philadelphia Tax Reform Commission shows that "reductions in tax rates expand the base of the particular tax being reduced and that changes in the wage and gross receipts tax rates have cross-base effects as well as significant impacts on the number of jobs in the City." This study found that in Philadelphia, "lowering the wage tax rate will increase not only the wage tax base but also the property tax base and employment; lowering the gross receipts tax rate is expected to lead to increases in all three tax bases and employment; lowering the property tax rate will produce increases in the wage tax base and the property tax base." Overall, this work concluded that "losses in tax revenues resulting from a reduction in tax rates will be partially offset by the growth in the bases, which result from tax reductions."[4]

Pittsburgh's current tax structure, in light of local conditions and evidence from other cities, is not aligned to enhance the City's economic competitiveness. Although the City has additional legal taxing capacity, increasing the taxes under its control would have a negative impact on the City's ability to compete for residents, jobs and development.

Property Tax

The City of Pittsburgh levies a 10.80 mill property tax on the assessed value of land and buildings. An additional 13.92 mills are charged by the local school district, and 4.69 by Allegheny County, for a total millage of 29.41 in the City. A property assessed at the approximate recent average City residential sales price of $135,000 would therefore pay a City tax of $1,458, a school district tax of $1,879, and a County tax of $633 for a total of $3,970.

An analysis of 2003 county-wide property tax rates reported to the Commonwealth shows that Pittsburgh has among the highest local property tax rates for municipal services, ranking 4th among 129 jurisdictions. At the same time, Pittsburgh's school district property tax millage is among the lowest in the County, ranking 129th out of 130 localities surveyed. The City's combined local, school and county millage of 29.41 was just below the average (29.86) and somewhat above the median (28.03) for Allegheny County communities. This comparison should be viewed in the context of other major tax categories, where Pittsburgh is well above neighboring jurisdictions.

[2] *Local Revenue Hills: Evidence from Four US Cities*, Haughwout, et al, National Bureau of Economic Research Working Paper 9686, May 2003.
[3] *Local Taxes and the Economic Future of Philadelphia*, Robert P. Inman, 1996.
[4] *Choosing the Best Mix of Taxes for Philadelphia…*, Econsult Corporation, October 2003, in the Final Report of the Philadelphia Tax Reform Commission, Volume III, November 15, 2003, page 14.

Millage Rates, 2003	Municipal Millage	School Millage	Total Millage*
City of Pittsburgh	10.80	13.92	29.41
Allegheny County Average	5.08	20.09	29.86
Allegheny County Median	4.48	18.86	28.03

*Total Millage is the sum of the municipal and school rates shown above, plus the 4.69 County millage rate.
Source: Pennsylvania Department of Community and Economic Development, Governor's Center for Local Government Services; Calculations by PFM

Comparison of Select Tax Rates, Pittsburgh versus Allegheny County Municipalities 2003 Tax Rates

	Municipal Millage	School District Millage	Total Millage (Sum of Municipal, School, County*)	Earned Income, Resident, Municipal	Earned Income, Non-Resident, Municipal	Earned Income, School District
Pittsburgh Tax Rate	10.80	13.92	29.41	1.00%	1.00%	2.00%
Allegheny County Average Tax Rate	5.08	20.09	29.86	0.55%	0.33%	0.52%
Allegheny County Median Tax Rate	4.48	18.86	27.89	0.50%	0.00%	0.50%
Allegheny County Standard Deviation for Tax Rate	4.34	8.92	10.19	0.17%	0.47%	0.19%
Number of Allegheny County Municipalities Imposing or Having Tax	129	130	n/a	129	46	130
Pittsburgh Rank (highest to lowest) Among County Municipalities on Tax Rate	4	129	52	5	4	1

*2003 County Millage rate is 4.69
Source: Pennsylvania Department of Community and Economic Development, Governor's Center for Local Government Services; Calculations by PFM

The City's property tax assessments are performed by Allegheny County, and no reassessment was put into effect from the mid-1990s through 2001. A county-wide reassessment performed in 2001 provided sharply increased values at the same time that the ratio of assessed value to market value was increased from 25 percent to 100 percent. The period since 2001 has been marked by a subsequent reassessment in 2002, a wave of tax appeals across the County, and a freeze on reassessments in the County until 2006.

The effect can be seen vividly in the City's assessed values, summarized below. After an increase of almost 10 percent from 2001 to 2002, assessed values drop in 2003 and again in 2004 and 2005, driven largely by appeals, exonerations and abatements. Since assessments are frozen, but appeals can still be filed, this trend is expected to continue through 2006. The effect is compounded by the high level of tax-exempt properties in the City, approximately twice the proportion of the remainder of the County. Many Pennsylvania urban centers have a large proportion of tax-exempt properties, which often bring in jobs and related economic development to somewhat offset the loss of property tax and business privilege tax revenues. In Pittsburgh, however, the property tax and business privilege tax are two of the three largest revenue sources, and most commuters pay no earned income tax to the City. As a result, the effect of these tax exemptions on City revenue is significant.

Actual and Forecast Assessed Property Value, City of Pittsburgh, 2002-2009 ($000)

	FY 2002 Actual	FY 2003 Actual	FY 2004 Forecast	FY 2005 Forecast	FY 2006 Forecast	FY 2007 Forecast	FY 2008 Forecast	FY 2009 Forecast
Original Assessed Value	14,671,652	13,578,918	13,268,814	13,136,126	14,187,016	14,187,016	14,187,016	15,038,237
Annual $ Change		(1,092,733)	(310,104)	(132,688)	1,050,890	-	-	851,221
Cumultive $ Change								
Annual % Change		-7.45%	-2.28%	-1.00%	8.00%	0.00%	0.00%	6.00%
Cumulative % Change		-7.45%	-9.56%	-10.47%	-3.30%	-3.30%	-3.30%	2.50%

Source: PEL; PFM

Note that one oft-mentioned option for Pittsburgh is the sale of publicly-owned properties to private entities to create both one-time revenues from sale proceeds and recurring revenues by putting those parcels back on the tax rolls. Although some of these properties would likely be sold to tax-exempt entities, assuming that the frequently-used figure of $100 million in assets could be sold (a number not independently assessed by the Act 47 team), recurring property tax revenues would be $1.08 million at current rates, and less with successful appeals and with sales to non-profits. While property transfers might lead to new development on the sites that would eventually increase assessments over their level at the time of sale, significant recurring gains in City revenues would be unlikely in the near term.

Earned Income Tax

The Earned Income Tax (EIT) on wages or net profits is Pittsburgh's largest source of revenue after the property tax. The City charges a 1 percent EIT to its residents; the school district charges an additional 2 percent. Pennsylvania residents who work but do not live in the City of Pittsburgh are subject to the 1 percent City EIT if their municipality does not have an EIT, or for the difference if the EIT levied by their municipality is less than 1 percent. Non-Pennsylvania residents who work in the City of Pittsburgh are subject to the full 1 percent EIT.

The combined City and School District EIT creates a strong disincentive to live in Pittsburgh. Based on Commonwealth reporting of 2003 tax rates, Pittsburgh has Allegheny County's highest school district EIT at 2.0 percent – no other jurisdiction exceeds 0.5 percent. The City is tied with several other jurisdictions for the fifth highest municipal EIT. Pittsburgh's combined earned income tax of 3 percent is the highest in the County[5] and one of the highest in Pennsylvania.

As shown by the historical and projected data below, EIT collections were strong until the recession, driven in part by more aggressive collections. However, collections actually declined in 2001 and 2002, and were projected to do so again in 2003. Modest annual growth is expected beginning in 2004. However, in the future PEL projects that Pittsburgh's taxable income will decline as a percentage of Allegheny County personal income, a key predictor of EIT revenue.

Actual and Forecast Earned Income Tax, City of Pittsburgh, 2000-2009 ($000)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Baseline	FY 2005 Forecast	FY 2006 Forecast	FY 2007 Forecast	FY 2008 Forecast	FY 2009 Forecast
Earned Income Tax	49,326	49,276	46,978	46,018	47,215	48,360	49,532	50,733	51,416	52,108
Annual % Growth		-0.10%	-4.66%	-2.04%	2.60%	2.42%	2.42%	2.42%	1.35%	1.35%
Cumulative % Growth		-0.10%	-4.76%	-6.71%	-4.28%	-1.96%	0.42%	2.85%	4.24%	5.64%

Source: PEL; PFM

5 A distinction it shares with Mount Oliver, which has the same school district and is landlocked by the City.

The City of Pittsburgh taxes the gross receipts of eligible businesses at 6.00 mills. The business privilege tax (BPT) revenue fluctuates with general economic conditions, and is projected to fail to reach its 2002 peak until 2006, as shown below.

Actual and Forecast Business Privilege Tax, City of Pittsburgh, 2000-2009 ($000)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Forecast	FY 2005 Forecast	FY 2006 Forecast	FY 2007 Forecast	FY 2008 Forecast	FY 2009 Forecast
Business Privilege Tax	$39,818	$43,171	$43,965	$42,573	$42,950	$43,595	$44,685	$46,025	$47,406	$48,828
Annual % Change		8.42%	1.84%	-3.17%	0.89%	1.50%	2.50%	3.00%	3.00%	3.00%
Cumulative % Change		8.42%	10.42%	6.92%	7.87%	9.48%	12.22%	15.59%	19.06%	22.63%

Source: PEL; PFM

National experience indicates that a gross receipts tax – which businesses must pay regardless of whether they earn a profit – are perceived as particularly hostile by business. The tax also falls disproportionately, as many business categories are exempt. In Pittsburgh, the significant banking, manufacturing, securities and non-profit sectors are exempt from paying the BPT. Moreover, a gross receipts BPT creates a strong disincentive for “new economy” companies that generate revenues but limited profits in their start-up phase.

In 1998, the Vertex Corporation updated a 1993 study of the relative local, state and federal tax burden for a representative business in twenty-seven of the largest cities in the United States. While Pittsburgh dropped from its 1993 position of having the second-highest tax burden among these cities, it remained in fourth place overall in the 1998 update.

Facing similar challenges, the City of Philadelphia embarked on a gradual reduction of the gross receipts portion of its BPT beginning in 1996 (Philadelphia also has a net income BPT of 6.5%). The gross receipts rate in Philadelphia, which originally stood at 3.25 mills, has now been reduced to 2.10 mills, a 35 percent cut. Citing tax competitiveness and simplification, the November 2003 report of the voter-created Philadelphia Tax Reform Commission called for a phased reduction of the City’s entire BPT by 2015.

In comparison, Pittsburgh’s BPT is at the statutory limit of 6.00 mills, shared by just two other Allegheny County jurisdictions and exceeded only by one.

Parking Tax

Pittsburgh has long had one of the highest parking taxes in the nation. In February 2004 the parking tax rate increased from 31 percent to 50 percent, well above regional norms:

City	Parking Tax
New York City, New York	18.25%
Philadelphia, Pennsylvania	15% [6]
Baltimore, Maryland	11% [$14/month for monthly parking]
Wilmington, Delaware	0%

Source: PFM

The high level of the parking tax and the scarcity of other major revenues make this one of the City’s most important sources of income. Parking tax receipts have historically been affected by levels of construction, road repair and general economic conditions. Prior to the most recent increase, the parking tax was projected to be one of the most robust taxes over the next five years, growing almost 10 percent from its 2002 base.

[6] The City has proposed to raise the rate to 20%, an increase that is still under consideration at time of publication.

The February increase, however, has demonstrated the elasticity in the parking market. Parking has clearly dropped off in the downtown area, and workers have begun walking to cheaper, more distant lots. Business owners have protested the new, higher tax. In the past, each incremental 1percent of parking tax generated about $1 million. This amount was expected to drop with the parking tax increase – original projections were in the range of $47 million with the new, higher tax. However, based on year-to-date results, the Administration now expects that only $42-45 million will be generated from parking tax in 2004, bringing the rate down to approximately $870,000 per 1percent of parking tax.

Actual and Forecast Parking Tax, City of Pittsburgh, 2000-2009 ($000)

	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Forecast	FY 2005 Forecast	FY 2006 Forecast	FY 2007 Forecast	FY 2008 Forecast	FY 2009 Forecast
Parking Tax	$30,097	$30,902	$30,944	$30,643	$43,500	$44,488	$45,498	$46,531	$47,588	$48,668
Annual % Change		2.67%	0.14%	-0.97%	41.96%	2.27%	2.27%	2.27%	2.27%	2.27%
Cumulative % Change		2.67%	2.81%	1.81%	44.53%	47.81%	51.17%	54.60%	58.11%	61.70%

*Note: Parking tax forecast assumes that the 50% rate imposed in 2004 continues through 2009
Source: PEL; PFM

Occupational Privilege Tax

The City's current $10 per employee annual occupational privilege tax (OPT) rate was set in the mid-1960s. That rate has recently generated $3.1 million per year, down slightly from $3.2 million in 1998-2000 as employment has dipped. Various proposals have been made to increase the OPT rate, however, this tax is currently capped by State law. Increases would require action by the General Assembly and the Governor.

