Joint Hearing: Act 47

Senate community, Economic and Recreational development Committee
Senator Jane M. Earll, Republican Chair
Senator Wayne D. Fontana, Democratic Chair

House Urban Affairs Committee
Rep Chris Ross, Republican Chair
Rep. W. Curtis Thomas, Democratic Chair

House Local Government Committee
Rep. Tom C. Creighton, Republican Chair
Rep. Robert Freeman, Democratic Chair

Senate Local Government Committee
Senator John H. Eichelberger, Republican Chair
Senator John Blake, Democratic Chair

Thursday December 8, 2011

By: Henry Sciortino
Executive Director
Intergovernmental Cooperation Authority for Cities of the Second Class
ICA of Pittsburgh

Honorable Chairpersons and Members of the Committees.
Thank you for the opportunity to provide testimony on the Municipalities Financial Recovery Act, Act 47 of 1987.

Purpose:
I am presenting testimony today in an effort to offer you any insight or assistance to your good efforts to craft effective public policy. You and your respective teams should be applauded for your effort. My remarks, which evolve from my experiences over several decades of work experience in both the public and private sectors, are intended to promote discussion, or a different perspective.

As Executive Director of the ICA since its inception in 2004 I have had the responsibility to assist the ICA Board in working to fulfill the purpose and intent of Act 11 of 2004 that created the Intergovernmental Cooperation Authority for Cities of the Second Class.

I have copied for your use a section of 53 P.S. § 28102 in order to highlight what lawmakers intended.

Purdon's Pennsylvania Statutes and Consolidated Statutes Annotated
Currentness Purdon's Pennsylvania Statutes Annotated
Title 53. Municipal and Quasi-municipal Corporations (Refs & Annos)
Part III. Cities of the Second Class
Chapter 67. Intergovernmental Cooperation Authority Act for Cities of the Second Class Chapter 1.

General Provisions
§ 28102. Purpose and legislative intent
(a) Policy.--It is hereby declared to be a public policy of the Commonwealth to exercise its retained sovereign powers with regard to taxation and matters of Statewide concern in a manner calculated to foster the fiscal integrity of cities of the second class to assure that these cities provide for the health, safety and welfare of their citizens; pay principal and interest owed on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial planning procedures and budgeting practices. The inability of a city of the second class to provide essential services to its citizens as a result of a fiscal emergency is hereby determined to affect adversely the health, safety and welfare not only of the citizens of that municipality but also of other citizens in this Commonwealth.
(b) Legislative intent.--
(1) It is the intent of the General Assembly to:
(i) provide cities of the second class with the legal tools with which such cities can perform essential municipal services; and
(ii) foster sound financial planning and budgetary practices for cities of the second class, which cities shall be charged with the responsibility to exercise efficient and accountable fiscal practices, such as:
(A) increased managerial accountability; (B) consolidation or elimination of inefficient city programs and authorities; (C) reevaluation of tax exemption policies with regard to real property taxes; (D)

increased collection of existing tax revenues; (E) privatization or outsourcing of appropriate city services; (F) sale of city assets as appropriate; (G) improvement of procurement practices, including competitive bidding procedures; and (H) review of compensation and benefits of city employees; and

(iii) exercise its powers consistent with the rights of citizens to home rule and self-government.

53 P.S. § 28102

(2) The General Assembly further declares that this legislation is intended to remedy the apparent fiscal emergency confronting cities of the second class through the implementation of sovereign powers of the Commonwealth. To safeguard the rights of the citizens to the electoral process and home rule, the General Assembly intends to exercise its power in an appropriate manner with the elected officers of cities of the second class.

(3) It is further declared that this legislation is intended to operate concurrently and equally with the act of July 10, 1987 (P.L. 246, No. 47), [FN1] known as the Municipalities Financial Recovery Act.

A look into Act 47 from another angle:

While this Joint Committee hearing is focused on Act 47, the contribution to understanding the impact and consequence of Act 47 may be more fully visible through the ICA lens.

It took some time to fully understand how to more effectively use the provisions of Act 11 concurrently with the provisions of Act 47, but the independent rating agency documents that I will use, submitted from Moody's Standard & Poor's, and Fitch may shed light on the impact of oversight. (See exhibits 1, 2, 3 and 4). I will come back to these documents in a few minutes.

I would also ask that the City of Pittsburgh Amended Recovery Plan, as required by Act 47 and adopted by the city of Pittsburgh on June 30, 2009 be incorporated by reference. That Recovery Plan, which became an Ordinance of the City of Pittsburgh, contains a number of recommendations and "roadmaps" produced by experts hired by the ICA that have channeled the local government behaviors. Act 47 requires the City to comply with the provisions of the Recovery Plan.

The ICA requires the City to comply with all state statutes and holds approval of the operating budget until there is evidence of compliance.

Certain realities drive the effort to establish sound fiscal practices that meet the demand set forth in the language I believe to be the most important...."to provide for the health, safety and welfare of their citizens" The Members of the General Assembly understood the priority, and underscored it by saying: the inability of a city of the second class to provide essential services to its cities as a result of a fiscal emergency is hereby determined to affect adversely the health, safely and welfare not only of the citizens of that municipality but also of other citizens in this commonwealth."

This language makes it clear that the General Assembly understood that health, safety, and the welfare of the citizens is the highest priority. In my opinion, that language should drive oversight responsibility.
It becomes the basis for threshold questions. questions that do not assume anything.

What is the root of the problem.... fiscal or otherwise...how did the municipality get into the problems in the first place?
How did the current conditions develop?

Do managerial decisions, economic conditions, or both cause the problems?
What is the current culture? Are there goals that grow the community and provide for the citizens?
Is the information provided by the municipality credible?
What is the ability of the current employees to make the necessary short and long-term changes necessary to pull out of the nosedive, and to keep if from happening again?
What is the real level of political will? Do the elected officials and employees recognize the difference between politics and government?

How expedient are the decisions...Is the political need put first in the decision-making process?
Is there sufficient intellectual and managerial capacity to provide leadership in a diffuse power structure, or is there an attitude that says "all we need is new revenue.... gives us more money.

And last, and arguably the most telling threshold question is…if there was no oversight would have been done, or what will change?

Back to the rating agency documents.
The independent review provided by Fitch, S&P and Moody's is a real measure of output.

A very recent and important example of the strength of the provisions of Act 47 may be seen by looking at the July 28 2011 letter from the Barbara A. McNees, Chair of the ICA Board to the Mayor and City Controller of Pittsburgh regarding the obligations the city has to meet the Recovery Plan for Pittsburgh. (Attachment A)

The points listed in the letter became the basis for the budget submission by the City to the ICA in accordance with the provisions of Act 11 of 2004 that require to city to submit a balanced budget and corresponding five year plan to the ICA no later than 100 days prior to the end of the city fiscal year.
The ICA Board and Act 47 team met in early September of 2011 in order to coordinate compliance with the Recovery Plan and compliance with the provisions of Act 11. When the budget submitted to the ICA on September 23 did not meet the standards, the ICA and Act 47 team held discussions with the stakeholders including the Administration, City Council, City controller and some of the representatives of organized labor that led to the preliminary budget being amended and resubmitted to the ICA. On October 19 2011 the ICA conditionally approved the 2012 budget and five-year plan. The conditions that the City must meet bring the budget into compliance with the ICA requirements to, among other items, address legacy issues, and the standard set by the Amended Recovery Plan. (Attachment B)

To give you some idea of the effort to move things forward, I have also attached the ICA October 23, 2011public meeting agenda and relevant pages of the minutes of that meeting that highlight the role of Act 47 and the interaction between Ac 47, the ICA and the City. (Attachments B, C and D). The joint effort by the ICA and Act 47 was to strengthen a necessary financial management practice that will lead to reducing the pension legacy costs over the long term while respecting and complying with the constitutional provisions protecting self-determination.

Factors such as provisions of other state statues, including those that exempt otherwise would–be tax payers payers, other levels of government that may impact revenue such as the assessment issue, come into play and must be managed. The Pittsburgh Post Gazette editorial dated February 2011 (Attachment E) provides insight into how the ICA used Act 71 of 2004 to manage the City into moving toward functional consolidation and overall critical upgrade of a dysfunctional accounting system. The Amended 47 Recovery Plan included the provision to upgrade.

The Pittsburgh Post Gazette editorial dated February 2011 (Attachment E) provides some insight into how compliance occurs. The effort to install a comprehensive financial management system has taken over 5 years, and is a threshold issue.

And last, I have included as Attachment F the Allegheny Institute piece date January 2011 that may help decision-makers understand how oversight is viewed through the lens of a non-government organization focused on public policy.

Public policy success is not measured merely by the presence of a balanced budget, but by outputs that meet the mission statement.

In closing, I again wish to thank the Chairpersons and Members of the Committees for their hard work and focus on this important issue.