Other Sources of Revenue

The City projects receiving $18.0 million in state Act 205 pension aid in 2004. However, as described in the Pension chapter of this Recovery Plan, the City's state aid level has declined in recent years as more and more Pennsylvania communities have enacted pension plans and applied for support from the limited state appropriation for this purpose. In addition, the state reimbursement is based on the number of current employees, with each uniformed employee double-weighted. Therefore, the decline in City headcount of approximately 579 over the past two years (including many Police officers) could lower the state reimbursement. The combination of increased competition for state pension aid and a smaller City workforce mean that this Recovery Plan projects a 2 percent per year decrease in Act 205 aid after 2004.

The City currently receives approximately $650,000 annually in contributions from non-profit institutions, an amount that has declined in recent years. Changes in state law have made it increasingly difficult for Pennsylvania municipalities to negotiate agreements with tax-exempt institutions. Notably, the Pittsburgh Financial Leadership Committee – a group of civic leaders that developed recovery recommendations for State and City elected officials in 2003 – has reached a consensus that increased annual contributions from non-profits should be part of the package for fiscal reform in the City. However, these revenues would depend on the willingness of exempt institutions to negotiate agreements and make annual payments (see the Tax-Exempt Institutions section of this plan for further discussion of non-profit contributions).

One-Time Revenues

Over the past 15 years, Pittsburgh has engaged in a variety of efforts to generate non-recurring revenues. Some of the more significant examples are summarized in the table below. The City sold its water and sewer utility in the mid-1990s, and subsequently sold several installments of tax liens. It regularly budgeted its prior year fund balance to ensure a balanced budget submission (although the result was not new "revenues," but merely a lower year-end fund balance). The City refinanced debt whenever possible, and in 2002 and 2003 "scooped" upcoming debt service payments by issuing new debt (see the Debt chapter of this Recovery Plan for more detail). In 2000 and 2001, the City removed legally-available cash from its pension obligation bond debt service escrow and debt service sinking fund. The table below summarizes the City's own list of recent one-time revenues.

Selected One-Time Revenues, City of Pittsburgh, 1995-2003, ($000)

		1995-1997	1998	1999	2000	2001	2002	2003 est.
1	Tax lien sales, 1996-1999	18,000	4,000	5,000				
2	Sale of PWSA, 1995-1997	82,000						
3	Budgeted fund balance				6,291	8,900	5,644	
4	Proceeds of debt refinancings			7,394			9,807	13,000
5	Pension debt service escrow			3,340	5,134	8,082		
6	Debt service sinking fund		6,400	721	2,693	5,927		
7	Sale of Public Safety Building							NA
	Total	100,000	10,400	16,455	14,118	22,909	15,451	13,000

Source: City of Pittsburgh Department of Finance

Investors and bond rating agencies have traditionally seen continued reliance on one-shot revenues as an indicator of likely financial strain. One rating agency, in discussing "the root causes of fiscal stress and potential crisis," cited "regular use of non-recurring revenues." It went on to say that "When non-recurring items are used consistently, they only serve to delay the inevitable action on the budget including expenditure reduction or revenue increases."[7]

Baseline Projection of Future Revenues

In order to effectively project current and proposed new revenues, the Act 47 team has analyzed current PEL/City revenue projections, the conditions described above, and other information, and prepared its own baseline financial estimate that projects the City's budget position in 2004 and subsequent fiscal years through 2009. A critical portion of this forecast is the Act 47 team's assumption about City revenues. The goal of the baseline revenue forecast is to determine the City's likely revenues if no action is taken to alter existing taxes, improve collections, or impose new or higher taxes, or undertake any other revenue enhancement initiatives. The establishment of such a baseline allows the valuation and comparison of the impact of various revenue initiatives in the Recovery Plan.

The table below shows the Act 47 Team's projection of the City's General Fund revenues through FY2009.

[7] Standard & Poor's, "Research: Anatomy of a Fiscal Crisis" (August 11, 1999)

Baseline Revenue Projections
FY2005 – FY2009

Description	BASELINE FY2004	Projected FY2005	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009
Real Estate Taxes, Current Year	$120,374,680	$119,170,934	$125,640,213	$127,172,411	$128,704,608	$133,178,626
Earned Income Tax	$47,215,061	$48,359,769	$49,532,231	$50,733,118	$51,416,140	$52,108,357
Parking Tax	$43,500,000	$44,487,794	$45,498,018	$46,531,183	$47,587,808	$48,668,428
Business Privilege Tax	$42,950,387	$43,594,643	$44,684,509	$46,025,044	$47,405,796	$48,827,970
Breakeven Centers	$17,680,350	$18,294,006	$18,928,961	$19,585,954	$20,265,750	$20,969,141
Act 77 - Tax Relief	$13,746,771	$12,945,440	$13,456,576	$13,980,491	$14,517,503	$15,067,941
Amusement Tax	$9,407,945	$9,302,753	$9,450,458	$9,601,116	$9,754,788	$9,910,919
Deed Transfer Tax	$8,442,458	$8,779,730	$9,130,476	$9,495,234	$9,874,564	$10,269,048
Provision of Services	$7,813,775	$8,298,504	$8,813,303	$9,360,038	$9,940,689	$10,557,361
Fines and Forfeits	$7,692,724	$7,692,724	$7,692,724	$7,692,724	$7,692,724	$7,692,724
Mercantile Tax	$7,622,973	$7,740,284	$7,859,401	$7,980,351	$8,017,865	$8,055,556
Authority Payments	$7,287,500	$7,309,670	$7,331,908	$7,354,213	$7,376,586	$7,399,027
Act 77 - Operations Support for Regional Assets	$5,902,700	$4,506,054	$4,596,175	$4,688,099	$4,781,861	$4,877,047
Rentals and Charges - Depts.	$3,935,475	$4,033,862	$4,134,708	$4,238,076	$4,344,028	$4,452,629
Real Estate Taxes, Prior Years	$3,892,169	$2,448,323	$2,071,636	$2,429,231	$2,508,724	$2,590,817
Penalties and Interest	$3,414,407	$2,536,197	$1,807,984	$1,800,347	$1,975,182	$2,166,995
Occupation Privilege Tax	$3,256,248	$3,272,529	$3,288,892	$3,305,336	$3,321,863	$3,338,472
Federal and State Grants	$3,196,586	$3,276,501	$3,358,413	$3,442,373	$3,528,433	$3,616,644
Reimbursement, CDBG	$1,754,503	$1,798,366	$1,843,325	$1,889,408	$1,936,643	$1,985,059
Act 77 - Civic Arena Debt Service	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000
Public Service Privileges	$1,125,000	$1,138,023	$1,151,197	$1,164,524	$1,178,004	$1,191,641
General Government Licenses	$740,000	$758,500	$777,463	$796,899	$816,822	$837,242
Non-Profit Payment for Services	$650,000	$666,250	$682,906	$699,979	$717,478	$735,415
Interest on Bank Balances	$500,000	$833,333	$1,041,667	$1,041,667	$1,041,667	$1,041,667
Delinquent Receivables-Magistrates Court	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000
State Utility Tax Distribution	$450,000	$461,250	$472,781	$484,601	$496,716	$509,134
Liquor and Malt Beverage Licenses	$430,000	$440,750	$451,769	$463,063	$474,640	$486,506
Institution and Service Privilege Tax	$413,186	$391,415	$370,791	$351,254	$332,746	$315,214
Miscellaneous Not Otherwise Classified	$300,000	$307,500	$315,188	$323,067	$331,144	$339,422
Joint Operations	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Sale of Public Property	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
Business Licenses	$30,500	$31,263	$32,044	$32,845	$33,666	$34,508
TOTAL	**$365,975,399**	**$365,126,367**	**$376,665,716**	**$384,912,644**	**$392,624,437**	**$403,473,509**

Revenue Recommendations

The annual structural deficit outlined previously in this report is projected to be roughly $34 million in 2004, and, absent corrective action, will more than double in 2005 and exceed $115 million by 2009. After the implementation of the workforce initiatives and expenditure reductions set forth earlier in this Recovery Plan (offset by selected new costs), the remaining shortfall must be made up with increased revenues from taxes, fees and other sources. This fiscal gap cannot be closed solely with further expense cuts; while the Recovery Plan assumes a continuing process in which efficiency savings are discovered and implemented, the City cannot reach long-term financial balance without new, reliable revenue sources with potential for future growth. In addition, numerous constituencies in the region have urged the Act 47 team to take steps to make the City's tax structure more equitable.

Criteria for Evaluating Revenue Options

A variety of different sources have been proposed for new revenue. These range from higher rates on existing taxes, to restructuring some of those taxes to a selection of new taxes. A broad range of criteria exists for comparing and evaluating revenue options; some of the most common and generally useful evaluation criteria include:

- Revenue Generation Capacity
- Legal Process and/or Issues
- Distributional/Equity Impact
- Competitiveness/Practice in Other Jurisdictions
- Collection/Administrative Cost
- Reliability/Stability
- Economic Effects
- External Effects
- Acceptance and Feasibility

These various criteria were used in considering the appropriate revenue mix to recommend to fill the remaining fiscal gap.

Summary of Estimated Net New Revenue Required

As described elsewhere in this Plan, workforce and other expenditure initiatives are projected to generate approximately $32.8 million in savings for the City in FY2005, growing steadily to $64.9 million by FY2009. In order to balance the budget over the term of this Plan and supply a reasonable fund balance to provide working capital, the Act 47 team projects the need for approximately $40-55 million in annual revenue initiatives beginning in FY2005, an amount that changes over time and is represented in the following table:

Net New Revenue Requirement After Other Initiatives

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Fiscal Impact	$34,073,101	$50,347,910	$42,641,397	$44,732,505	$50,819,165	$55,331,495

Although it is unlikely that any single new revenue source could fill such a large gap without distorting the City's tax structure, there is a plethora of revenue options that together can meet the financial requirement and different aspects of the revenue criteria noted above. In putting together a revenue proposal that generates the requisite funds while meeting legal, equity, competitiveness, stability, and other tests, the Act 47 team has reviewed a variety of different alternatives. Many of these have long been discussed in the region, while others are relatively new. Because no single source of revenue can fill the remaining budget gap, this Recovery Plan seeks a mix of large initiatives capable of generating a significant portion of the necessary amount, while balancing those changes with others that raise less but provide important complementary benefits.

Preferred Revenue Plan

This Recovery Plan proposes to generate the needed new revenue from improved collections of existing revenues, fees and fines; from other new revenue initiatives; and from a balanced package of new taxes. The allocation of new revenues among these categories is shown in the following table:

Net New Revenues By Category in Preferred Revenue Plan
FY2004 – FY2009

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Revenue Initiatives	$0	$9,875,000	$11,637,613	$11,906,994	$13,302,343	$14,948,710
Fee Initiatives	$0	$232,847	$410,134	$556,539	$865,364	$865,364
Tax Package	$0	$40,929,327	$40,695,184	$40,376,494	$40,043,439	$39,724,084
Total	**$0**	**$51,037,174**	**$52,742,931**	**$52,840,027**	**$54,211,146**	**$55,538,158**

It is important that the preferred revenue plan includes both fee initiatives and other revenue initiatives that do not involve new taxes. By FY2009, the Recovery Plan anticipates an additional $15.8 million annually from these sources. However, the majority of the needed new revenue will come from taxes, and specifically from an increase in the occupational privilege tax and modification of City business taxes. The latter will include the imposition of a new payroll tax to allow a reduction in the business privilege and mercantile taxes. At the same time, the real estate transfer tax will be raised, along with fees.

The following section of the chapter discusses the key elements of the preferred revenue package.

RE01. <u>Occupational Privilege Tax ("OPT")</u>

The OPT is imposed on individuals engaging in an occupation within the City of Pittsburgh during the calendar year. The tax liability is borne by residents and nonresidents of the City. The current rate (established in 1965) is set by Pennsylvania statute at $10 per person, so any increase in the OPT would require state legislative action. Under current law, the OPT is not payable until the taxpayer earns $1,000 in compensation (a level established in 1965).

Depending on the rate at which the OPT is set, it could be a significant revenue source for the City and be a major component of the overall revenue solution. The table below provides a range of potential revenue for OPT tax rates ranging from $100 to $200 annually, assuming that the exclusion is raised to $12,000.

Occupational Privilege Tax - Revenue Scenarios Under Different Annual Rates
FY2005 - FY2009
(Assumes No Annual Increase in Rate for Inflation)

Rate	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
$100.00	$24,576,530	$24,699,413	$24,822,910	$24,947,025	$25,071,760
$120.00	$29,491,836	$29,639,296	$29,787,492	$29,936,429	$30,086,112
$140.00	$34,407,142	$34,579,178	$34,752,074	$34,925,834	$35,100,464
$160.00	$39,322,448	$39,519,061	$39,716,656	$39,915,239	$40,114,815
$180.00	$44,237,755	$44,458,943	$44,681,238	$44,904,644	$45,129,167
$200.00	$49,153,061	$49,398,826	$49,645,820	$49,894,049	$50,143,519

This Recovery Plan proposes increasing the OPT to $145 annually from the $10 level set in 1965, allowing for a broad contribution to the City's financial recovery from many who use City services, including both residents and non-residents. At the same time, in response to the many comments provided to the the Act 47 team during the comment period from citizens, business owners, low-income advocates, and the Catholic Diocese of Pittsburgh, this Recovery Plan proposes to raise the OPT exemption to the first $12,000.

The OPT is not a perfect tax – at the $145 rate, it is 1.0 percent of wages for someone earning $14,500 per year, but just 0.36 percent for someone earning $40,000 annually and a very modest 0.18 percent for someone earning $80,000. However, the OPT is a known tax and proposals to raise it into this range have enjoyed a broad understanding and acceptance by the general public when enacted in conjunction with targeted City expenditure reductions. Based on a 260 day work year, at $145 the OPT costs less than 56 cents per workday.

In addition, the OPT can be made more fair while producing some revenue stability for the City by adjusting both the rate and the exemption amount for inflation every five years. This would avoid the type of 34-year rate freeze now facing the City while protecting the wage earners at the very lowest levels from eventually becoming subject to the tax.

Discounted Fiscal Impact – OPT Increase

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	100%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$35,635,969	$35,814,149	$35,993,220	$36,173,186	$36,354,052

RE02. <u>Business Privilege Tax ("BPT"), Mercantile Tax, and Payroll Tax</u>

The BPT is a tax on certain entities doing business in the City of Pittsburgh. It is levied on gross receipts from services and is payable regardless of net profitability. Broad categories of taxpayers (e.g., manufacturers, public utilities and regulated financial service institutions) are exempt from the BPT. The rate for the BPT in Pittsburgh is six mills (.006) of annual gross receipts, the statutory maximum under its Home Rule powers.

The mercantile tax is also a tax levied on gross receipts regardless of net profitability. The mercantile tax is imposed on wholesale and retail vendors and dealers and on persons operating establishments where food or drink is sold or where entertainment or amusement is provided. The rate for wholesale vendors and dealers is one mill (.001) and the rate for retail vendors is two mills (.002) of annual gross receipts. These rates are the maximum rates established by state statute.

A payroll tax has been suggested by State Senator Jack Wagner, the Pittsburgh Financial Leadership Committee and others as a replacement for the BPT and the mercantile tax. It would be levied on for-profit employers maintaining a place of business within the City of Pittsburgh; the tax would be levied on the employer and payable by the employer. Apportionment would be required for payroll earned outside of the City. In most cases, a payroll tax is assumed to be structured to effectively close the exemptions from BPT for financial services institutions, public utilities and manufacturers and address the inequity with respect to small business taxpayers. There are constitutional impediments to levying this tax on charitable organizations. Different proposals structure the payroll tax as a fixed amount per month per employee, or a percentage of total payroll.

Around the Commonwealth, the BPT has been criticized as a disincentive for commerce. Of particular concern have been the many exemptions that have grown up over the decades. Shifting completely from a business privilege and mercantile tax to a payroll tax, though, may transfer the burden from one set of commercial enterprises to another.

Unfortunately, real business tax reform is not achievable at the municipal level in today's economy. Regional and international competition and mobility mean that many businesses can easily react to unfavorable tax conditions by leaving a jurisdiction that levies taxes perceived as uncompetitive. Governor Rendell has appointed a business tax reform commission under the auspices of the Department of Revenue. This group is expected to report later this year with recommendations to overhaul the state's business tax system, recommendations that will have implications for Pittsburgh and every other local government in the Commonwealth.

This Plan cannot anticipate the Commission's report or its fate in the legislature. In the meantime, the Act 47 team has met with members of the business community, and found that opinions on the proper mix of business taxes – generally presumed to be the BPT, mercantile tax and payroll tax – vary widely depending on the situation of the particular business and the structure of the new payroll tax.

After much consideration and discussion, the Coordinator recommends a multi-faceted proposal that should require most businesses to pay somewhat more to support the City, but should not unduly burden any single business or class of businesses. To achieve this, the Act 47 team proposes:

- A reduction in the BPT to 4.0 mills of gross receipts
- A reduction in the mercantile tax to 0.67 mills of gross receipts for wholesale vendors and dealers
- A reduction in the mercantile tax to 1.33 mills of gross receipts for retail vendors
- The imposition of a payroll tax including a $5.25 per month charge for each employee and a 0.3% charge on total payroll

This proposal is intended to ensure that all City businesses make a contribution to its recovery. To the extent that a legally-permissible partial credit or offset will make the new tax configuration more equitable, it shall be adopted. The new business tax model shall result in the following revenues.

Discounted Fiscal Impact – BPT Reduction

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($14,531,548)	($14,894,836)	($15,341,681)	($15,801,932)	($16,275,990)

Discounted Fiscal Impact – Mercantile Tax Reduction

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($2,540,991)	(2,580,095)	($2,619,800)	($2,660,117)	($2,672,622)

Discounted Fiscal Impact – Payroll Tax per Capita

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$10,297,919	$10,349,408	$10,401,155	$10,453,161	$10,505,427

Discounted Fiscal Impact – Payroll Tax on Gross Payroll

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$22,362,865	$22,484,762	$22,607,268	$22,730,387	$22,854,121

During the public comment period for this Recovery Plan, the Act 47 team received support from some segments of the civic and business community for the preferred business tax proposal outlined above. At the same time, the Coordinator also heard from others who prefer the complete elimination of the BPT and the mercantile tax to be replaced by a payroll tax on gross revenue. To raise the same level of revenue as would the primary recommendation in this Plan (approximately $15 million per year), a gross payroll tax would need to be set at 0.85 percent.[8]

In assessing the relative merits of each option, the Coordinator believes that either would yield preferable results to the "safety net" option available within existing Act 47 and local statutory authority as described below. Indeed, there are very likely multiple tax policy alternatives within the purview of the Commonwealth that would more favorably impact the fiscal and economic sustainability goals of the Plan than those options available under current law. Among the many key factors to be considered when refining such a business tax package include: balance and equity; improving competitiveness in support of business attraction and retention, and adequacy and timeliness of revenue generation to help address the City's fiscal crisis.

RE03. Parking Tax Reduction

The City's decision to increase the parking tax from a nation-leading 31 percent to 50 percent has been met with widespread dismay. In addition to driving parkers to remote lots on the fringes of downtown and frustrating business owners who depend on downtown visitors, the yield on the tax has declined. Although repealing the recent parking tax increase will result in a substantial revenue decline that will have to be offset in other portions of this Recovery Plan, there is strong support for moderating the tax. Therefore, the Act 47 team proposes a reduction in the parking tax rate to 30 percent in FY2005, with the following revenue impact:

Parking Tax Rate, FY2004-2009

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Parking Tax %	31% through February, then 50%	30%	30%	30%	30%	30%

The rollback of the parking tax to a new rate of 30 percent will cause losses to the current baseline revenue projection in each year after FY2004:

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)

RE04. Realty Transfer Tax ("Transfer Tax")

The transfer tax is levied at the sale of a real estate interest within the City, and is based on the value of the property transferred (with numerous exemptions). The tax is comprised of a Realty Transfer Tax of 1.0 percent and the Home Rule Realty Transfer Tax of 0.5 percent, for a total City transfer tax of 1.5 percent. An additional 1.0 percent transfer tax is imposed by the School District of Pittsburgh, bringing the combined rate to 2.5 percent. The Commonwealth levies an additional Pennsylvania Realty Transfer Tax of 1.0 percent.

The Act 47 team proposes an increase in the transfer tax from 1.5 percent to 2.0 percent, effective for transfers on or after January 1, 2005. While somewhat vulnerable to fluctuations in the real estate market, a change in the transfer tax has the advantage of occurring in the context of a large transaction, permitting it to be netted against any gains by the selling party, and sometimes both financed and tax-deductible. It also affecting both residential and commercial transactions; in Pittsburgh it is customary for buyer and seller to split the tax on

[8] Alternatively, this amount could be lowered to 0.80 percent if the $100,000 exemption for small businesses were eliminated.

residential sales, further distributing the impact. The Coordinator's proposal would raise approximately $3 million per year, as shown below:

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016

RE05. Market Based Revenue Opportunities

The Act 47 team recommends that Pittsburgh implement a more active and structured Market-Based Revenue Opportunities ("MBRO") program to maximize the revenue-generating capacity of its municipal assets. This broad term encompasses various entrepreneurial concepts, including advertising, exclusivity arrangements, rental agreements, and corporate sponsorships.

While some MBRO opportunities, such as bus shelter advertising, are generally well established in the municipal marketplace, other areas are still evolving. Further, such arrangements can raise legitimate community concerns regarding the appropriateness of advertising content, aesthetics, and excessive commercialization of public service. Consequently, the Act 47 team recommends that the City first establish an MBRO policy to outline guiding principles for considering such arrangements consistent with local community values.

Next, within this policy framework, the City will inventory potential facilities, real estate, and other assets with potential for MBRO revenue generation. This assessment shall include, but not be limited to, consideration of opportunities in the following categories:

- *General outdoor advertising.* Billboards and other outdoor signage can generate both a fixed rental payment and/or a share of gross advertising revenues. While the precise revenue-generation potential is entirely a function of location, a single prime billboard location can generate tens of thousands of dollars per year. Some cities are also exploring temporary ad banners on the fencing for public construction sites.

- *Street furniture.* Advertising revenues can offset, or even eliminate the costs of "street furniture" amenities such as bus shelters, benches, public toilets, newsstands, trash receptacles, information kiosks, bicycle racks, and telephone pillars. Pittsburgh has already moved forward with such a program and shall continue to do so in a manner that maximizes revenue generation. In Boston, for example, the City's advertising revenue stream for a high-quality street furniture program includes both an annual fixed fee of $750,000 and a license royalty fee (10% of annual revenues, generating $314,780 in 2003).

- *Indoor advertising.* Advertisements may be placed in public restrooms, libraries, civic centers, parking garages, and recreation venues. For a modestly scaled indoor advertisement, vendors estimate that each frame can generate as much as $1,920 annually, with a municipality receiving between 10 to 25 percent of the revenue.

- *Other miscellaneous advertising.* Advertisements are now placed on garage receipts and even parking tickets, potentially yielding 0.5 cents per unit in addition to subsidized printing costs. Other advertising options being pursued by municipalities nationally include: tax and utility bill inserts; banners on municipal websites; advertising placements on the sides of rollout refuse carts as used in conjunction with automated trash collection; vehicle advertising "wrap" arrangements; and advertisements on parking meter poles.

- *Secondary use of public real estate.* City facilities and/or infrastructure can generate supplemental revenues from options such as leases for the placement of telecommunications equipment (e.g., cell-phone towers) and facility rentals for events and activities.

- *Municipal marketing partnerships.* A number of communities have developed corporate sponsorship programs, often in a blended arrangement involving commodity delivery, promotions, and discounts. Over the past three to four years, San Diego's program has netted $5.0 million dollars. For example, the City's "official wireless partner" provides a percentage of San Diego's cell phones at no charge in exchange for this designation. In similar arrangements, Huntington Beach, California has an official lifeguard vehicle, and Oakland, California has an official soft drink.

The Act 47 team does not presume to substitute its judgment for that of the City's elected and appointed leadership with respect to which of the multiple MBRO alternatives available would be most consistent with Pittsburgh's community values and standards, and this recommendation would not require the City to move forward in each and every category outlined above. Based on the success of various approaches around the nation, however, the Coordinator believes that a well-structured MBRO program would become an effective and consistent revenue-producing mechanism.

The Coordinator recommends that the two-step policy development and opportunity assessment be completed on or before October 1, 2004. Based on the results, the Coordinator further recommends that the City develop initial request[s] for proposals ("RFP") from qualified vendors in the MBRO categories identified as priority areas based on both revenue potential and policy considerations. Such RFP[s] shall be issued by November 1, 2004, such that priority MBRO arrangements will be in place by January 1, 2005.