Respectfully,
Henry Sciortino

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

April 4, 2011

Pittsburgh, Pennsylvania; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:
John Sugden-Castillo, New York (1) 212-438-1678; john_sugden@standardandpoors.com

Secondary Contact:
Richard J Marino, New York (1) 212-438-2058; richard_marino@standardandpoors.com

Table Of Contents

Pittsburgh, Pennsylvania; General Obligation; General Obligation Equivalent Security

Credit Profile		
Pittsburgh GO		
Long Term Rating	BBB/Negative	Outlook Revised
Pittsburgh GO		
Unenhanced Rating	BBB(SPUR)/Negative	Outlook Revised
Pittsburgh Stad Auth, Pennsylvania		
Pittsburgh, Pennsylvania		
Pittsburgh Stad Auth		
Long Term Rating	BBB/Negative	Outlook Revised
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services revised its outlook to negative from stable and affirmed its 'BBB' rating on Pittsburgh, Pa.'s general obligation bonds outstanding. The outlook was revised based on our view of Pittsburgh's increased financial pressures associated with the city's pension system

The 'BBB' rating reflects our assessment of Pittsburgh's:

- Diminished budgetary flexibility due to high and rising fixed costs associated with the city's debt and pension liabilities and limited revenue-raising options beyond those encompassed in the city's recovery plan;
- Structural imbalance as evidenced by an operating deficit in fiscal 2010, the use of reserves to balance the 2011 budget, and revenue projections that are, in our view, somewhat optimistic in the city's five-year forecast; and
- Above-average debt levels and a large underfunded pension liability that will require increased contributions regardless of whether or not it is taken over by the state.

Somewhat offsetting these weaknesses are:

- The city's fund balance reserves, which although declining, are still strong in our view;
- The continued oversight by the Intergovernmental Cooperation Agency (ICA) and Act 47 coordinator for as long as the city remains designated as financially distressed, as well as the enhanced monitoring and reporting of such oversight; and
- The city's deep and diverse economic base that, despite weak long-term demographic trends, is already experiencing a recovery and should be back at pre-recession employment levels by 2012.

Pittsburgh's underfunded pension is at the center of the city's financial woes. The city's pension fund, which was only 34% funded as of Jan. 1, 2009, is at risk of being taken over by Pennsylvania Municipal Retirement System (PMRS). Based on Pennsylvania's Act 44, if Pittsburgh's pension funding level is below 50% on Dec. 31, 2011, the pension system would be absorbed into PMRS. Under PMRS, the city would have to assume a 6% rate of return, compared with an 8% rate of return currently assumed by the city, and full funding by 2039, which would increase the city's required pension contributions. Throughout the second half of last year, the city's mayor proposed leasing the Pittsburgh Parking Authority's parking assets for $452 million to a group of investors led by JPMorgan Asset Management for 50 years in an attempt to stave off the takeover and achieve higher funding levels. The plan would have allowed the city to make a significant payment into its pension fund and left additional revenue for capital improvements to the city's parking assets. However, the plan was rejected by city council and, despite the mayor's veto, an alternative plan adopted. Under the alternative plan, the city deposited $45 million in cash and commits $735 million in future parking taxes through 2041 to pension funding. Pittsburgh would pay $13.38 million annually through 2017 to coincide with its debt cliff and $26.75 million thereafter through 2041. The present value of these cash flows would be discounted as 8% and added to the city's pension asset value. The city estimates that these cash flows represent $231 million in value, which together with the cash deposit would allow Pittsburgh to reach the 50% funding threshold. PMRS still has to decide if it will accept this "value" as an acceptable way of reaching the 50% threshold. It is unclear what impact this acceptance of value will have on the actuarially required contribution. Also concerning is the fact that, according to management, the system is expected to have negative cash flow with payments out to pensioners, estimated at $80 million annually, which will exceed cash inflows of $60 million a year. Finally, there's a concern about what the loss of $13.38 million will do to the city's finances.

Pittsburgh's finances continue be under significant pressures related to its fixed costs and limited ability to raise revenues. After posting a $9 million operating surplus in fiscal 2009, the city closed fiscal 2010 with a $13 million operating deficit based on its fourth-quarter financial report. The deficit is tied to revenues shortfalls of $22 million, which were partly offset by expenditure reductions of $8 million. Property taxes and authority payments were $7.4 million and $2.2 million under budget, respectively, and the city had budgeted $5 million in state grants and $7.3 million in slots revenues that it hasn't received. Although almost all areas of expenditures came in under budget, the major savings were education and training ($6.6 million), miscellaneous services ($3.5 million), and salaries ($3.3 million). Total savings of $16.4 million were offset by an $8.2 million increase in debt service costs. Management had $45 million in the debt service fund that it planned to use for debt service relief from 2010 through 2015. However, those funds were used to make the cash contribution to its pension system. Despite the fund balance reduction, the city's unreserved fund balance is expected to remain $42 million or 9.6% of expenditures, which we consider strong. This falls slightly below the city's informal fund balance target of 10% of expenditures.

The fiscal 2011 budget totals $450 million, or a 2.7% increase from 2010. The budget is balanced with the use of $12 million of fund balance, but reflects a $5 million surplus. Although the budget is not structurally balanced, management expects to receive $5.6 million in payments in lieu of taxes based on an agreement with the city's major non-profits, a $1.49 million grant from the state, and the release of approximately $13 million in slot revenues that the ICA has been withholding, which are due from 2010 and not included in the budget. If the city receives these payments, it would not have to use fund balance. In our view, however, some of the budget assumptions are optimistic. Parking taxes are budgeted to increase to $46 million from $44.7 million in 2010; the budget shows this amount as net of the $13 million payment to the pension system at $33 million. Total authority payments, which were $8.4 million in 2010, are budgeted to increase by 35% to $11.4 million in 2011. The budget also assumes the full collection of the $10 million in slots revenues, although in the past the ICA has withheld some of these funds and delayed payment.

The five-year financial forecast includes a 5.6% increase in property tax revenues associated with a property tax base reassessment and 1%-2% annual increases thereafter. However, property reassessments in Allegheny County have historically been very contentious and accompanied by high levels of appeals. The forecast assumes another

76% increase in authority payments to $20 million in 2012 and thereafter and continued increases in state appropriations. The forecast has shortfalls in 2012 and 2013 but reflects surpluses in 2014 and 2015.

Standard & Poor's considers Pittsburgh's financial practices "good" under its Financial Management Assessment (FMA), indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Direct debt levels remain moderately high. Overall debt levels are $4,324 capita, or 6.2% of market value. Debt service in fiscal 2010 was $85 million or 19% of expenditures, which we consider high. When pension costs of approximately $50 million are added, excluding the $13 million contribution, total fixed costs for fiscal 2011 increase to 30% of budget. Pittsburgh's debt is level at approximately $85 million-$87 million from 2011-2017, but then there's a debt cliff, with debt service declining to $68 million in 2018 and then to $30 million in 2019 through 2024. Management's proposed five-year capital improvement plan (CIP) for fiscals 2012-2016 totals $282 million and is largely unfunded.

Outlook

The negative outlook reflects our view of the city's increased financial pressures associated with its pension system and the uncertainty regarding the potential takeover of the city's pension system by the state should the pension's funding levels fall below 50% on Dec. 31, 2011. Standard & Poor's will continue to monitor developments on the state's potential takeover of the city's pension plan as well as Pittsburgh's proposed pension funding structures to determine the impact these could have on the city's finances, and, consequently, on the rating. Should funding pressures related to pensions continue to increase without a sustainable solution, we could lower the rating.

Economy: A Recovery Underway

Pittsburgh's economy, although affected by the recession, was not as heavily affected as other areas and is already experiencing a recovery. Although the metropolitan statistical area (MSA) lost 40,000 jobs during the recession, it has already added 11,000 back. The MSA experienced 1.8% growth in employment year over year as of January 2011 led by 4.8% growth in construction, natural resources, and mining, which is likely tied to the potential of natural gas drilling of the Marcellus Shale, 2.4% growth in professional and business services, and 1.7% growth in health and education. The health care and education sectors anchor the economy and have helped attract a small, but growing, technology sector. University of Pittsburgh and Carnegie Mellon University are among the nation's 10 leading universities for their programs in information systems, engineering, medicine, education, business, metallurgy, and computer engineering. Access to these educational centers and a young, talented labor force have recently attracted technology firms such as Google Inc. and eBay Inc. In addition, Westinghouse Electric Corp. is expanding its headquarters in the region. Along with the 28 colleges and universities, a number of well-regarded regional medical centers, including the University of Pittsburgh Medical Center, are in the region. Leading area employers are listed in the following table:

Pittsburgh, Pa.: 10 Leading Employers

Employer	Employees (no.)
University of Pittsburgh Medical Center	36,755
U.S. Government	18,738

Pittsburgh, Pa.: 10 Leading Employers (cont.)	
Commonwealth of Pennsylvania	13,805
University of Pittsburgh	11,328
West Penn Allegheny Health System	10,616
Giant Eagle	10,440
Wal-Mart Stores Inc.	10,030
PNC Financial Services	9,150
Westinghouse Electric	8,000
BNY Mellon	7,017

The city's population continues to fall and was 307,000 in 2010, compared with approximately 322,000 in 2005. The city's retiree population is 16.7%, well in excess of the 12.5% national level. Property market values have remained relatively steady during the past five years and Pittsburgh was the only MSA east of the Mississippi that did not see median home values decline. The city's assessed value has ranged between $13.2 billion and $13.4 billion since 2004 and was $13.35 billion in 2009. Wealth and income levels are what we consider adequate at 72% and 88% median household and per capita EBI basis, respectively. Pittsburgh's unemployment peaked at 8.6% and was 7.4% as of January 2011. According to IHS Global Insight, unemployment will remain above 7% through the end of 2011. The service sector is expected to be the major growth driver. Westinghouse nuclear power expansion and natural gas drilling of Marcellus Shale should also contribute to solid growth. According to IHS Global Insight, the Pittsburgh MSA is projected to grow by 1.2% average annually through 2015.