The chart below projects rational targets for Pittsburgh MBRO revenue for the first five years of a structured program. These goals are based upon the street furniture revenues achieved by the City of Boston in the first five years of its street furniture program, which featured a ramp-up over time as the number of locations expanded. Boston's results have been further adjusted on a per capita basis to reflect Pittsburgh's smaller population, with an additional 10 percent discount applied in each year to reflect potential market differences between the two cities. The balance of the revenue projections are assumed to be derived from a variety of other MBRO concepts.

Discounted Fiscal Impact - MBROs

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$500,000	$750,000	$1,000,000	$1,000,000	$1,250,000

RE06. Other Proposed Revenues

This Act 47 Plan also calls for a variety of other revenue measures, including:

- *New and increased fees.* This Recovery Plan requires that the City shall update existing fees for inflation since their last adjustment; compare fee levels to those in comparable jurisdictions; and charge the full cost of service in a variety of fee categories. These actions shall generate at least $477,749 in new and increased fees in FY2005 and at least $816,466 in FY2009. Specific required fee increases are described throughout this Recovery Plan.

- *Non-Profit Contributions.* This Recovery Plan anticipates at least $6.0 million in annual contributions from non-profit institutions. More detail on this part of the revenue package may be found in the Non-Profit Institutions chapter of this Recovery Plan.

- *School Crossing Guards*. This Recovery Plan requires that the City shall enter into an agreement with the School District of Pittsburgh allowing it to fund one-half of the salaries and benefits of active, on-duty of school crossing guards. In return for the receipt of $1.75 million per year from the School District from FY2004 through FY2009, the School District shall secure certain rights regarding staffing levels and deployment of guards. The City shall approve an agreement in principle between City and District staff no later than July 15, 2004, for immediate submission to the School District for ratification.

The Act 47 team believes that this recommended approach allows the City to generate the new revenues it needs efficiently and effectively, and provides for modest future growth to match inflationary cost drivers in the City's budget. This recommended revenue package also spreads the burden of new revenues across multiple constituencies. Resident taxpayers are affected by the OPT increase, the transfer tax, and new fees. Businesses will be affected by the new payroll tax, although some may see a partial offset through a reduction in their existing taxes. Commercial enterprises will also be affected by the transfer tax and fee adjustments. Commuters who work in the City will pay higher OPT, and could face some additional fees, although if they drive they will also see a gradual decrease in the parking tax. Non-profit institutions will be asked to make voluntary contributions to aid the City. Other governments will make a variety of contributions noted throughout the Recovery Plan, largely through increased cooperation with the City or full-cost reimbursement. The School District in particular will be asked to pay the cost of one-half of the City's crossing guards.

The following table presents the Act 47 team's preferred plan for increasing the City's revenue.

Estimated Net New Revenue: Preferred Revenue Initiatives
FY2004 to FY2009

Revenue Initiative	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Occupational Privilege Tax	$0	$35,635,969	$35,814,149	$35,993,220	$36,173,186	$36,354,052
Business Privilege Tax Reduction	$0	($14,531,548)	($14,894,836)	($15,341,681)	($15,801,932)	($16,275,990)
Mercantile Tax Reduction	$0	($2,540,991)	($2,580,095)	($2,619,800)	($2,660,117)	($2,672,622)
Payroll Tax - Per Capita	$0	$10,297,919	$10,349,408	$10,401,155	$10,453,161	$10,505,427
Payroll Tax - Rate on Gross Payroll	$0	$22,362,865	$22,484,762	$22,607,268	$22,730,387	$22,854,121
Real Estate Transfer Tax	$0	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016
Parking Tax Reduction	$0	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)
Fee Initiatives	$0	$232,847	$410,134	$556,539	$865,364	$865,364
Revenue Initiatives	$0	$9,875,000	$11,637,613	$11,906,994	$13,302,343	$14,948,710
Total	**$0**	**$51,037,174**	**$52,742,931**	**$52,840,027**	**$54,211,146**	**$55,538,158**

Real Property Tax Exemption

Pursuant to Chapter 263 of the City Code, the City currently grants significant real property tax relief to taxpayers 50 years of age or older, with an annual household income of $30,000 or less, who have occupied a principal residence for at least 10 consecutive years. These taxpayers are authorized to pay their real property tax based on the 1993 assessed value of the property, subject to other applicable provisions. In contrast, Allegheny County also grants real property tax relief to a comparable group of taxpayers, but the County allows a fixed percentage reduction from the 2002 assessed value of the subject property. If the City, for example, granted a 25 percent reduction from the 2002 assessed value of properties owned by this group of taxpayers, annual tax collections would increase by over $1million per year compared to the current methodology. The current provision creates myriad inequities in the tax relief program, and also requires the City to maintain an archaic property tax record for this sole purpose.

City Council shall review Chapter 263 and give consideration to restructuring its provisions to grant tax relief to certain lower income long-time owner/occupants of principal residences based on a percentage reduction from the 2002, or otherwise current, assessed value of the subject property. Council shall also consider whether the $30,000 income level is still the appropriate income level for such an exemption. In any event, the City shall not increase the amount of any exemption from real property taxation beyond such amounts in effect on the date of adoption of this Recovery Plan.

Non-Proposed Revenues

Property (Real Estate) Tax

The City, as a home rule municipality, has the power and authority to raise real estate taxes on property situated within the City. However, as described earlier in this chapter, the real estate tax is the only one of the major Pittsburgh revenue sources that is not already the highest in the County. Further raising the property tax is likely to spur residents to leave the City, further weakening the tax base.

Earned Income Tax (EIT)

The City, as a home rule municipality, can increase the EIT that it charges its residents. This could be done without state legislative action. However, the City EIT rate (1 percent) plus the City of Pittsburgh School District EIT rate (2 percent) for a combined EIT rate of 3 percent is among the highest EIT levies in the state. Raising the rate even further would likely be a disincentive to open a business or reside in the City.

The City of Pittsburgh currently levies a 1 percent nonresident EIT, but because most nonresidents pay at least 1 percent to the municipality in which they reside, the City collects very little nonresident EIT revenue. Nonresidents of the City of Pittsburgh are entitled to offset the City tax against their resident municipality earned income tax liability. As described later, Act 47 allows the Recovery Plan to include a higher EIT for residents and non-residents.

Personal Income Tax (PIT)

Currently, City residents who have earned income are subject to the 3 percent earned income tax (EIT), of which 1 percent is the City EIT. In contrast, unearned income (*e.g.*, interest, dividends and capital gain net income) is not subject to City taxation. Excluding unearned income from taxation benefits more affluent City residents. If state law were amended to expand the income tax to capture unearned income, such a tax could be relatively easy to administer by adopting the Pennsylvania PIT definition of taxable income. Recent legislation has already conformed the definitions of compensation and net profits for local tax purposes to the Pennsylvania PIT definitions. The most efficient means of collecting such a tax could be to allow localities charging an income tax to piggyback on the Commonwealth's PIT, thereby generating collection saving as well. Regardless of one's position on this option, though, it has not been widely debated or considered by residents or policymakers. Even more important, there has been no indication that the General Assembly has any interest in allowing local governments to collect PIT.

Gaming Revenue

Over the past eighteen months, there has been intense debate and negotiation over the possible introduction of slot machine gaming in the Commonwealth. While there have been numerous proposals for the location of any slots gaming facilities, the high yield per machine produced by slots in dense urban areas make it possible that free-standing slot "parlors" could be placed in Philadelphia and Pittsburgh.

However, it is by no means certain that this will occur. Moreover, the allocation of tax revenue from slots among the Commonwealth, counties, local governments for tax relief, and slots venue host communities is not resolved at this time;, although the original concept of the program was to fund local property tax relief. Finally, Allegheny County has already suggested potential uses for any share of slots revenue, including paying off debt from the Sports & Exhibition Authority (SEA), filling the SEA's annual operating gap, and other projects. Because the City is liable for one-half of SEA shortfalls, this approach would eliminate a major contingency in the City budget.

Given the overall uncertainty that slots revenue will materialize, and preliminary plans to use any such revenue for reducing other City-County contingencies, no slots revenue is assumed to be available for general government purposes in this Recovery Plan. Should slots revenue become available to the City, and not be designated for some specific purpose, this Recovery Plan shall be amended to incorporate the impact of that revenue and to identify an appropriate application for the additional money.

Alternative "Safety Net" Revenue Plan

The preferred revenue plan advanced above has many attributes – in particular a sharing of the new revenue burden to help the City. However, many of the largest and most important elements of the preferred plan – including the OPT increase and the payroll tax – require state approval. These new taxes must be enacted by the General Assembly and approved by the Governor.

The Act 47 statute requires that the Coordinator propose a plan that eliminates deficits, avoids future deficits, and balances the City's budget using revenue sources it is already legally empowered to impose. There is one exception to this – when the provision is included in an approved Recovery Plan, the City may annually petition the local courts for authority to impose a higher earned income tax on both residents and commuters than is otherwise allowed.

The Act 47 team believes that the tax options available under its governing statute – increases in existing taxes and the imposition of a higher EIT – are not the most desirable for Pittsburgh. There are numerous reasons for this belief:

- Pittsburgh's major revenue sources – the property tax, the BPT, the EIT, and the parking tax, are already at prohibitively high levels. Further increases will make the City even less competitive;

- Citizens and businesses in the City and the surrounding area have already clearly expressed their desire that two of these taxes in particular – the BPT and the parking tax – be reduced rather than increased.

- City residents already pay a combined 3 percent earned income tax – 1 percent to the City and 2 percent to the School District. Many suburban residents already pay 1 percent or more to their home municipality.

- While the public has evinced at least some willingness to consider other tax adjustments – for example an updating of the OPT – there is no significant public support for a higher EIT.

- Act 47 provides for the imposition of a higher EIT only after petition to the Court of Common Pleas. The Court's approval must be renewed annually, and can only last until the City emerges from distressed status. Moreover, home rule municipalities could raise their EIT to the new City level, thereby effectively claiming the new revenue for themselves and denying it to the City. While it would take some time, non-home rule governments could apply for the status and do the same. As a result of all of these factors, an increase in the EIT is not a stable source of long-term revenue for the City and does not provide an opportunity for long-term growth to match future inflationary cost increases in City expenditures.

This final point is perhaps the most important. If the revenue portion of the City's Recovery Plan does not rest on stable tax sources with the potential for long-term growth, the City will eventually return to distressed status. For this reason in particular, the Act 47 team believes that a higher EIT is not desirable for the City, its residents, and non-residents who work in Pittsburgh.

Accordingly, this Act 47 recovery plan has suggested a preferred tax alternative that does not include an increase in the EIT or most other taxes within the City's control. However, the state legislature has written Act 47 to require that a Recovery Plan must provide a balance of revenues and expenditures that allows for financial recovery using tools that the City has available (or can implement unilaterally). Therefore, the Act 47 plan must include a second, alternative revenue proposal that will fill the remaining budget gap while meeting statutory requirements of Act 47. The elements of the Act 47 team's alternative revenue proposal are:

- Increase the City's portion of the property tax by 5 percent, from the current 10.80 mills to approximately 11.34 mills.
- Earned income tax for City residents raised to 1.37 percent and for non-residents to 1.27 percent (note that non-residents would pay the City the difference between the City rate and the rate in their home municipality; in most cases, this would be 0.27 percent in FY2005, or $135 per year for a non-resident earning $50,000 annually)

Alternative Revenue Proposal – Increase Property Tax

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$5,958,547	$6,282,011	$6,358,621	$6,435,230	$6,512,763

Alternative Revenue Proposal – Increase EIT

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$46,045,284	$45,757,773	$45,417,597	$44,836,010	$44,200,228

Because of growth trends in the earned income tax base, the earned income tax rate would be reduced by 0.01 percent each year, stabilizing yield and reflecting its role as a transitional tax under Act 47. Therefore, this Recovery Plan projects the following EIT requirement through FY2009:

EIT Rates Under the Alternative "Safety Net" Revenue Proposal

Fiscal Year	Resident Tax Rate	Non-Resident Tax Rate
2005	1.37	1.27
2006	1.36	1.26
2007	1.35	1.25
2008	1.34	1.24
2009	1.33	1.23

The alternative revenue proposal would also include the elements of the preferred revenue proposal that are within the City's control, including the parking tax reduction, the realty transfer tax, fee increases, MBROs, and others. The full package is summarized in the table below:

Estimated Net New Revenue: Alternative "Safety Net" Revenue Initiatives
FY2004 to FY2009

Revenue Initiative	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Real Property Tax	$0	$5,958,547	$6,282,011	$6,358,621	$6,435,230	$6,512,763
Earned Income Tax	$0	$46,045,284	$45,757,773	$45,417,597	$44,836,010	$44,200,228
Real Estate Transfer Tax	$0	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016
Parking Tax Reduction	$0	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)
Fee Initiatives	$0	$232,847	$410,134	$556,539	$865,364	$865,364
Revenue Initiatives	$0	$9,875,000	$11,637,613	$11,906,994	$13,302,343	$14,948,710
Total	**$0**	**$51,816,791**	**$53,609,327**	**$53,576,084**	**$54,587,701**	**$55,486,161**

The Act 47 team strongly recommends that the City, its citizens, the business community and the Intergovernmental Cooperation Authority join it in approaching the General Assembly and the Governor to request necessary legislative changes to authorize the enactment of a more balanced tax alternative.