Financial Management Assessment: 'Good'

Standard & Poor's considers Pittsburgh's financial practices "good" under its FMA, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Under oversight from the ICA and Act 47, the city has implemented a number of financial practices that have improved financial management. Among these policies are quarterly reporting on year-to-date finances, long-term financial forecasting, and long-term CIP. The CIP outlined the city's capital needs over the next five years and identified some, but not all, funding sources. The five-year financial forecast, while including assumptions that are, in our view, slightly optimistic, provides the city with greater discipline when budgeting. While not a formal policy, management introduced a 10% fund balance reserve target in 2008; however, Pittsburgh is currently not in compliance with that policy and is not expected to be in compliance during the next two years, based on budgeted use of fund balance in 2011 and 2012. Management does not have a formal debt management policy.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Exhibit 2

MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A1 RATING TO CITY OF PITTSBURGH'S (PA) $91.7 MILLION G.O. BONDS OF 2011; OUTLOOK REMAINS NEGATIVE

Global Credit Research - 25 Jul 2011

A1 RATING APPLIES TO $631.2 MILLION IN PARITY BONDS, INCLUDING CURRENT ISSUE

Municipality
PA

Moody's Rating

ISSUE		**RATING**
Taxable Series 2011B General Obligation Bonds		A1
Sale Amount	$44,700,000	
Expected Sale Date	07/26/11	
Rating Description	General Obligation	
Series 2011A General Obligation Bonds		A1
Sale Amount	$46,955,000	
Expected Sale Date	07/26/11	
Rating Description	General Obligation	

Opinion

NEW YORK, Jul 25, 2011 -- Moody's has assigned an A1 rating to the City of Pittsburgh's (PA) $91.7 million 2011 bonds; consisting of $46.96 million General Obligation Bonds Series A and $44.8 million General Obligation Bonds Series B (taxable). Concurrently, Moody's has affirmed the A1 rating affecting approximately $631.2 million of parity rated debt outstanding. The outlook remains negative. The bonds are secured by the city's general obligation, unlimited tax pledge.

RATINGS RATIONALE

The bonds will be used to refund a portion of the county's 2008, 2005A, 1993A, and 2002 bonds for a net present value savings of $3.6 million, or 3.96% of refunded bonds. The majority of the savings will be taken in 2011 with no extension to maturity.

The A1 rating reflects the city's relatively stable financial performance over the past five years, reflecting a strong management team that has produced operating surpluses in four of the last six years. Additionally, the rating factors the existence of a state fiscal oversight board, the city's high debt burden with rapid amortization, and a significant tax base with an average socioeconomic profile and large institutional presence.

The negative outlook reflects concerns of potential significant increases to the city's required pension contributions over the near- to medium-term, driven by the city's possible entrance into the Pennsylvania Municipal Retirement System pension program as their current funding level is currently well below the required 50% under the Pennsylvania State Act 44 of 2009. The city's recent steps to address the underfunded pension utilized a significant portion of the city's financial reserves which could place additional pressure on the city's near-term flexibility.

Strengths

-Strong state oversight through an "enhanced" Act 47 distressed city program

-Rapid debt retirement - resulting in significant reduction in debt service in 2017/2018

-Stable economy anchored by higher education, health care, and government institutional presence

Challenges

-Significant underfunded pension liability may result state takeover of pension fund

-Recent reserve declines may limit financial flexibility

DETAILED CREDIT DISCUSSION

CONTINUED IMPROVEMENTS TO FINANCIAL POSITION WITH SUPPORT OF ACT 47 PLAN

Consecutive years of structural deficits had led the city to apply for "financially distressed" city status under Act 47 in November 2003, which was shortly granted. Since then, the city has implemented several recommendations from the city's financial recovery plan, which was approved by the Intergovernmental Cooperation Authority (ICA), the city's state-appointed oversight board, in late 2004. The city has generated operating surpluses each year since fiscal 2005 (ended December 31), due to a combination of new revenue sources, expenditure controls, conservative budgeting practices, and debt restructuring. The General Fund balance increased to $61.4 million by the end of fiscal 2009, a solid 13.9% of General Fund revenues, from a low of $14.5 million in fiscal 2004, or a narrow 3.6% of General Fund revenues. General Fund reserves peaked at $89.5 million (19.6% of General Fund revenues) in fiscal 2007, although management transferred approximately $46.9 million to the Debt Service Fund in fiscal 2008, which drove the $36.6 million decline in General Fund reserves in that year. In fiscal 2009, the city's financial operations performed relatively close to budget, with a modest $8.5 million operating surplus driven by expenditure savings throughout the budget. Fiscal 2010 year-end financial operations resulted in a $12.5 million decline in General Fund reserves, driven by property tax collections and the city's portion of revenue related to casino slot operations coming in below budget despite overall expenditures savings. Since fiscal 2010 year-end, the city has received the casino slot revenue and anticipates future revenue from this source will be made on time (discussed further below). In addition, the city transferred $45.37 million from the Debt Service Fund to the General fund to prepay a portion of the city's unfunded pension obligation. The city's available reserves (Unreserved General Fund and Debt Service Fund) declined by $57.9 million to $46.2 million or a still adequate 9.5% of General Fund revenues.

Fiscal 2011 budget increased by a minimal 0.3% and included a $5.1 million reserve decline. The budget included a relatively modest increase in earned income tax of 3% growth when compared to the previous budget (earned income tax accounts for 15.9% of the General Fund revenues). Management currently anticipates ending the year with a modest $6 million surplus due to expenditure savings throughout the budget.

During fiscal 2009, the city completed a three-year phase-in of a 0.25% Earned Income Tax (EIT) increase, which required the Pittsburgh School District (G.O. rated Aa3) to lower its EIT portion by the equivalent amount. The city also started to receive $5.1 million of Economic Development Slots revenue from the commonwealth, which is guaranteed through 2018, and offsets the $7.5 million of the city's 1% share of Allegheny Regional Asset District (RAD) revenues (approximately $11.7 million in 2009 total) that has been intercepted by the commonwealth to make debt service payments on Urban Redevelopment Authority (URA) bonds since 1995. These URA bonds will be retired in 2014, at which time the city will be able to realize its full share of RAD revenues, or additional $7.5 million of recurring revenues.

Positively, the city expects to derive additional recurring revenues from the newly completed Pittsburgh Penguins Arena and the River Casino which opened in 2009, including those from Amusement Taxes, Facility Usage Fees, and the 2% share of local slots revenues. The local share from the slots revenue is projected to generate a minimum of $10 million annually once the casino is fully operational ($7 million is projected for fiscal 2010). The city plans to remain under Act 47 status in the near-term; in cooperation with the Act 47 coordinators and ICA oversight board, the city expects to have an updated five-year strategic plan in the near future.

POSSIBLE FORCED INCREASES TO PENSION CONTRIBUTION MAY CHALLENGE FINANCIAL STABILITY

The city's five-year budget projections are expected to be structured to realize operating surpluses in fiscal years 2012, 2014, and 2015 with a slight use of reserves in 2013. The plan does not, however, incorporate the possible forced integration with the Pennsylvania Municipal Retirement System (PMRS). Under Act 44 of 2009, the city is facing a forced integration with the PMRS that would require significantly increased pension contribution payments in the future. The Act also permits the city to levy a parking tax, with a portion dedicated to help pay the city's minimum municipal obligation (MMO), and an additional 2.5% parking tax if the city sells or leases all of its parking assets. At the end of fiscal 2010, the city transferred $45.37 million to the pension fund and dedicated annual parking tax revenue to the fund to increase its funded ratio to at least 50% (from a current estimated funded ratio of 30%). The city is currently waiting to receive notice from PERC (Pennsylvania Employee Retirement Commission) whether the city successfully increased its funded ratio to at least 50%. The city expects to receive notification in September of 2011. If the city's efforts were unsuccessful, control of its pension assets will likely be transferred to PMRS, but the city will maintain its rights to negotiate with its various municipal unions. In addition, the state has allowed for the city to take advantage of several smoothing techniques that may help limit the most significant increases in the first six years. Current projections show contributions could double by 2015 (when compared to the 2011 anticipated payment), however, and there could be a 174% increase by 2017 (when compared to the 2011 anticipated payment).

In addition, due to the rapid amortization of current debt, the city's annual debt service will decline by 21% 2018 and another 55% in 2019, which could help offset the potential budgetary impact in the medium-term should the city refrain from significant debt issuance before that time. Moody's will continue to monitor the city's plans to address the near-term impact of contribution increases on the city's overall financial flexibility. The city's inability to develop and implement a realistic plan to address this growing liability will impact its overall financial position and may place significant pressure on its relative creditworthiness.

STRONG INSTITUTIONAL PRESENCE PROVIDES STABILITY; CONTINUED REDEVELOPMENT EFFORTS AND NEW CASINO EXPECTED TO MITIGATE STAGNANT TAX BASE AND ONGOING POPULATION DECLINES

Moody's believes the strong institutional employment within Pittsburgh has acted as a stabilizing force for its economy, although ongoing population losses have continued to reduce the labor force since its recent peak in 2002. The city has a large health care presence, which employs approximately 20% of the city's workforce and includes the University of Pittsburgh Medical Center (rated Aa3/stable outlook), the city's largest employer (approximately 32,000), West Penn Allegheny Health System (rated B1/Negative outlook), and health insurance provider Highmark, Inc. (senior unsecured Baa2/stable outlook), which is headquartered in Pittsburgh. The city's well-known education presence includes Carnegie Mellon University and University of Pittsburgh (rated Aa1/stable outlook) which, together with its medical centers, provides an important supply of high skilled labor for the high-end services and high-tech businesses. Notably, due to the city's significant institutional presence, approximately 38.5% of the city's tax base is tax exempt. The city's unemployment rate of 7.3% for May 2011 was essentially the same as that for the state (7.6%) and lower than the nation (8.9%).

Pittsburgh is located in western Pennsylvania in Allegheny County (rated A1/negative outlook). The city's sizeable $15.8 billion full value, which also incorporates the market value of the taxable properties, experienced its first decline of a 1.7% in 2008, but remained relatively stable overall, with an annual average increase of 0.9% since 2004. Continued redevelopment efforts focused on the downtown area are expected to contribute to the health of the city's economy. The downtown area has experienced both residential construction and business expansions along the riverfront. A new Rivers Casino opened in August of 2009 and the city anticipates receiving approximately $2.15 million of annual revenue from the facility.

According to the 2010 US Census, the city experienced a 9% population decline and has an average demographic profile, with wealth and income levels approximating state medians and a below average full value per capita of $45,340. Adjusting for the city's tax-exempt properties, estimated at $8.5 billion, full value per capita improves materially to approximately $65,400.

DECLINING, BUT STILL HIGH, DEBT BURDEN; NO FUTURE BORROWING PLANS IN MEDIUM-TERM

Moody's expects the city's debt burden (8.6% of full value) to decline, but remain high, over the medium-term given no future borrowing plans and rapid amortization of debt. The city's last bond issuance for new money was in fiscal 2006, after which the city committed to funding annual capital needs on a pay-go basis through 2012. Although the city did not transfer resources to the Capital Projects Fund during fiscal 2009, $27 million from surplus during fiscal 2008 and $60 million during Fiscal 2007 was transferred to support the city's pay-go capital needs and help finance its $383 million five-year capital plan. The city does not have any major capital projects planned and expects to focus annual capital expenditures on the repair and maintenance of its aging infrastructure. Direct debt burden is also high at 4.5% of full value. Principal amortization is rapid, with 83.7% repaid in 10 years, and is reflected by the city's high expenditures related to debt service (20.3% of 2010 operating expenditures).

A sizable level of the total outstanding debt is attributable to the issuance of pension bonds in 1998 to reduce a significant $511 million unfunded pension liability; as of December 31, 2007, the balance of these pension bonds was $237.2 million, or nearly one-third (34%) of the direct debt outstanding. Moody's notes that many municipalities do not fund pension liabilities with long-term debt, but may maintain comparable unfunded pension liabilities. Also, the city's aggressive economic development efforts have been partly funded through the issuance of off-balance sheet debt by component units like the Urban Redevelopment Authority as well as the joint venture with the Sports and Exhibition Authority of Pittsburgh and Allegheny County. All of the city's debt is fixed rate and the city is not party to any derivative agreements.

Outlook

The revision of the outlook to negative is based on Moody's expectation that the city will experience near-term challenges largely related to pension contribution increases that may challenge the city to maintain its improved financial position.

WHAT COULD CHANGE THE RATING - UP (REMOVAL OF NEGATIVE OUTLOOK)

- Successful development and implementation of a comprehensive plan that addresses the city's low pension funding

- Maintenance of structural balance despite anticipated increases in the city's pension contribution

WHAT COULD CHANGE THE RATING - DOWN

- Inability to implement comprehensive plan that addresses expenditure increases over the near to medium-term

-Trend of decreasing GAAP basis fund balance as percent of revenues

-Increasing reliance on one-time revenue sources to fund ongoing operations

-Tax base deterioration resulting in negative operational impact

KEY STATISTICS:

2010 Population: 305,704 (9% decline since 2000)

2010 Full Valuation: $15.6 Billion

Full Value Per Capita: $45,340

1999 Per Capita Income (as % of PA and US): $18,816 (90.1% and 87.2%)

1999 Median Family Income (as % of PA and US): $38,795 (78.9% and 77.5%)

Direct Debt Burden: 4.5%

Overall Debt Burden: 8.6%

Payout of Principal (10 years): 83.7%

FY07 General Fund Balance: $89.53 million (19.6% of General Fund Revenues)

FY08 General Fund Balance: $52.9 million (11.7% of General Fund Revenues)

FY09 General Fund Balance: $61.4 million (14% of General Fund Revenues)

FY09 General Fund Balance: $48.9 million (10.1% of General Fund Revenues)

Rated Debt Outstanding: $631.2 million

Parity Debt Outstanding: $734.2 Million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, [and] public information, [and] confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Jessica A. Lamendola
Analyst
Public Finance Group
Moody's Investors Service

Geordie Thompson
Backup Analyst
Public Finance Group
Moody's Investors Service

Naomi Richman
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

July 25, 2011 05:10 PM Eastern Time

Fitch Rates Pittsburgh, PA's GOs 'A'; Outlook Stable

NEW YORK--(BUSINESS WIRE)--Fitch Ratings has assigned the following ratings to the city of Pittsburgh, Pennsylvania's (the city) bonds:

--$47 million general obligation (GO) bonds, series 2011A 'A';

--$48 million GO bonds, series 2011B 'A'

The bonds are expected to sell via negotiation July 26th.

In addition, Fitch affirms the following ratings:

--$631.2 million outstanding GO bonds at 'A' -- a portion of which will be refunded with the current issuance.

The Rating Outlook is Stable.

CREDIT SUMMARY:

The city benefits from a diversifying economy, anchored by healthcare, education and finance. State oversight continues, contributing to the city's maintenance of a structurally balanced financial profile and healthy fund balance levels. However, pension funded ratios are very low with the plans potentially being subject to state take over. Pension funding, whether through increased contributions to the current city plans or to the state if plans were to be merged, may pressure financial operations. Debt levels continue to be high.

KEY RATING DRIVERS

--ECONOMY AIDED BY PRESENCE OF HEALTH CARE, EDUCATION AND FINANCE: The strong presence of health care, education and financial services continue to anchor the city's economy. Economic growth has returned in the past year, lowering the unemployment rate to below state and national averages.

--FINANCIAL PROFILE IS SOUND: The city's financial profile is sound with a moderate use of reserves in fiscal 2010 for one-time capital needs. Financial performance is aided by ongoing proactive state oversight.

--DEBT AND PENSION OBLIGATIONS ARE HIGH: Debt levels are high and debt service accounts for an above average percentage of spending, further constraining financial operations. Additionally, pension obligations are significantly under-funded although the city has adopted a plan, which if approved by the state, will increase the funded ratio to a still low 50%.

WHAT COULD TRIGGER A RATING ACTION

--Pension obligations, whether through increased contributions to the city's current plans or to the state if plans were to be merged, may constrain financial operations.

--An inability to maintain a stable financial position would pressure the rating.

--The city will need to balance its high debt levels with its ongoing capital needs.

SECURITY

The bonds are general obligations of the city and to which the full faith, credit and taxing power of the city are pledged.

CREDIT PROFILE

ECONOMY AIDED BY PRESENCE OF HEALTH CARE, EDUCATION AND FINANCE:

The strong presence of health care, education and financial services anchor the city's economy and have offset the decline of the manufacturing sector, the city's traditional economic base, over the past few decades. The University of Pittsburgh Medical Center (UPMC), the city's top employer, is one of the region's largest medical facilities. The city is also home to the West Allegheny Health System, the University of Pittsburgh and PNC Financial Services. Employment growth has returned in 2011 with 1.2% growth in April from a year prior. The labor force continues to decline moderately with a 0.4% decrease over the same time period while the current 6.6% unemployment rate is lower than that of the state (7.2%)

and nation (8.7%). Wealth levels are below average.

The tax base has remained relatively stable despite the city continuing to use fiscal 2002 as its base year for assessments. The PA Supreme Court ruled in April 2009 that the base year method for property valuation as applied by Allegheny County violates the state constitution. A reassessment was ordered and is anticipated to be complete by Jan. 1, 2012. The city expects significant growth from the reassessment which is expected to positively affect the fiscal 2013 budget.

FINANCIAL OPERATIONS REMAIN SOUND-AIDED BY FISCAL OVERSIGHT:

Since December 2003, Pittsburgh has operated as a 'distressed municipality' under the state's Municipalities Financial Recovery Act (Act 47) while the state created additional fiscal oversight of the city under the Intergovernmental Cooperation Authority Act for Cities of the Second Class (Act 11) in 2004. The ICA, which is intended to help the city recover from its financial crisis and bring long-term fiscal health to the city, is granted considerable financial controls including approval of the city's annual budget, multi-year financial plan and collective bargaining agreements.