However, the City also faces the possibility that it could exhaust cash reserves as early as September 2004. An April 27, 2004 communication from the Commonwealth's Department of Labor & Industry, suggesting that the City will again need to prepay workers' compensation for 2005 in order to maintain self-insured status, heightens this danger. While careful cash management and a dose of luck make it possible that the City will scrape by until property tax revenues arrive in February 2005, there will be several months in a row with such limited cash on hand that any type of crisis or emergency would drive the City into the red.

Allowing this situation to occur would be irresponsible. With no margin for error, as the year wears on the City will become increasingly vulnerable to contingencies. A negative cash balance could occur easily under a variety of circumstances. In addition to meaning deferred payments to vendors and possibly deferred paychecks for police officers, firefighters and other City employees, it could weaken the City's ability to appeal to vendors for advance credit during an emergency. Insufficient cash reserves could also result in a series of other negative financial events that would take the City in the wrong direction – for example, it is important that the City make its large pension payment before the end of the year to avoid incurring an 8.75 percent late penalty that could exceed $1 million. A sudden cash shortfall could force deferral of all or part of the pension payment and trigger the penalty. Finally, the City would also need the certainty of a financial plan with consensus on revenues in order to pursue any necessary cash flow financing for 2004 from local banks.

Accordingly, the Coordinator recommends that the preferred revenue package be structured so that a portion of the new revenues be collected in FY2004. In particular, the OPT seems well suited for rapid implementation. Collecting one-half of the increase in FY2004, reflecting the months from July through December, for example, would provide the City with a modest cash infusion of $15 million this year. While not reaching the 5-15 percent of operating revenue recommended for a working capital reserve by the Government Finance Officers Association, this amount would most likely enable the City to meet its obligations for the remainder of the year without a cash shortfall.

However, if no action has been taken to authorize the taxes in this Recovery Plan's preferred revenue package, or to authorize a similar combination of taxes that generate an average of $40 million each year for the next 5 years, soon enough to ensure, in the Coordinator's opinion, the City's ability to meet its financial obligations through the end of 2004 and in 2005, the Mayor, with the concurrence of the Coordinator, shall file a petition in the Allegheny County Court of Common Pleas to seek approval of the earned income tax elements of the Coordinator's alternative revenue plan: an earned income tax of 1.37 percent for City residents and 1.27 percent for non-residents employed in the City. This action will seek to have such a tax approved for implementation as soon as possible, in order to provide confidence to lenders for a 2004 City cash flow borrowing.

At the same time, City Council shall approve legislation to enact the other portions of the alternative revenue package, including raising the real property tax to 11.34 mills; raising the real estate transfer tax to 2.0 percent; and undertaking other revenue initiatives described in the recommended revenue plan but within the discretion of the City.

Tax Exempt Institutions

One characteristic which the City shares with many other Pennsylvania urban centers is the large number (and size) of its tax exempt institutions. These institutions range from very large health care and higher education facilities and property owned by government entities to much smaller social service and community non-profit organizations. Based upon the assessed value of the real property owned by these institutions, these tax exempt facilities constitute over 33 percent of the total assessed value of City property.

Of this 33 percent, health care and higher educational institutions constitute over 13 percent of the total and governmental entities (including the City, related authorities, Commonwealth, County, School District and the U.S.) constitute over 15 percent. For the most part, in addition to exemption from real property taxation, these same organizations are also exempt from all other taxes imposed on for profit businesses in the City.

There is no question that these tax exempt institutions are a major reason for Pittsburgh's reputation for world class educational, medical, cultural, charitable and corporate institutions. They are also the source of some of the region's best paying and most challenging jobs. Some of the institutions own, and pay taxes on, taxable real property and some provide their own police and sanitation services. Nevertheless, it is also unquestionable that these institutions, because of their size and number of employees, utilize a broad variety of City services such as police, fire, utility and public works. The challenge is to find a mechanism to encourage the continued success in Pittsburgh of these organizations, while at the same time having them provide some financial support for the City services upon which they rely.

The options available to accomplish these goals are limited. One option is for the City to attempt to impose some type of municipal services fee or tax on these institutions. While "fair" from the standpoint of obtaining the tax exempt institutions' participation in supporting these services, this option is certain to lead to litigation between the City and the institutions – resulting in the expenditure of funds by both which would not contribute to their respective missions, fostering rancor, rather than cooperation, between them.

A second option is the pursuit of municipal services agreements with the institutions. Although this solution is common to many urban centers housing large non-profit institutions, depending upon their formality and terms, these agreements can be difficult to enforce and uneven in the revenues raised from year to year. Municipal services agreements are therefore notoriously difficult to budget in a responsible manner. In addition, since these agreements often are between the City and individual tax exempt entities, they are often perceived as unfair by participating institutions because the payments vary from institution to institution and not all institutions participate. Finally, with the enactment of Act 55 of 1997, the Institutions of Purely Public Charity Act, the state legislature made it easier for institutions to qualify as tax exempt and has therefore removed the incentive for institutions to enter into municipal services agreements with the City. Act 55 is undoubtedly the biggest reason that the City's revenue from these agreements has plummeted from roughly $3 million to less than one quarter of that amount today.

The expectation that the City's tax exempt institutions will participate financially in the City's operation is not unprecedented. Several tax exempt institutions around the country have recently agreed to make substantial voluntary payments to their host communities by written agreement. In Providence, Rhode Island, the four major educational institutions have agreed to make payments to the City over a 20 year period beginning in 2004, with the annual payments ranging in 2004 from over $1 million from the largest institution to a range of $156,000 to $275,000 from the smaller institutions. The payments escalate each year. Moreover, in addition, these same institutions agree to pay "transition payments" to the City as reimbursement for the purchase of taxable real property. The payments initially equal the tax that would have been paid if the property had remained taxable. The payments, reduced over time, are made over

15 years for each parcel. In Baltimore, 23 major institutions currently contribute approximately $4-6 million per year over a four year period. In Boston, 50 institutions contribute a total of $24 million annually.

The third option is for the City, with the assistance of the Act 47 Coordinator and in cooperation with the City's tax exempt institutions, to establish a Pittsburgh community or public service foundation, or similar tax exempt charitable entity, pursuant to federal tax law (the "Foundation"). The City shall initiate active discussions with the major healthcare and higher education tax exempt institutions, and eventually with smaller tax exempt institutions, foundations and taxable entities, to encourage contributions over a term of years to the Foundation.

The goal of the Foundation would be to obtain contributions through the Foundation to the City amounting to at least $6 million per year and perhaps eventually to build an endowment to support projects in the City which relieve obligations of the City's operating or capital budgets.

The Foundation would be governed by its own board which would decide on the projects to be supported by the Foundation. Although donors to the Foundation can specify with some particularity the use of their donated funds, it is hoped that the Foundation's assets would be used in the broadest manner possible to relieve the obligations of the City's operating or capital budgets. Examples of such uses could be to support programming and maintenance of City parks and recreation centers or to provide matching funds for federal or state grants, among many other possibilities.

The Coordinator has held preliminary discussions with several educational and health care tax exempt entities about these concepts. A small group of these entities has agreed to form a taskforce, convened initially by the Pittsburgh Foundation, and with the participation of the Coordinator and the City, to discuss the issue of contributions by a broad range of tax exempt institutions to City operations or projects. The City shall participate in and encourage the efforts of such a taskforce. The goal of the taskforce would be to discuss alternative ways by which a broad range of tax exempt institutions, through a multi-party municipal services agreement or a community or public service foundation or otherwise, could make substantial annual contributions toward City services or projects.

The advantages of this approach are many. It fosters cooperation and problem solving, rather than discord. It builds on the historic commitment of Pittsburgh's non-profit organizations to contribute to the City's vibrancy and well-being. It makes possible fixed, annual contributions to the City's revenues which can be responsibly budgeted. It facilitates the initiation and completion of projects which the City could not otherwise afford. If an independent foundation were used, it gives the donors the authority to direct their donations to projects in which they have a particular interest and the security that their donations will be controlled by the Foundation. Finally, as potential donors gain confidence in the City's control of its expenses pursuant to the Recovery Plan, their contributions over time could build an endowment to support creative projects in the City for years to come.

On a more mundane level, the City must monitor applications made to the County's Board of Assessment for exemption from real property taxation. The City must confirm that the proposed use, not just ownership, qualifies for exemption under the applicable law. Currently, a member of the City's Law Department reviews exemption applications and attends the Board of Assessment hearing on the application. Once the Board renders its decision, the City attorney determines whether an appeal is in order. This process and these reviews must be continued in order to assure that only properties qualifying for exemption get added to the City's already long list of exempt properties.

Initiatives

TE01. **Contributions from Non-Profit Institutions**

With the assistance of the Coordinator, the City shall initiate active discussions with a taskforce of the major healthcare and education tax exempt institutions, and eventually with smaller tax exempt institutions and taxable entities, convened by the Pittsburgh Foundation, to explore a structure by which these institutions can make fixed contributions totalling at least $6 million per year, beginning in 2005, over a term of years to the City by means agreed upon by the City and the institutions.

The City's Solicitor shall continue its cooperative efforts with the School District's Solicitor: (1) to review, and challenge where necessary, applications by property owners for exemption from real property taxation; and (2) to review periodically, and challenge where necessary, the status of currently exempt properties, including review of the current use and ownership thereof.

Discounted Fiscal Impact

	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Discount %	0%	0%	0%	0%	0%	0%
Fiscal Impact	$0	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000

Appendices

Multi-Year Gap Projections
FY2005-FY2009
(Summary)

	Description	ACTUAL 2000	ACTUAL 2001	ACTUAL 2002	BUDGET 2003	BASELINE 2004	Projected FY2005	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009
	REVENUES										
1	Real Estate Taxes, Current Year	$111,156,676	$118,148,674	$121,186,716	$123,132,000	$120,374,680	$119,170,934	$125,640,213	$127,172,411	$128,704,608	$133,178,626
2	Real Estate Taxes, Prior Years	$3,386,252	$2,689,330	$997,163	$3,139,000	$3,892,169	$2,448,323	$2,071,636	$2,429,231	$2,508,724	$2,590,817
4	Mercantile Tax	$7,038,452	$7,297,418	$7,314,519	$7,241,000	$7,622,973	$7,740,284	$7,859,401	$7,980,351	$8,017,865	$8,055,556
5	Amusement Tax	$7,706,356	$9,635,866	$9,421,493	$10,459,000	$9,407,945	$9,302,753	$9,450,458	$9,601,116	$9,754,788	$9,910,919
7	Earned Income Tax	$49,326,022	$49,275,581	$46,977,928	$49,039,000	$47,215,061	$48,359,769	$49,532,231	$50,733,118	$51,416,140	$52,108,357
8	Deed Transfer Tax	$8,680,371	$7,931,095	$9,818,269	$8,452,000	$8,442,458	$8,779,730	$9,130,476	$9,495,234	$9,874,564	$10,269,048
10	Parking Tax	$30,097,245	$30,901,652	$30,943,807	$32,514,000	$43,500,000	$44,487,794	$45,498,018	$46,531,183	$47,587,808	$48,668,428
11	Occupation Privilege Tax	$3,253,185	$3,109,499	$3,132,989	$3,157,000	$3,256,248	$3,272,529	$3,288,892	$3,305,336	$3,321,863	$3,338,472
12	Business Privilege Tax	$39,818,318	$43,171,347	$43,965,485	$42,110,000	$42,950,387	$43,594,643	$44,684,509	$46,025,044	$47,405,796	$48,827,970
13	Institution and Service Privilege Tax	$562,490	$512,690	$502,376	$474,000	$413,186	$391,415	$370,791	$351,254	$332,746	$315,214
14	Penalties and Interest	$1,852,105	$2,144,269	$2,778,754	$2,742,000	$3,414,407	$2,536,197	$1,807,984	$1,800,347	$1,975,182	$2,166,995
15	Interest on Bank Balances	$5,706,648	$4,308,034	$962,347	$1,382,000	$500,000	$833,333	$1,041,667	$1,041,667	$1,041,667	$1,041,667
16	Fines and Forfeits	$7,155,417	$7,275,478	$7,869,230	$7,325,000	$7,692,724	$7,692,724	$7,692,724	$7,692,724	$7,692,724	$7,692,724
17	Liquor and Malt Beverage Licenses	$404,650	$12,000	$816,950	$415,000	$430,000	$440,750	$451,769	$463,063	$474,640	$486,506
18	Business Licenses	$73,251	$41,184	$28,402	$50,000	$30,500	$31,263	$32,044	$32,845	$33,666	$34,508
19	General Government Licenses	$815,682	$693,210	$719,181	$767,000	$740,000	$758,500	$777,463	$796,899	$816,822	$837,242
20	Rentals and Charges - Depts.	$5,684,751	$4,543,068	$4,302,893	$4,473,975	$3,935,475	$4,033,862	$4,134,708	$4,238,076	$4,344,028	$4,452,629
21	Public Service Privileges	$925,090	$1,026,813	$955,873	$950,000	$1,125,000	$1,138,023	$1,151,197	$1,164,524	$1,178,004	$1,191,641
22	Provision of Services	$6,093,547	$6,539,895	$6,922,371	$7,298,759	$7,813,775	$8,298,504	$8,813,303	$9,360,038	$9,940,689	$10,557,361
23	Breakeven Centers	$20,093,470	$16,224,659	$16,872,555	$17,370,024	$17,680,350	$18,294,006	$18,928,961	$19,585,954	$20,265,750	$20,969,141
24	Joint Operations	$118,750	$56,250	$142,435	$175,000	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
25	Federal and State Grants	$1,969,752	$3,817,734	$2,510,111	$3,088,000	$3,196,586	$3,276,501	$3,358,413	$3,442,373	$3,528,433	$3,616,644
26	Non-Profit Payment for Services	$1,956,583	$2,125,422	$726,773	$700,000	$650,000	$666,250	$682,906	$699,979	$717,478	$735,415
27	Reimbursement, CDBG	$985,907	$960,359	$589,515	$935,000	$1,754,503	$1,798,366	$1,843,325	$1,889,408	$1,936,643	$1,985,059
28	Authority Payments	$7,387,500	$8,712,500	$7,762,500	$7,287,500	$7,287,500	$7,309,670	$7,331,908	$7,354,213	$7,376,586	$7,399,027
30	State Utility Tax Distribution	$1,009,810	$540,153	$458,364	$500,000	$450,000	$461,250	$472,781	$484,601	$496,716	$509,134
31	Sale of Public Property	$0	$0	$0	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
32	Act 77 - Tax Relief	$13,499,194	$13,245,894	$13,391,706	$13,943,000	$13,746,771	$12,945,440	$13,456,576	$13,980,491	$14,517,503	$15,067,941
33	Act 77 - Operations Support for Regional Assets	$5,488,500	$5,608,000	$5,732,000	$5,859,000	$5,902,700	$4,506,054	$4,596,175	$4,688,099	$4,781,861	$4,877,047
35	Act 77 - Civic Arena Debt Service	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000
37	Delinquent Receivables-Magistrates Court	$679,613	$694,104	$628,384	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000
38	Miscellaneous Not Otherwise Classified	$3,056,910	$523,801	$3,345,961	$267,592	$300,000	$307,500	$315,188	$323,067	$331,144	$339,422
40	Pittsburgh Development Fund	$1,500,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
41	Trust Fund Closeouts	$1,749,175	$11,687	$0	$0	$0	$0	$0	$0	$0	$0
42	Trust Fund Revenues	$365,000	$67,500	$0	$0	$0	$0	$0	$0	$0	$0
43	Retail Drink Tax	$0	$0	$0	$5,000,000	$0	$0	$0	$0	$0	$0
44	Payroll Preparation Tax	$0	$0	$0	$24,000,000	$0	$0	$0	$0	$0	$0
	TOTAL	**$351,196,672**	**$353,445,166**	**$353,377,050**	**$386,395,850**	**$365,975,399**	**$365,126,367**	**$376,665,716**	**$384,912,644**	**$392,624,437**	**$403,473,509**

Multi-Year Gap Projections
FY2005-FY2009
(Summary)

		ACTUAL 2000	ACTUAL 2001	ACTUAL 2002	BUDGET 2003	BASELINE 2004	Projected FY2005	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009
	EXPENDITURES										
10	Salaries	$146,022,905	$152,616,425	$162,879,577	$165,056,344	$156,109,338	$166,699,668	$171,726,908	$176,904,966	$182,238,364	$187,731,765
20	Premium Pay	$19,071,457	$20,210,412	$19,817,369	$21,017,185	$21,241,648	$21,985,106	$22,644,659	$23,323,999	$24,023,719	$24,744,430
30	Education and Training	$443,750	$398,478	$413,275	$537,203	$363,802	$363,802	$363,802	$363,802	$363,802	$363,802
40	Fringe Benefits	$55,096,114	$59,771,702	$66,241,369	$73,682,790	$75,321,420	$83,178,271	$91,954,311	$101,924,557	$113,263,914	$126,173,371
50	Uniforms	$2,858,332	$2,366,185	$2,227,770	$2,366,803	$1,826,928	$1,871,766	$1,912,441	$1,954,186	$1,997,032	$2,041,010
100	Supplies	$4,830,740	$4,852,917	$5,022,332	$5,046,588	$4,861,091	$4,983,487	$5,109,059	$5,237,893	$5,370,076	$5,505,700
110	Materials	$1,452,808	$1,544,806	$1,473,333	$1,496,540	$1,313,545	$1,346,384	$1,380,043	$1,414,544	$1,449,908	$1,486,156
120	Equipment	$1,765,930	$2,356,040	$1,750,425	$1,696,460	$1,283,695	$1,315,787	$1,348,682	$1,382,399	$1,416,959	$1,452,383
130	Repairs	$1,379,927	$1,490,102	$1,395,715	$1,454,920	$1,445,770	$1,466,067	$1,486,649	$1,507,519	$1,528,683	$1,550,144
140	Rentals	$2,040,361	$2,293,746	$2,257,774	$2,230,236	$1,826,936	$3,336,178	$3,386,748	$3,438,680	$3,492,012	$3,546,782
150	Miscellaneous Services	$14,746,355	$17,121,652	$18,538,155	$18,434,477	$13,377,457	$15,975,516	$16,423,834	$16,906,591	$17,381,097	$17,868,947
160	Utilities	$7,158,523	$9,392,512	$8,245,459	$8,231,257	$8,286,900	$8,816,690	$9,380,349	$9,980,044	$10,618,078	$11,296,902
170	Judgements	$2,492,443	$2,236,507	$1,599,831	$750,000	$2,000,000	$2,086,861	$2,177,495	$2,272,064	$2,370,741	$2,473,704
180	Pension	$7,953,344	$7,550,434	$5,893,264	$4,539,848	$17,195,300	$29,664,640	$30,291,049	$30,843,729	$31,406,708	$31,975,537
200	Debt Service	$69,341,348	$66,728,216	$55,314,306	$71,230,822	$86,231,716	$87,606,711	$89,530,791	$91,877,833	$94,177,852	$95,701,290
210	Debt Service Subsidy	$3,453,069	$3,676,994	$3,623,802	$3,619,050	$3,613,113	$2,318,072	$1,922,060	$1,484,046	$758,024	$755,024
300	GF Grants	$4,329,068	$4,374,385	$4,671,325	$4,040,000	$4,040,000	$4,040,000	$4,040,000	$4,040,000	$4,040,000	$4,040,000
350	GF Projects	$50,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
400	Transfers	$1,081,207	$1,032,600	$619,480	$959,326	$0	$0	$0	$0	$0	$0
410	Govt. Cooperation Measures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	TOTAL	**$345,567,682**	**$360,014,113**	**$361,984,561**	**$386,389,849**	**$400,338,659**	**$437,055,007**	**$455,078,880**	**$474,856,852**	**$495,896,970**	**$518,706,946**

Multi-Year Gap Projections
FY2005-FY2009
(Summary)

	ACTUAL 2000	ACTUAL 2001	ACTUAL 2002	BUDGET 2003	BASELINE 2004	Projected FY2005	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009
BUDGET GAP (Structural)	$5,628,990	($6,568,947)	($8,607,511)	$6,001	($34,363,260)	($71,928,640)	($78,413,164)	($89,944,208)	($103,272,533)	($115,233,438)
WORKFORCE INITIATIVES					$0	$23,648,486	$22,516,282	$28,576,439	$34,956,504	$41,856,273
EXPENDITURE REDUCTIONS					$290,159	$9,182,245	$20,755,486	$21,635,264	$22,496,865	$23,045,670
INVESTMENTS					$0	($11,250,000)	($7,500,000)	($5,000,000)	($5,000,000)	($5,000,000)
Revenue Initiatives					$0	$9,875,000	$11,637,613	$11,906,994	$13,302,343	$14,948,710
Fee Initiatives					$0	$232,847	$410,134	$556,539	$865,364	$865,364
Tax Package					$0	$40,929,327	$40,695,184	$40,376,494	$40,043,439	$39,724,084
Net Operating Balance					($34,073,101)	$689,264	$10,101,534	$8,107,522	$3,391,981	$206,663

City of Pittsburgh

Outstanding Debt

General Obligation	Outstanding Par
Series of 1992C	1,430,000
Series of 1993A	41,505,000
Series of 1994A	1,690,000
Series of 1995A	72,605,000
Series of 1995B	82,520,000
Series A of 1996	52,630,000
Series A of 1997	8,500,000
Series B of 1997	29,735,000
Series C of 1997	20,120,000
Series D of 1998	124,750,000
Series A of 1999	2,040,000
Series A of 2002	126,580,000
2003 Series A	13,575,000

General Obligation (Pension)	Outstanding Par
Series B of 1996 (Taxable)	18,145,000
Series A of 1998 (Taxable)	18,860,000
Series B of 1998 (Taxable)	43,280,000
Series C of 1998 (Taxable)	187,725,000

Authority Bonds	Outstanding Par
URA - Series 1994 B	1,125,000
URA - Series 1995A	52,625,000
PAA - Series 1999	11,740,000

Anticipated New Money
Debt Service Estimate

Fiscal Year	2006	2007	2008	Total
2006	859,084			859,084
2007	2,350,041	859,084		3,209,125
2008	2,351,019	2,350,041	859,084	5,560,144
2009	2,351,521	2,351,019	2,350,041	7,052,582
2010	2,351,807	2,351,521	2,351,019	7,054,347
2011	2,347,113	2,351,807	2,351,521	7,050,440
2012	2,347,365	2,347,113	2,351,807	7,046,284
2013	2,347,380	2,347,365	2,347,113	7,041,858
2014	2,351,785	2,347,380	2,347,365	7,046,530
2015	2,350,415	2,351,785	2,347,380	7,049,580
2016	2,348,208	2,350,415	2,351,785	7,050,409
2017	2,349,529	2,348,208	2,350,415	7,048,152
2018	2,348,985	2,349,529	2,348,208	7,046,722
2019	2,351,201	2,348,985	2,349,529	7,049,714
2020	2,350,515	2,351,201	2,348,985	7,050,700
2021	2,351,247	2,350,515	2,351,201	7,052,963
2022	2,347,788	2,351,247	2,350,515	7,049,550
2023	2,349,336	2,347,788	2,351,247	7,048,371
2024	2,349,819	2,349,336	2,347,788	7,046,943
2025	2,348,642	2,349,819	2,349,336	7,047,797
2026	2,350,051	2,348,642	2,349,819	7,048,511
2027		2,350,051	2,348,642	4,698,692
2028			2,350,051	2,350,051
Total	47,852,849	47,852,849	47,852,849	143,558,546

Note: Calculated based on bond market estimates current as of May 20, 2004, plus 200 basis points.