The city remained structurally balanced in fiscal 2010 with approximately $12.5 million use of reserves, driven by the city's purchase of an ERP financial system. The unreserved fund balance decreased to roughly $42.6 million, equal to a still sound 8.6% of spending. The city is currently projecting a $6.2 million surplus for fiscal 2011, despite having appropriated the use of $12.1 million in the original budget due to conservative budgeting.

DEBT LEVELS REMAIN HIGH ALTHOUGH UPCOMING DEBT CLIFF IS EXPECTED TO EASE PRESSURE IN MEDIUM TERM:

Overall debt levels are high at roughly $4,800 per capita and 6.8% of market value. With the current refunding, fiscal 2011 budgeted debt service totals $52.9 million, equal to 11.8% of spending and increases to $87.4 million for fiscal 2012 (a high 18.7% of current budgeted spending levels). Debt service remains level from fiscal 2012 until the debt cliff begins in fiscal 2018, decreasing over a two year period to $39 million by fiscal 2019, where it remains for the rest of the current amortization period. Amortization is rapid with a little over 75% of principal being retired within ten years.

The city's fiscal 2011 - 2016 CIP totals $281.8 million, which will be partially funded through proceeds and debt service savings from the current issuance. The city has no plans for additional debt for the next three years. Savings from the current refunding will be used to fund pay-go capital needs.

PENSIONS CONTINUE TO POSE RISK:

The city maintains three single-employer defined benefit pension plans for non-uniformed employees, police and fire, respectively. As of the most recent actuarial reports dated January 2009, the plans had a very low aggregate funding level of 34.3%, assuming an 8% investment return. Using Fitch's more conservative 7% discount rate, the funded level would decrease further to 30.9%. The Commonwealth of Pennsylvania has enacted legislation, Act 44, which mandates that the city reach a funding level of at least 50% by Dec. 31, 2010. In the event the city failed to meet the minimum funding requirement, the city's plans would merge with the state's pension system, PMRS.

The ICA approved the city's adopted plan to meet its minimum funding requirement. The plan, which was completed in December 2010, requires the deposit of $45 million of the city's unrestricted debt service balances to be deposited to the comprehensive trust fund. In addition, dedicated parking revenues totaling $13.4 million annually for fiscal 2011 through fiscal 2017 and $26.8 million from fiscal 2018 through fiscal 2041 will be paid to the comprehensive trust fund. Actual pension contributions by the city for fiscal 2010 totaled $101.6 million, equal to a high 20.4% of total general fund spending.

The dedication of parking taxes is irrevocable per city council action and equal roughly 1/3 of total parking taxes budgeted for fiscal 2011. In June 2011, the Pittsburgh Parking Authority increased parking meter rates to produce additional revenues, with the goal of offsetting the dedicated portion of the tax. While the city's current funding plan was approved by the ICA, The Public Employee Retirement Commission (PERC) has not yet determined if the current plan will satisfy the requirements of Act 44 to reach the minimum actuarial funding level. The city expects to receive PERC's decision by fall 2011.

If PERC determines the pension funding plan does not meet requirements of Act 44, it is likely that the city's plans will merge with PMRS. PMRS standards include a lower actuarial return assumption and higher additional funding costs, which would increase the city's annual pension costs, putting additional financial pressure on the city but increasing the pension funded levels. Current estimates by the city's independent actuaries indicate the city's pension contributions may increase by $25 million annually, which may be partially offset by the dedicated parking tax revenues funded through the recent rate increase.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com and National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 16, 2010);

--'U.S. Local Government Tax-Supported Rating Criteria'(Oct. 08, 2010).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564566

FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Contacts

Fitch Ratings□Primary Analyst□Rachel Barkley, +1-212-908-0514□Director□Fitch, Inc.□One State Street Plaza□New York, NY□or□Secondary Analyst□James Mann, +1-212-908-9148□Senior Director□or□Committee Chairperson□Adrienne Booker, +1-312-368-5471□Senior Director□or□Cindy Stoller, New York, +1-212-908-0526□cindy.stoller@fitchratings.com

ExLH 3

Fitch Rates Pittsburgh, PA's GOs 'A'; Outlook Stable
Business Wire
10 November 2010

NEW YORK--(BUSINESS WIRE)--November 10, 2010-- Fitch Ratings has assigned an 'A' rating to the city of Pittsburgh, PA's approximately $50 million series of 2010 general obligation (GO) bonds. The bonds are expected to sell via negotiated sale on or about Dec. 1, 2010.

In addition, Fitch has affirmed the city's $632 million outstanding GO bonds at 'A'.

The Rating Outlook is Stable.

RATING RATIONALE:
---The city's financial position remains stable as reflected in multiple years of adequate reserves levels as a result of management's ability to control expenditures.
--The city benefits from a broadened tax base, including a strong presence of health and higher education institutions, which continues to experience commercial development.
--The city's debt burden is above average to high; additionally, pension liabilities are large and continue to increase as a result of significant underfunding.
--Income and wealth levels are weak, but unemployment rates are below the state and national averages.

KEY RATING DRIVERS:
-Maintenance of stable financial position;
-Management's development of a realistic plan to address and control the large unfunded accrued actuarial liability (UAAL);
--Ability to manage high debt burden in light of capital needs;
--Continued economic stability.

SECURITY:
The GO bonds are secured by the full faith credit and taxing power of the city, payable from its tax and other general revenues.

CREDIT SUMMARY:
Since December 2003, Pittsburgh, the second largest city in the Commonwealth of Pennsylvania, has operated as a 'distressed municipality' under the Municipalities Financial Recovery Act (Act 47). In February of 2004, the state created additional City fiscal oversight authority under the **Intergovernmental Cooperation Authority** Act for Cities of the Seconds Class (Act 11). Like many older urban areas, Pittsburgh's economy has been challenged for decades by the erosion of the manufacturing sector and a steady decline in population. The strong presence of education, health care and financial services have continued to contribute to the long-term stability of the economy, offsetting the loss of manufacturing sector jobs. The city is home to the University of Pittsburgh Medical Center (UPMC), one of the region's largest medical facilities, and West Penn Allegheny Health System, as well as the University of Pittsburgh. Federal, state and county governments are three of the city's top 10 employers. As of August 2010, unemployment was 8.7%, below that of the state and nation at 8.9% and 9.5%, respectively. Population declines had somewhat abated until 2009 but are expected to stabilize. The city has benefited from significant growth in its tax base as a result of development of its downtown area.

The city's financial position has remained stable as reflected in its adequate reserve levels. Offsetting the stable financial position, Fitch notes that the city's pension funding level is extremely weak at 27% as of Dec. 31, 2009 despite the issuance of pension obligation bonds in 1998. As required by the Commonwealth's enacted pension legislation (Act 44), the city must restore funding to at least 50% by Jan. 1, 2011 to avoid a state takeover of its pension system. The takeover could result in potentially higher annual pension payments from its current annual payments of $56 million in 2010. In the event the funding level is not restored to at least 50%, the city's pension plans will be merged into the Pennsylvania Municipal Retirement System (PMRS) in accordance with the provisions of Act 44. The city is currently evaluating its options to meet the 50% threshold, which have included a long-term lease of its parking facilities or the sale of its parking facilities to the city parking authority. To date, none of the options have been approved by city council or the city parking authority.

The city benefits from a diverse revenue stream of property taxes, federal and state funds as well as non-property taxes including earned income taxes, local service taxes, payroll preparation taxes and other smaller fees. In 2010, the city has been able to reduce expenditures to meet declines in several of its revenue sources. Collections of prior year tax payments have not met budgeted expectations and state aid revenues have declined. As of the second quarter, the city expects to end fiscal year 2010 with balanced operations. The city ended fiscal 2009 with a surplus of about $9.4 million resulting in an unreserved fund balance of $55.5 million, or a strong 12.8% of total 2009 expenditures and transfers, up from $46.5 million or 9.4% in fiscal 2008. The 2011 proposed budget assumes a state takeover of the city's pension plans and increased contributions. Revenue assumptions are in line with the prior year budget and include a slight decline in property taxes (totaling 27% of total revenues), a small increase in earned income taxes (equals 15% of total revenues) with other sources remaining virtually flat. Federal and state grants are expected to decline slightly.

The city's overall debt burden, including the school district and county is above average to high at $4,756 per capita and a high 7% of market value. Ongoing debt management is a priority of the city as it works to reduce overall debt levels. The city expects to use $45 million of available funds in its debt retirement fund to defease outstanding debt by year end. The city prudently uses pay-as-you-go funding to meet its capital needs. Market value per capita is weak at $68,000. Fitch notes that the city currently uses 2002 as its base valuation year due to ongoing litigation. The PA Supreme Court determined that the base year system used was unconstitutional and has ordered Allegheny County to undertake a reassessment. The county has submitted a plan that will have the reassessment and certification of new values completed by January 2012 and as per state statute, the increase is limited to 105% of the prior year real estate tax collection, net of new construction. The city's other post employment benefits (OPEB) unfunded liability is $359 million with an annual required contribution (ARC) of $29.5 million. The city continues to fund on a pay-as-you-go basis in the amount of $20 million, far less than the ARC.
Additional information is available at 'www.fitchratings.com [http://www.fitchratings.com]'.
In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, LoanPerformance, Inc., IHS Global Insight, and the Underwriter

Applicable Criteria and Related Research:
'Tax-Supported Rating Criteria', dated Aug. 16, 2010.
'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.
For information on Build America Bonds, visit 'www.fitchratings.com/BABs [http://www.fitchratings.com/BABs]'.
Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=5
[http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=5] 8605
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=5
[http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=5] 4566

'A'

Intergovernmental Cooperation Authority
ICA of Pittsburgh

Henry Sciortino
Executive Director
ICA of Pittsburgh
515 Court Place
Suite 400
Pittsburgh, PA 15219

Regarding Act 47 Amended Recovery Plan Compliance & Conditional Approval of City's 2011 Budget

July 28, 2011

Honorable Luke Ravenstahl
Mayor, City of Pittsburgh
512 City-County Building
414 Grant Street
Pittsburgh, PA 15219

Michael Lamb
Controller, City of Pittsburgh
414 Grant Street, 1st Floor
Pittsburgh, PA 15219

Dear Mayor Ravenstahl and Controller Lamb:

I'm writing to advise and remind you of the City of Pittsburgh's obligation, per the terms of the Amended Recovery Plan adopted by ordinance of the City on June 30, 2009, that requires the City to make an additional $13 million annual payment to its Pension Plan, over and above the Minimum Municipal Obligation (MMO), as defined in the Plan.

To date, the City has not made the required payment, and is not currently in compliance with the Plan or the Cooperation Agreement between the City and the ICA. As you recall, the ICA conditionally approved the City's current Budget and Five-Year Financial Plan back on December 31, 2010.

Accordingly, to satisfy compliance with the Amended Recovery Plan and to fulfill its obligations, the City is required to:

1. **Establish and fund the OPEB Trust Fund before September 23, 2011**, which is 100 days before the end of the current fiscal year. Importantly, the City must comply with the current terms of the 2011 budget, before it submits its proposed 2012 budget, also due by September 23.

2. **Immediately deposit the required $13 million payment directly to the MMO, or deposit the $13 million into an irrevocable trust**, held by the ICA, with the sole purpose of funding current and/or future payments to the Pension Plan.

To the extent possible, we will provide you with the necessary flexibility in order to fulfill these obligations, particularly given the significant work required on the OPEB Trust Fund between now and September 23, 2011.

We are prepared to meet with you or your designees immediately to develop a strategy that provides the City with the most favorable alternatives consistent with the letter and spirit of Act 11 and the Cooperation Agreement. If you or any member of your team has any questions of this request, please contact me or ICA's executive director Henry Sciortino as soon as possible. Thank you.

Sincerely,

Barbara A. McNees
Chair, Intergovernmental Cooperation Authority of Pittsburgh

cc: ICA Board
Allegheny Delegation
Act 47 Coordinator
Secretary of the Budget
Hon. Charles Zogby

6

Intergovernmental Cooperation Authority (ICA)

For Cities of the Second Class

Public Meeting – October 19, 2011

Koppers Building Conference Center, 9th Floor, Grant Room
436 Seventh Avenue, Pittsburgh, PA 15219

Henry Sciortino
Executive Director
515 Court Place
Suite 400
Pittsburgh, PA 15219

Meeting Agenda

- **Call to Order**
- **Public Comment**
- **Approval of Sept. 23, 2011 Public Meeting Minutes**
- **New Business**

  - Letter from City Controller regarding proposed 2012 City Budget, as required by Act 11 of 2004
    a. *Statement from ICA Board Chair*

  - Letter by Act 47 Coordinator regarding Proposed 2012 City Budget and compliance with Amended Recovery Plan

  - Action by ICA Board regarding Proposed 2012 City Operating and Capital Budget presented to the ICA Board on Sept. 23, 2011, as amended by City Finance Director Scott Kunka, dated Oct. 18, 2011 (and incorporated herein by reference)
    a. *Motion to accept or return the amended budget which is also conditioned upon:*
       - *Establishment of and adequate funding of OPEB Trust Fund as defined by the Amended Recovery Plan Initiative PN03;*
       - *$60 million employer contribution to the Pension Plan and full payout of the budgeted amount of employer pension contribution for 2011*

- **Old Business**

  - Second Quarter 2011 Gaming Revenue: ICA Board determination of use of funds
    a. *Motion: Funds from 2Q of 2011 in the amount of $1,402,379.94 to be deposited into City pension plan in addition – not in lieu of – 2011 employer contribution*
    b. *Authorization for ICA Executive Director to release funds, as directed by ICA Board*
    c. *Statements from ICA Board Chair and Members regarding use of gaming funds in 2Q '11 and possible use in 3Q and 4Q '11*

  - Authorization and Ratification: For ICA Board Chair and Executive Director to release, transfer or spend any and all funds that have been approved by the ICA Board
    a. *Motion to ratify*

- **Adjournment**

PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

ECKERT SEAMANS
ATTORNEYS AT LAW

October 18, 2011

Barbara McNees, Chair
Intergovernmental Cooperation Authority for Cities of the 2nd Class
11 Stanwix Street, 17th Floor
Pittsburgh, PA 15222-1312

Dear Ms. McNees:

It is our understanding that the Intergovernmental Cooperation Authority (ICA) will convene tomorrow to consider the 2012 budget and 2012-2016 five-year plan for the City of Pittsburgh as submitted by Mayor Luke Ravenstahl on September 23, 2011.

We have reviewed the five-year plan as it was submitted and supplementary information provided by the City Finance Department. Based on our review of this information, we believe the budget and five-year plan is compliant with the Amended Act 47 Recovery Plan as adopted by the City in June 2009. We also note the following important conditions upon which this opinion is based:

- The Amended Recovery Plan requires the City to contribute $12 million above the City portion of the minimum municipal obligation in 2012 and $14 million in 2013 and beyond (see initiative PN01, pages 30-32). It is our understanding that the City's MMO has dropped to approximately $30 million in 2012 because of the actions the City took at the end of 2010. The Mayor's budget proposes a $14.4 million contribution above the MMO each year from 2012 through 2016. This complies with the Amended Recovery Plan's requirement.

  The Amended Recovery Plan focused on the need to address legacy costs as a critical element of exiting from Act 47 oversight. Over the last year the City has worked to improve its pension funding level. However, as we noted in the Annual Progress Report we released last week, there is still work to be done in this area. While a 62 percent pension funding level signals improvement, it is still well below the 90 percent level necessary to avoid any distress designation by the Pennsylvania Public Employee Retirement Commission.

  The City also has to monitor the pension fund's cash flow situation. Committing future parking tax revenues to the fund has only a limited impact on paying current benefits as they come due on an annual basis. The fundamental question also remains whether the City can afford to provide the pension benefits that are mandated by Commonwealth law, though that is not a question the City can resolve on its own.

- The proposed five-year plan shows the City contributing $2.2 million per year toward its other post-employment benefit (OPEB) liability, which complies with Amended Recovery Plan initiative PN03 (see pages 32-33). The City must establish a trust fund to hold these contributions and prior years' contributions. As you know, we are currently working with the City toward that end.

- The City is currently negotiating new collective bargaining agreements with the International Brotherhood of Teamsters, Local 249 and the Fraternal Association of the Professional Paramedics. In both cases the prior agreement expired on December 31, 2010. The City must incorporate the Amended Recovery Plan initiatives into the new collective bargaining agreements. The City should also follow the process described in initiative WF02 (pages 64-68), just as it did with the collective bargaining agreements that expired on December 31, 2009.

- The City is going through interest arbitration with the Fraternal Order of Police, Lodge No. 1 and International Association of Firefighters, Local No. 1 on issues related to employee health insurance. Again, the City must comply with the Amended Recovery Plan provisions, especially initiative WF03 (see page 68).

As you know, we have worked closely with Henry Sciortino, Executive Director of the ICA, to provide a single voice on City oversight issues. We appreciate his cooperation, and yours, in this effort.

Please do not hesitate to contact us if you have any questions or concerns that we can address before tomorrow's meeting.

Sincerely,

Dean Kaplan
Public Financial Management

James Roberts/DAK
James Roberts
Eckert Seamans Cherin & Mellott

Cc: Members, Intergovernmental Cooperation Authority
Henry Sciortino, Executive Director, Intergovernmental Cooperation Authority
Jennifer Branstetter, Pennsylvania Secretary of Planning and Policy
Fred Reddig, Executive Director, Governor's Center for Local Government Services

"C"

CITY OF PITTSBURGH

Department of Finance

Luke Ravenstahl, Mayor *Scott Kunka, Director*

October 19, 2011

Barbara A. McNees, Chairwoman
Intergovernmental Cooperation Authority of Pittsburgh
515 Court Place
Suite 400
Pittsburgh, PA 15219

Dear Chairwoman McNees:

Please accept this letter as a request for a 2012 budget adjustment. The City shall increase the "additional pension fund contribution" line item by $10 million. Additional pension state aid was received in 2011 and deposited into the pension fund. However, the additional state aid created budgetary flexibility and the City proposes that the $10 million budget overage be regarded as a special revenue in 2011, and that it be budgeted as a special expenditure in 2012. Total employer contribution to the pension line item shall be in excess of $60 million. Please also note that the 2011 pension payment shall also be made in full.