Total Estimated
Debt Service

	Total Existing Debt Service			Anticipated New Money	Total Debt Service
	Principal	Interest	DS	2006-2008	
12/31/2004	18,362,500	26,714,267	45,076,767		45,076,767
12/31/2005	46,385,000	51,171,256	97,556,256		97,556,256
12/31/2006	49,750,000	48,486,785	98,236,785	859,084	99,095,869
12/31/2007	52,160,000	45,651,644	97,811,644	3,209,125	101,020,768
12/31/2008	54,275,000	42,776,762	97,051,762	5,560,144	102,611,906
12/31/2009	57,325,000	39,769,276	97,094,276	7,052,582	104,146,858
12/31/2010	60,537,500	36,606,249	97,143,749	7,054,347	104,198,095
12/31/2011	63,980,000	33,189,236	97,169,236	7,050,440	104,219,676
12/31/2012	52,732,500	30,274,653	83,007,153	7,046,284	90,053,437
12/31/2013	55,682,500	27,320,280	83,002,780	7,041,858	90,044,638
12/31/2014	55,692,500	24,014,276	79,706,776	7,046,530	86,753,306
12/31/2015	41,422,500	20,429,648	61,852,148	7,049,580	68,901,728
12/31/2016	43,465,000	18,014,685	61,479,685	7,050,409	68,530,094
12/31/2017	45,965,000	15,337,798	61,302,798	7,048,152	68,350,950
12/31/2018	24,820,000	12,781,878	37,601,878	7,046,722	44,648,599
12/31/2019	25,480,000	11,119,049	36,599,049	7,049,714	43,648,763
12/31/2020	27,135,000	9,475,428	36,610,428	7,050,700	43,661,128
12/31/2021	28,885,000	7,723,960	36,608,960	7,052,963	43,661,923
12/31/2022	30,755,000	5,855,345	36,610,345	7,049,550	43,659,895
12/31/2023	32,745,000	3,862,535	36,607,535	7,048,371	43,655,906
12/31/2024	34,870,000	1,739,400	36,609,400	7,046,943	43,656,343
12/31/2025	4,265,000	459,638	4,724,638	7,047,797	11,772,434
12/31/2026	4,490,000	235,725	4,725,725	7,048,511	11,774,236
12/31/2027				4,698,692	4,698,692
12/31/2028				2,350,051	2,350,051
Total	911,180,000	513,009,769	1,424,189,769	143,558,546	1,567,748,314

Note: 12/31/2004 estimates do not include payments made prior to May 20, 2004.

Revenue Growth Rate Assumptions

REVENUES	FY2005 Projection	FY2006 Projection	FY2007 Projection	FY2008 Projection	FY2009 Projection
Real Estate Taxes, Current Year	-1.00%	5.43%	1.22%	1.20%	3.48%
Real Estate Taxes, Prior Years	-37.10%	-15.39%	17.26%	3.27%	3.27%
Housing Authority Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%
Mercantile Tax	1.54%	1.54%	1.54%	0.47%	0.47%
Amusement Tax	-1.12%	1.59%	1.59%	1.60%	1.60%
Personal Property Tax	0.00%	0.00%	0.00%	0.00%	0.00%
Earned Income Tax	2.42%	2.42%	2.42%	1.35%	1.35%
Deed Transfer Tax	3.99%	3.99%	3.99%	3.99%	3.99%
Sewage Charges	0.00%	0.00%	0.00%	0.00%	0.00%
Parking Tax	2.27%	2.27%	2.27%	2.27%	2.27%
Occupation Privilege Tax	0.50%	0.50%	0.50%	0.50%	0.50%
Business Privilege Tax	1.50%	2.50%	3.00%	3.00%	3.00%
Institution and Service Privilege Tax	-5.27%	-5.27%	-5.27%	-5.27%	-5.27%
Penalties and Interest	-25.72%	-28.71%	-0.42%	9.71%	9.71%
Interest on Bank Balances	66.67%	25.00%	0.00%	0.00%	0.00%
Fines and Forfeits	0.00%	0.00%	0.00%	0.00%	0.00%
Liquor and Malt Beverage Licenses	2.50%	2.50%	2.50%	2.50%	2.50%
Business Licenses	2.50%	2.50%	2.50%	2.50%	2.50%
General Government Licenses	2.50%	2.50%	2.50%	2.50%	2.50%
Rentals and Charges - Depts.	2.50%	2.50%	2.50%	2.50%	2.50%
Public Service Privileges	1.16%	1.16%	1.16%	1.16%	1.16%
Provision of Services	6.20%	6.20%	6.20%	6.20%	6.20%
Breakeven Centers	3.47%	3.47%	3.47%	3.47%	3.47%
Joint Operations	0.00%	0.00%	0.00%	0.00%	0.00%
Federal and State Grants	2.50%	2.50%	2.50%	2.50%	2.50%
Non-Profit Payment for Services	2.50%	2.50%	2.50%	2.50%	2.50%
Reimbursement, CDBG	2.50%	2.50%	2.50%	2.50%	2.50%
Authority Payments	0.30%	0.30%	0.30%	0.30%	0.30%
Public Parking Authority	0.00%	0.00%	0.00%	0.00%	0.00%
State Utility Tax Distribution	2.50%	2.50%	2.50%	2.50%	2.50%
Sale of Public Property	0.00%	0.00%	0.00%	0.00%	0.00%
Act 77 - Tax Relief	-5.83%	3.95%	3.89%	3.84%	3.79%
Act 77 - Operations Support for Regional Assets	-23.66%	2.00%	2.00%	2.00%	1.99%
Act 77 - Prior Year Revenue	0.00%	0.00%	0.00%	0.00%	0.00%
Act 77 - Civic Arena Debt Service	0.00%	0.00%	0.00%	0.00%	0.00%
Delinquent Receivables-Real Estate and Other T	0.00%	0.00%	0.00%	0.00%	0.00%
Delinquent Receivables-Magistrates Court	0.00%	0.00%	0.00%	0.00%	0.00%
Miscellaneous Not Otherwise Classified	2.50%	2.50%	2.50%	2.50%	2.50%
Garbage Fee	0.00%	0.00%	0.00%	0.00%	0.00%
Pittsburgh Development Fund	0.00%	0.00%	0.00%	0.00%	0.00%
Trust Fund Closeouts	0.00%	0.00%	0.00%	0.00%	0.00%
Trust Fund Revenues	0.00%	0.00%	0.00%	0.00%	0.00%
Retail Drink Tax	0.00%	0.00%	0.00%	0.00%	0.00%
Payroll Preparation Tax	0.00%	0.00%	0.00%	0.00%	0.00%

Sub Class	Description	FY2005 Projection	FY2006 Projection	FY2007 Projection	FY2008 Projection	FY2009 Projection
10	Salaries	3.50%	3.00%	3.00%	3.00%	3.00%
20	Premium Pay	3.50%	3.00%	3.00%	3.00%	3.00%
30	Education and Training	0.00%	0.00%	0.00%	0.00%	0.00%
40	Fringe Benefits	15.00%	15.00%	15.00%	15.00%	15.00%
50	Uniforms	0.97%	0.97%	0.97%	0.97%	0.97%
100	Supplies	2.50%	2.50%	2.50%	2.50%	2.50%
110	Materials	2.50%	2.50%	2.50%	2.50%	2.50%
120	Equipment	2.50%	2.50%	2.50%	2.50%	2.50%
130	Repairs	1.40%	1.40%	1.40%	1.40%	1.40%
140	Rentals	2.70%	2.70%	2.70%	2.70%	2.70%
150	Miscellaneous Services	2.86%	2.86%	2.86%	2.86%	2.86%
160	Utilities	6.39%	6.39%	6.39%	6.39%	6.39%
170	Judgements	4.34%	4.34%	4.34%	4.34%	4.34%
180	Pension	77.06%	2.97%	3.12%	3.28%	3.35%
200	Debt Service	1.59%	1.22%	0.00%	-0.06%	0.03%
210	Debt Service Subsidy	-35.84%	-17.08%	-22.79%	-48.92%	-0.40%
220	Debt Service - New Money	0.00%	0.00%	273.55%	73.26%	26.84%
300	GF Grants	0.00%	0.00%	0.00%	0.00%	0.00%
350	GF Projects	0.00%	0.00%	0.00%	0.00%	0.00%
400	Transfers	3.45%	3.45%	3.45%	3.45%	3.45%

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
Workforce and Collective Bargaining								
WF01	Seek to Achieve Negotiated Settlement							
WF02	Limit New Contract Enhancement							
WF03	Avoid Continuation of Provisions Inconsistent with Recovery Plan							
WF04	Extended Contract Terms to Remain Consistent with Recovery Plan							
WF05	Two Year Wage and Step Freeze	-	$5,596,883	$11,140,981	$13,150,287	$14,966,973	$16,476,908	$61,332,032
WF06	Redesign Healthcare Plan with Employee Contribution	-	$5,142,783	$7,748,269	$11,239,239	$14,959,400	$19,420,669	$58,510,360
WF07	Limit Healthcare Bonus Waiver Obligation							
WF08	Limit Healthcare Benefits for Part-Time Personnel							
WF09	Strengthen Workers' Compensation Cost Controls							
WF10	Mandatory Post-Incident Drug and Alcohol Testing							
WF11	Limit Extended Healthcare Coverage							
WF12	Limit Vacation Accrual During Extended Absences							
WF13	Overtime Reduction	-	$1,029,550	$1,230,524	$1,276,655	$1,308,062	$1,340,764	$6,185,555
WF14	Longevity Pay Freeze and New Hire Elimination	-	$239,049	$461,242	$655,442	$843,030	$1,037,913	$3,236,676
WF15	Limit Tuition Reimbursement to 50%	-	$44,190	$68,136	$74,889	$74,889	$74,889	$336,993
WF16	Limit Paid Holidays to 10 Annually	-	$101,367	$743,615	$759,994	$778,924	$798,397	$3,182,297
WF17	Fully Implement Sickness and Accident Plan and Eliminate Prior Systems	-	$654,442	$958,268	$996,280	$1,020,675	$1,046,192	$4,675,857
WF18	Limit Vacation Accrual Levels							
WF19	Restrict Leave and Benefit Accruals for Inactive Employees							
WF20	Establish Subcontracting Flexibility							
WF21	Eliminate/Avoid Mandatory Staffing Requirements							
WF22	Establish/Maintain Layoff Flexibility							
WF23	Overtime Assignment Flexibility							
WF24	Achieve Statutory Compliance for Pension Plans							
WF25	Contain Post-Retirement Healthcare Cost	-	-	$51,540	$170,084	$374,570	$688,117	$1,284,311
WF26	Labor Agreement Implementation Delay Adjustment							
WF27	FOP Labor-Management Committee							
WF28	FOP Fitness Standards							
WF29	Eliminate Master Police Officer Position Prospectively	-	$86,773	$86,773	$225,962	$502,644	$805,648	$1,707,800
WF30	Police Civilianization Flexibility							
WF31	FOP Schedule Change Flexibility							
WF32	IAFF Reopener Negotiations							
WF33	Fire Bureau Management Flexibility							
WF34	IAFF Labor-Management Committee							
WF35	IAFF Fitness Standards							
WF36	Fire Bureau Organizational Flexibility							
WF37	Fire Bureau Staffing Flexibility							
WF38	Eliminate Master Firefighter Position Prospectively	-	-	$26,934	$27,607	$127,337	$166,776	$348,654
WF39	IAFF 2005 Salaries Adjustment	-	$10,753,449	-	-	-	-	$10,753,449
WF40	Teamsters Labor-Management Committee							
WF41	Teamsters Temporary and Part-Time Workers Flexibility							
WF42	AFSCME 2037 Labor-Management Committee							
WF43	AFSCME 2719 Labor Management Committee							

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
WF44	AFSCME 2719 Full-Time 40 Hour Work Week							
WF45	PJCBC Labor-Management Committee							
WF46	PJCBC Out-of Classification Work							
WF47	PJCBC Assignment Flexibility							
WF48	PJCBC Use of Volunteers in the Parks							
WF49	SEIU 192-B Labor Management Committee							
WF50	Crossing Guard Annual Schedule							
WF51	Crossing Guard Benefit Cost Containment							
WF52	Crossing Guard Pensions							
WF53	SEIU Local 585 Labor Management Committee							
WF54	FAPP Labor Management Committee							
WF55	FAPP Job Classifications							
WF56	FAPP Training							
WF57	FAPP Part-Time Staffing Flexibility							
WF58	FAPP Shift Flexibility							
WF59	EMS Bureau Organizational Flexibility							
Intergovernmental Cooperation								
IG01	911 Consolidation	-	$1,043,237	$1,147,910	$1,276,919	$1,378,057	$1,488,645	$6,334,768
IG02	Co-Locate City-County Purchasing Departments	-	$149,549	$314,053	$329,755	$346,243	$363,555	$1,503,155
IG03	Continue Monthly Cooperative Purchasing Workshops							
IG04	Facilitate Joint Purchasing with the County							
IG05	Continue Collaboration with Local Businesses							
IG06	Joint Purchasing through Merger, Selected Commodities	-	$500,000	$512,500	$525,313	$538,445	$551,906	$2,628,164
IG07	Join the U.S. Communities Government Purchasing Alliance							
IG08	Expand Use of Reverse Auction E-Bidding Software							
IG09	Explore Joint Purchasing of Vending and IT Services							
IG10	Consolidation of Information Technology Equipment and Services							
IG11	Reimbursement for School Guards							
IG12	Arson Investigation Transferred to County	-	$85,000	$87,125	$91,481	$96,055	$100,858	$460,519
IG13	Satellite Booking/Arraignment Centers							
IG14	Pet Licensing Transferred to County							
IG15	Joint Elevator Maintenance Services with County							
IG16	Continue Joint Services Support							
IG17	Equitable Sharing Security Costs at City-County Building							
IG18	Explore County Payroll Services as Alternative							
IG19	Regional Park System							
IG20	Agility Agreement							
IG21	Consolidation of Tax Collection Services							
IG22	Shared Service Compensation from Adjacent Municipalities							
IG23	County Co-Location							
IG24	Shared Facilities							
IG25	SSI Services, Inc.							
IG26	Cooperative Road Maintenance							
IG27	Maximize Use of PennDOT's Agility Program							