Also via this letter, the City informs the ICA that, with their partnership, there will be in place by the end of 2011 a formal capital budget process for 2012. This formal process will include: description of money achieved via refinancing, refunding, and/or new borrowing; a reconciliation of all pre-allocated capital funds; a system by which new projects are weighted in consideration of fund allocation; and, discussion of the new ERP's CIP tracking and monitoring tools and attendant City policy.

Sincerely,

Scott W. Kunka

Scott Kunka
Director of Finance

526 CITY-COUNTY BUILDING 414 GRANT STREET PITTSBURGH, PENNSYLVANIA 15219
scott.kunka@city.pittsburgh.pa.us *Phone: 412-255-2640* *Fax: 412-255-4899*

Plan of Action for Collections and Compliance/Real Estate Divisions

Overview

The Department of Finance will undergo a tax collection transition due to the award of Earned Income Tax collections to Jordan Tax Service. The Office of the Treasurer has determined the following priorities in the transition process as we shift from earned income tax collections to increased efficiency in auditing, investigations and processing the other major taxes.

Initiatives

1. The wage tax section will continue processing 2010-PGH-40's, Net Profit (NP-5), Employers Monthly Wage Tax (WTD), and Summary Form for W-2's (WTE-3) until transactions are all posted.
2. No Tax Due (NTD) Returns
    a. Prioritize Local Service Tax (LST) return posting; receipt availability mandatory as per Act 7.
    b. Finalize 6,000 2010 LST returns and 7,000 2011 LST returns.
    c. Post Payroll Preparation Tax returns with 6,500 2010 PPT returns and 7,000 2011 returns.
    d. Post prior year Employer Summary of Withholding (WTE-3) tax returns and review for accuracy: 2009 = 900; 2010 = 9,200
    e. Process estimated 37,000 for all No Tax Dues
3. Audit Section
    a. Cross-train auditors on all tax types.
    b. Increase audit production beginning January 1, 2012.
    c. Track audits and assessments completed.
4. Investigations
    a. Track cases and revenue collections
    b. Reinforce parking lot enforcement for all sports/concert venues.
5. Processing
    a. Train Wage/PGH-40 processors on other tax types, possible cross-train for Real Estate/Data Entry support.
    b. Ramp up processing of all non-posted returns/forms.
    c. Conduct intensive posting/processing of all Wage/PGH-40 related returns prior to year end for a smooth transition to Jordan.
    d. Examine the possible termination of PNC processing agreement to bring data in house to reduce banking fees (present cost benefit analysis).
6. Real Estate Division
    a. Cross train employees to handle increase servicing and notification of Treasurer's sales for possible Land Bank acquisition.
    b. Ramp up current year collections with increase phone calls and customer notification.
7. Survey
    a. Conducted a skills assessment survey to determine skill levels of employees for potential special project support within their sections or other areas within the Department.

Subclass Detail

Subclass	Description	Detail	2012 Amount	2011 Amount
40	Fringe Benefits	Health Insurance	$ 32,497,714	$ 30,486,673
		Insurance/Benefits	$ 2,509,746	$ 4,023,616
		Retiree Health Insurance	$ 18,902,223	$ 18,342,465
		Medicare Retiree Benefits	$ 4,983,813	$ 3,477,735
		Unemployment Comp	$ 365,453	$ 250,000
		Social Security Fund	$ 7,377,105	$ 7,232,456
		Workers Comp - Medical	$ 5,574,876	$ 5,657,256
		Workers Comp - Indemnity	$ 13,809,652	$ 13,744,368
		Workers Comp - Miscellaneous	$ 1,329,860	$ 1,716,147
		Workers Comp - Settlements	$ 1,250,000	$ 500,000
		Personal Leave Buyback	$ 1,211,084	$ 1,222,894
		Retirement Severance	$ 750,000	$ 750,000
		Employee Contribution	$ (4,404,720)	$ (4,041,142)
			$ 86,156,806	**$ 83,362,468**
180	Pension	Pension Fund Contribution	$ 31,729,419	$ 46,400,000
		Additional Pension Fund Contribution	$ 23,376,000	$ 3,600,000
		Retiree Fund Contribution	$ 2,276,000	$ 2,276,000
		OPEB Contribution	$ 2,200,000	$ 500,000
		Widow Fund Contribution	$ 155,000	$ 155,000
		Survivor Fund Contribution	$ 525,000	$ 525,000
		Retired Police Officer Payment	$ 26,500	$ 26,500
		Retired Firefighter Payment	$ 66,000	$ 66,000
		Early Retirement Healthcare	$ 100,000	$ 100,000
			$ 60,453,919	**$ 53,648,500**

Subclass Detail

Subclass	Description	Detail	2012 Amou
40	Fringe Benefits	Health Insurance	$ 32,497,7
		Insurance/Benefits	$ 2,509,7
		Retiree Health Insurance	$ 18,902,2
		Medicare Retiree Benefits	$ 4,983,8
		Unemployment Comp	$ 365,4
		Social Security Fund	$ 7,377,1
		Workers Comp - Medical	$ 5,574,8
		Workers Comp - Indemnity	$ 13,809,6
		Workers Comp - Miscellaneous	$ 1,329,8
		Workers Comp - Settlements	$ 1,250,0
		Personal Leave Buyback	$ 1,211,0
		Retirement Severance	$ 750,0
		Employee Contribution	$ (4,404,7
			$ 86,156,8
180	Pension	Pension Fund Contribution	$ 31,729,4
		Additional Pension Fund Contribution	$ 23,376,0
		Retiree Fund Contribution	$ 2,276,0
		OPEB Contribution	$ 2,200,0
		Widow Fund Contribution	$ 155,0
		Survivor Fund Contribution	$ 525,0
		Retired Police Officer Payment	$ 26,5
		Retired Firefighter Payment	$ 66,0
		Early Retirement Healthcare	$ 100,0
			$ 60,453,9

ICA Minutes D

"B"

obviously has, as -- as by far, the largest Act 47 community, has a capacity and capabilities far beyond many of the smaller communities that we work with.

MS. McNEES: Okay.

MR. ROBERTS: So that I think we can afford to be, at this point, particularly, more optimistic, frankly, than -- some of the cities will have to deal with it, are about worse than -- or, where Pittsburgh was in 2004.

MS. McNEES: Thank you. So to my point, some strides being made to accomplish that.

MR. ROBERTS: Absolutely.

MS. McNEES: All right.

MR. ROBERTS: Thank you.

MS. McNEES: Thank you.

Okay. Next on the budget -- next on the agenda is action by the ICA Board regarding the proposed 2012 city operating and capital budget presented to the ICA on September 23rd, 2011, by the city finance director, Mr. Kunka.

We do have, after -- after -- after an extensive review by the ICA, whose mission, in large part, is to cause the city to address structural, financial imbalances that impair Pittsburgh city government, and concurrent review by the Act 47 coordinator, whose mission, in part, is to monitor compliance to the amended recovery plan, those oversight bodies contacted the city following the September 23rd presentation and our review of those, and asked for modifications to be submitted to the budget.

Those modifications sought by the ICA and Act 47 coordinator were directed at legacy issues of pension, post-retirement benefits and deferred maintenance.

Under demands placed on the city by Act 44 of 2009, the city took steps to avoid the state takeover of its pension plan, as defined in that act.

As required by the act, the Pennsylvania Employee Retirement Commission reviewed the act as to the pension plan, and determined a state takeover would not be necessary.

The minimum municipal obligation or MMO was established and incorporated in the proposed budget submitted by the city to the ICA.

However, the ICA determined that the employer contribution in the MMO would not be sufficient to offset the cost of current benefits, and resulted in a further deterioration of the value of the pension fund.

The ICA required a minimum employer contribution of 60 million, and in a collaborative effort with the city and Act 47, the city agreed to increase the employer contributions detailed on page 258 of the proposed budget, raising the total employer contribution for 2012 to that 60 million.

The additional pension contribution is important, but it is equally important to understand that stark reality that unfunded pension liability continues to pose significant risk to the stability of the city.

Poor market, timing, judgements, attempts to increase benefits, inward delays in depositing sufficient employers contributions could put the fund at risk.

The ICA and the Act 47 coordinator have worked with the city to establish an adequately funded OPEB trust fund, and you heard Mr. Roberts describe that, and hopefully by year end, will be completed.

Any budget approval rendered by the ICA will be conditioned upon the establishment and funding of this trust.

Capital project management is outlined in the budget. During the last three years, the city has addressed its capital needs through a pay-as-you-go funding method.

The growing liabilities for maintenance requires a more organized and detailed strategic capital plan. As such, any budget approval rendered by the ICA will be conditioned upon the establishment and implementation of a strategic capital project plan acceptable to the ICA and to Act 47.

Furthermore, assuming that future debt issuance may be needed, the capital project plan shall demonstrate the future budgets for the city will be able to sustain the additional debt service on any new debt issuance. These conditions are central to any approval of debt issuance.

At this point, the -- we have received a letter from Mr. Kunka in his role as the city's finance director, and has made the commitment in this letter that the additional pension fund contribution of 10 million, which was received under 205, along with the employer contribution, will be placed into the line item on page 258 of the budget, so that the pension line item actually will be in excess of 60 million.

And also, under the 2011 pension payment plan, the last quarter pension payment will be made, so that 2011 commitment is fully funded, and also addresses what you've heard around the capital budget projects, the formation of a capital strategy and further work with Act 47.

So with that, the action before the board is a motion to accept or amend the budget, which is also conditioned upon establishment of an adequate funding of OPEB trust fund, as defined by the amended recovery plan initiative PN03, and 60 million employer contribution to the pension plan, and full payout of the budgeted amount of employer pension contribution for 2011.

So at this point, I will accept a motion to approve the amended budget, as we have before us.

Do I have motion?

MR. YEALY: Moved.

DR. SIMON: So moved.

MS. McNEES: Do I have a second?

MR. SCIORTINO: Dr. Simon.

MS. DUGAN: I -- I have a question.

MS. McNEES: All right. We have a motion and a second.

Any discussion?

MS. DUGAN: Yeah, Barbara, if -- I totally agree with the contingencies that we put in, that you just read, but could I have a sort of a dollar, just, reading of what you're talking -- you know, summarizing --

MS. McNEES: Henry's got it.

MS. DUGAN: -- because we just got this letter from, you know, the director of finance a few minutes ago, so if we could look at the total going in, and the break out, where it's coming from?

MR. SCIORTINO: I think it's more appropriate if the financial director answers the question.

I'd be happy to --

MR. KUNKA: You mean the breakdown of the -- the total?

MS. DUGAN: Yes. The ones that have total contribution.

MR. KUNKA: Yes, we do. We have them. We have a copy of that.

MS. DUGAN: Okay.

MR. KUNKA: And that's what the budget will look like, that goes to City Council on the 14th --

MS. McNEES: 4th -- or, 14th?

MR. KUNKA: -- 14th of November.

MS. DUGAN: Okay.

MS. McNEES: Oh, okay. So we have a --

MR. KUNKA: Uh-huh. Right.

MS. DUGAN: Oh, good.

MR. KUNKA: We didn't know if you wanted to see that today, but it's -- we prepared it, so --

MS. DUGAN: Well, I -- I just feel strongly that, you know, when city residents make a promise to someone that's now, you know, engaged in their retirement --

MR. KUNKA: Right.

MS. DUGAN: -- it needs to kept, and --

MR. KUNKA: So --

MS. DUGAN: -- the money needs to be there.

MR. KUNKA: This will be the amended budget page.

MS. McNEES: So this will go in, as you heard Mr. King, into the line item on page 258, for the subclass 40 and 180 sections.

Any further questions or discussion?

If not, all in favor of approving the 2012 proposed budget, say aye.

(Chorus of ayes.)

MS. McNEES: Any opposed?

(No response.)

MR. SCIORTINO: Madam Chair, for the record, the amended.

MS. McNEES: The amended budget.

Under "Old Business," "Second Quarter 2011 Gaming Revenue," the ICA Board determination of use of funds, the motion before us would be: Funds from second quarter of 2011 in the amount of $1,402,379.94 to be deposited into the city pension plan, in addition, not in lieu of, the 2011 employer contribution.

MS. DUGAN: So moved.

MS. McNEES: Second?

MS. YANDERS: Second.

MS. McNEES: Thank you, Elise.

Any discussion?

All in favor?

(Chorus of ayes.)

MS. McNEES: The next motion is authorization for the ICA executive director to release funds as directed by the ICA Board.

MS. YANDERS: So moved.

MS. McNEES: Do I have a second?

MR. YEALY: Second.

MS. McNEES: Thank you, Dana.

All in favor?

(Chorus of ayes.)

MS. McNEES: And last, statements from the

ICA Board chair and members regarding use of gaming funds for 2000 -- second quarter '11 and third quarter, use of -- the obligation of the city is to first adequately fund the pension system, and in our Act 11, we have three choices as to where the dollars go.

Act 71 of 2004, section 1403, expressly defines the standard and the legislative intent that the ICA direct the second quarter gaming in the amount of 1.4 million into the pension. In addition, that that amount, established in 2012, be amended into the city budget.

So those are our recommendations on the -- on gaming.

And last, authorization and ratification for ICA Board chair -- oh, yeah, board chair to release, transfer, spend any and all funds that have been approved by the ICA Board.

This is to include just the general expenditures, the general operation of the ICA Board and its expenses.

Do I have a motion?

MR. YEALY: Moved.

MS. McNEES: Do I have second?

MS. YANDERS: Second.

MS. McNEES: All in favor?

(Chorus of ayes.)

MS. McNEES: Okay. And last but not least, a motion for adjournment?

MS. DUGAN: So moved.

MS. McNEES: I was going to say, nobody wants to leave.

\- - -

(Thereupon, at 11:12 o'clock a.m., the Intergovernmental Cooperation Authority for Cities of the Second Class Meeting was concluded.)

\- - -

C-E-R-T-I-F-I-C-A-T-E

I, Andrew W. Miller, the undersigned, do hereby certify that the foregoing forty seven (47) pages are a true and correct transcript of my stenotypy notes taken of the Intergovernmental Cooperation Authority for Cities of the Second Class Meeting held in the Koppers Building Conference Center, 9th Floor, Grant Room, 436 Seventh Avenue, Pittsburgh, Pennsylvania 15219, on Wednesday, October 19, 2011.

Andrew W. Miller

Andrew W. Miller, Court Reporter

\- - -

E

EDITORIAL
EFFICIENCY DELAYED THE OVERSIGHT BOARD IS RIGHT TO PUT HEAT ON THE CITY
Pittsburgh Post-Gazette
26 February 2011

The city of **Pittsburgh's** patchwork system for managing its key functions is outdated and in need of replacement.

This is not news. City Controller Michael Lamb and the **Intergovernmental Cooperation Authority** -- the city's state- appointed financial overseers -- have been saying so for years. Since 2006, the ICA has approved city budgets with the condition that officials develop and implement an integrated, computerized system to manage its finances, account, payroll, customer relations and human resources data.

By 2009, everybody involved seemed to agree that folding the city into Allegheny County's system made the most sense. City officials said they had reached the long-sought deal and were working out terms for adding the **Pittsburgh** Water and Sewer Authority. As recently as December, City Council authorized spending up to $10 million for a system that could be shared by all three entities and other authorities.

At this late stage, city officials are balking, saying in effect that they're being pressured into buying a Cadillac when a subcompact would do the job.

Rather than spending $9 million on the joint system, city officials want to join with the water authority for $3.3 million instead. But that system isn't even developed yet.

Taxpayers have waited long enough.

City Council approved the expenditure, the ICA put its stamp on it and the delays are costly. The ICA already is withholding $13.3 million in gaming revenue from 2009 and 2010, and it could keep back future tax revenue from the city as well. We say keep up the pressure.

A modern city must have an efficient method of tracking its expenditures, its services and its employees. **Pittsburgh's** is long overdue.

F

Allegheny Institute
City of Pittsburgh/Financial Oversight

Issue Summary (Updated January 2011)
Pittsburgh's Financial Overseers

The Issue:

The City of Pittsburgh has been in Act 47 distressed status and under the watch of an oversight board for six years.

What We Know:

Act 47 is an open-ended designation—a municipality is in it until the Secretary of DCED determines that it has erased the conditions that led it into Act 47 in the first place. The City petitioned the state in 2007 to be removed from Act 47 status. In rendering his decision in July of 2008, the Secretary noted "rescission at this time would be premature and could subject the City to a return to distress status in the near future...many of the conditions that originally led to the distress determination have not been fully alleviated".

In addition, Act 11 of 2004 created the oversight board to assist the City of Pittsburgh with its financial difficulties. As intended in the statute, the oversight board would "operate concurrent and equally" with the Act 47 Recovery Team. The five directors of the oversight board were appointed by the leaders of the House (2), Senate (2), and the Governor (1). The appointees were required to have "substantial experience in finance or management" and were to be either residents of Pittsburgh or have their primary place of employment in the City. The statute gave the oversight board an existence of at least seven years, which means it will go out of business in 2011 unless it is renewed by state action.

Pittsburgh is currently operating with an amended recovery plan. The purpose of the amendment was to address pending legacy costs of debt, pensions, post retirement benefits, workers' compensation along with a long-term capital plan, while maintaining positive operating budgets well into the future. The plan recommended that the City put more money into pensions, including the possibility of new fees and charges, including some on college students. This morphed into the tuition tax, and the oversight board nixed the 2010 budget based on the fact that their was no legal foundation for the tax.

Recommendations:

If the oversight board does end its legal existence in 2011 the door is open for the City to pursue a tax on non-residents. A municipality in Act 47 is free to petition the courts for an increase in the wage tax to fall on non-residents (it would also have to increase on City residents by the same percentage). However, the law that created the oversight board prohibited such an action while the board was in place. Should the board expire and the City and its defenders stick to their notion that the City needs more revenues to get out of its predicament, look for this avenue to be explored.

The Legislature should pass a bill to extend the life of the oversight board for five years, until December 31, 2016 and the appointing authorities should consider placing new members on the board to give the ICA new vitality and bring some discipline to the City's finances.