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
IG28	Consolidation/Joint Provision - Other							
IG29	Legislate Mandatory Intergovernmental Cooperation Initiatives							
Finance								
FI01	Budget Presentation							
FI02	Budget Oversight and Implementation							
FI03	Improved Accounting and Financial Reporting							
FI04	Correct Conditions Noted by External Auditor							
FI05	Reduce Manual Processes							
FI06	Finance Department Funding							
FI07	Explore Joint Collections							
FI08	Build and Maintain Fund Balance							
FI09	Materials and Supplies 5% Cut	$34,175	$205,050	$210,177	$215,431	$220,817	$226,337	$1,111,987
FI10	Miscellaneous Services 5% Cut	-	$154,773	$159,191	$163,737	$168,411	$173,220	$819,331
FI11	Target Budget Reductions							
FI12	Productivity Bank	-	($3,000,000)	-	-	-	-	($3,000,000)
FI13	Parking Ticket Revenue Enhancement	-	$1,250,000	$2,500,000	$2,500,000	$3,750,000	$5,000,000	$15,000,000
Insurance and Risk Management								
IR01	Establish City Wide Risk Manager							
IR02	Establish a Risk Management Team							
IR03	Establish Risk Management Implementation Program							
IR04	Restructure Current Insurance Contracts							
IR05	Create Comprehensive Facilities and Equipment Inventory							
IR06	Conduct Interdepartmental Liability Risk Audits							
IR07	Reallocate Judgment and Liability Costs							
IR08	Consider Comprehensive Public Safety Professional Liability Insurance							
Pension								
PE01	Make Annual Pension Contribution at the Start of Each Year							
PE02	Pursue State Legislative Action for Unfunded Accrued Liability Amortization							
PE03	Reevaluate City Pension Contribution Level & Monitor Funding Status							
Elected Officials								
EL01	Reduce Mayor's Office Budget	-	$227,384	$234,870	$241,482	$248,292	$255,304	$1,207,332
EL02	Combine City Council & Clerk's Budget							
EL03	Reduce Combined Council/Clerk Budget	-	$343,216	$353,351	$363,941	$374,692	$385,763	$1,820,963
EL04	Reduce City Controller's Budget	-	$419,530	$434,008	$446,873	$460,122	$487,819	$2,248,352
Magistrates Court								
MC01	Magistrates Court Transfer	-	$1,645,000	$1,645,000	$1,645,000	$1,645,000	$1,645,000	$8,225,000
Personnel and Civil Service Commission								
PC01	Conduct Compensation Comparability Study							
Workers' Compensation								
WC01	Implement Findings of ICA Study							
WC02	Add Safety Manager to Citywide Risk Management Team							
WC03	Issue RFPs for Insurance Coverage Including Excess Loss							
WC04	Adjust Managed Care Contract for Reduced Workforce							
WC05	Independent Performance Audit of Workers' Compensation							

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
WC06	City Attendance at Monthly Case Management Conferences							
WC07	Implement Safety Recommendations and Conduct Safety Programs							
WC08	Implement Pilot Workers' Compensation Settlement Program	-	($750,000)	-	-	-	-	($750,000)
City Planning								
PL01	Increase Fees and Reduce Stipends to Fund Professional Planners							
PL02	Identify & Implement Creative Options to Fund GIS Expansion							
Law								
LW01	Law Department Staff Reductions	-	-	$173,466	$180,863	$187,658	$194,729	$736,716
LW02	Modify All Ordinances and Other Constraints as Necessary to Implement Recovery Plan							
Office of Management Investigations/ Citizens Review Board and Police Integrity Unit								
OM01	Increase Communication and Coordination between OMI & Citizens Review Board							
OM02	Reduce & Redeploy OMI Investigators/Detectives							
OM03	Explore Restructuring of OMI							
OM04	Establish a New Staff Reporting Requirement							
City Information System								
CI01	Centralize Telecommunications in CIS							
Equal Opportunity Review Commission								
EQ01	Pursue Intergovernmental Cooperation Toward Equal Opportunity Program Goals							
General Services								
GS01	Conduct Space Utilization Study and Sell Excess Property							
GS02	Consolidate and Centralize Management of City Utility Costs	-	$194,672	$194,672	$292,009	$389,345	$389,345	$1,460,043
GS03	Establish Utility Cooperative with City, County and School District							
GS04	Outsource Custodial Services	-	$25,000	$50,000	$75,000	$100,000	$125,000	$375,000
GS05	Expand Provision of Online Purchasing to City Agencies							
GS06	Rationalize Telecommunications Management							
GS07	Assess the Implementation of an Online Timesheet System							
GS08	Eliminate Most City Cable TV Functions	-	$300,000	$410,000	$430,500	$452,025	$474,626	$2,067,151
GS09	Explore Outsourcing of Print Shop Functions or Consolidate with County							
Fleet Management								
FL01	Outsource Fleet Maintenance	$240,237	$1,441,422	$1,441,422	$1,441,422	$1,441,422	$1,441,422	$7,447,347
FL02	Fleet Rightsizing	$15,747	$35,431	$36,317	$37,225	$38,155	$39,109	$201,984
FL03	Realize the Full Benefits of an Automated Fleet Management Information System							
FL04	Create an Annual Purchasing Plan ("APP")							
FL05	Consider Future Bidding for a Fixed Price, Multiyear Fuel Management Contract							
Public Safety- Administration								
PS01	Coordinate After-School Programs							
Police Bureau								
PD01	Civilianization							
PD02	Deploy Non-Emergency Telephone Response Unit							
PD03	Installation of Mobile Data Terminals							
PD04	Modify Operation of Police Training Academy							
PD05	Provide Pagers to On Duty Officers with Court Case Responsibility							
PD06	Increase Background Check Fee	-	$10,980	$10,980	$10,980	$10,980	$10,980	$54,900
PD07	Increase Non-Forensic Fingerprinting Fee	-	$43,140	$43,140	$43,140	$43,140	$43,140	$215,700

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
PD08	Adjust Taxicab Driver Identification Fee	-	$3,630	$3,630	$3,630	$3,630	$3,630	$18,150
PD09	Restructure False Alarm Fees	-	$154,413	$247,060	$308,825	$308,825	$308,825	$1,327,948
PD10	Prisoner Processing Fee	-	-	$84,640	$169,280	$169,280	$169,280	$592,480
PD11	Automated Traffic Light Enforcement							
Fire Bureau								
FD01	Departmental Restructuring	-	-	$10,753,449	$11,022,285	$11,297,843	$11,580,289	$44,653,866
EMS Bureau								
EM01	Continue to Explore Alternative EMS Organizational Models							
EM02	Outsource EMS Billing in Conjunction with Restructured Rates	-	$1,875,000	$2,000,000	$2,250,000	$2,500,000	$2,500,000	$11,125,000
EM03	Reevaluate River Rescue	-	-	-	-	-	-	
Bureau of Building Inspections								
B101	Implement Uniform Constuction Code (UCC)							
BI02	Minimize and Recover Costs of UCC Administration and Enforcement Compliance							
BI03	Deploy Handheld Computers for Inspectors							
B104	Improve Online Permitting Functions							
Public Works								
PW01	Contain Landfill Disposal Costs							
PW02	Explore Trash Transfer Station Options							
PW03	Semi-Automation/Automation on Refuse Trucks							
PW04	Managed Competition of Municipal Solid Waste Services							
PW05	Pursue Maximum Reimbursement/Funding from Act 101 Programs	-	$78,000	$78,000	$78,000	$78,000	$78,000	$390,000
PW06	Asphalt Plant	-	$250,000	-	-	-	-	$250,000
PW07	Consolidate Rights-of-Way Rental Regulation							
PW08	Competitively Bid Animal Control Services	-	$52,138	$104,276	$104,276	$104,276	$104,276	$469,242
PW09	Transfer Animal Registration Responsibility to County							
PW10	Eliminate Spay and Neuter Voucher Program	-	$47,000	$47,000	$47,000	$47,000	$47,000	$235,000
PW11	Evaluate Ballfield Permit Fee Increases							
Engineering and Construction								
EC01	Transfer DEC Personnel to Department of Public Works							
EC02	Transfer Traffic Control Maintenanceand Traffic/Transportation Planning to DPW-Streets							
EC04	Consider Elimination of the Land Survey Staff							
EC05	Abolish DEC Director Position							
EC06	Eliminate Remaining Operating Costs Associated with DEC	-	$235,963	$238,747	$241,602	$244,527	$247,525	$1,208,363
Capital Budget								
CB01	Pay-As-You-Go Funding	-	($7,500,000)	($7,500,000)	($5,000,000)	($5,000,000)	($5,000,000)	($30,000,000)
CB02	Capital Funding Policies							
CB03	Capital Program Management							
Parks and Recreation								
PR01	Operate a Sustainable Number of Swimming Pools	-	($350,000)	($358,750)	($367,719)	($376,912)	($386,335)	($1,839,716)
PR02	Operate a Sustainable Number of Recreation Centers	-	($1,783,387)	($1,827,972)	($1,873,671)	($1,920,513)	($1,968,526)	($9,374,069)
PR03	Reduce City Staffing of BIG League Baseball	-	$202,880	$207,952	$213,151	$218,480	$223,942	$1,066,405
PR04	Include Fringe Benefits Costs in Senior Center Reimbursement Requests	-	-	$387,613	$406,994	$427,343	$448,710	$1,670,660
PR05	Explore Alternative Means of Providing Services to Seniors							
PR06	Increase Swimming Fees	-	$20,684	$20,684	$20,684	$20,684	$20,684	$103,420

Chapter Reference	Initiatives	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	Total Impact
PR07	Increase Marketing of Mellon Tennis Center to Generate Revenues							
Economic & Community Development								
ED01	Coordinate Community and Economic Development Efforts with Key Stakeholders							
ED02	Strengthen the Relationship Between the URA and CDCs							
ED03	Strengthen the City's Existing Business Base							
ED04	Pursue Strategic Value-added Business Investments and Development							
ED05	Pursue Site Development Initiatives and Infrastructure Improvements							
ED06	Develop a Comprehensive Housing Strategy							
ED07	Increase Participation by Commonwealth and County Officials							
Revenues								
RE01	Occupational Privilege Tax ("OPT")	-	$35,635,969	$35,814,149	$35,993,220	$36,173,186	$36,354,052	$179,970,574
RE02	BPT Reduction		($14,531,548)	($14,894,836)	($15,341,681)	($15,801,932)	($16,275,990)	($76,845,987)
RE02	Mercantile Tax Reduction	-	($2,540,991)	($2,580,095)	($2,619,800)	($2,660,117)	($2,672,622)	($13,073,625)
RE02	Payroll Tax Per Capita	-	$10,297,919	$10,349,408	$10,401,155	$10,453,161	$10,505,427	$52,007,070
RE02	Payroll Tax Gross Payroll	-	$22,362,865	$22,484,762	$22,607,268	$22,730,387	$22,854,121	$113,039,403
RE03	Parking Tax Reduction	-	($13,221,464)	($13,521,696)	($13,828,745)	($14,142,767)	($14,463,920)	($69,178,592)
RE04	Realty Transfer Tax ("Transfer Tax")	-	$2,926,577	$3,043,492	$3,165,078	$3,291,521	$3,423,016	$15,849,684
RE05	Market Based Revenue Opportunities	-	$500,000	$750,000	$1,000,000	$1,000,000	$1,250,000	$4,500,000
RE06	Other Proposed Revenues							
RE07	Real Property Tax Exemption							
Tax Exempt Institutions								
TE01	Contributions from Non-Profit Institutions	-	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$30,000,000

Act 47 Team

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