



## SUSTAINABLE GOVERNMENT: FINANCIAL DISTRESS IN PENNSYLVANIA

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### FINANCIAL DISTRESS IN PENNSYLVANIA

## Fiscal Renaissance – City of Pittsburgh

- Pittsburgh entered Act 47 in 2003 due to significant debt issues, recurring net loss from operations, and rising payroll/benefits costs.
- Over the next fourteen years the City's Fiscal Plan was to adopt Five Basic Objectives to assure fiscal integrity & success.
  - Eliminate the operating budget deficits in multi-year financial projection while preserving services;
  - Keep the City's Fund Balance at an appropriate level by monitoring cash-flow closely;
  - Gradually reduce the City's debt burden to provide more resources to support daily operations;
  - Direct more funding to the City's Capital Budget to assure stability of the core infrastructure; and
  - Gradually increase the City's Pension Fund Contributions to levels recommended by actuaries.

## FINANCIAL DISTRESS IN PENNSYLVANIA

### **Fiscal Success, Act 47, Municipalities Fiscal Recovery Program City of Pittsburgh**

#### **1.) Eliminate the operating budget deficits in multi-year financial projection while preserving services.**

- The City was able to produce an operating surplus in ten of its last fourteen years.
- The City's 2018 budget and five-year projection shows positive operating results to 2022.

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#### **2. Keep the City's Fund Balance at an appropriate level by monitoring cash-flow closely.**

- The City's 2018 five-year plan shows year-end fund balance remaining at 10 – 12 % of revenues.

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#### **3.) Gradually reduce the City's debt burden.**

- Annual debt service payments drop from \$74.4 million in 2018 to \$48.9 million in 2019. The Mayor proposes to issue \$60 million in bonds each year after 2018, which would bring annual debt payments up to \$63.2 million in 2022.
- The City's debt policy sets the goal of keeping annual debt service at no more than 12 percent of total General Fund expenditures.
- The City's projections show annual payments would be equal to or less than 10 percent starting in 2019, even with the new borrowing.

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#### **Goal 4: Direct more funding to infrastructure investments.**

- The 2018 capital budget projects annual debt issuances after 2018 and anticipates higher pay-as-you-go contributions.
- The City hopes to successfully negotiate an agreement with the major non-profit organizations, which will be another funding approach for infrastructure needs.

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### 5.) Gradually increase the City's pension contributions to the levels recommended by its actuary.

- The 2018 budget incorporates the additional pension contribution required in the 2014 Amended Recovery Plan for 2018.
- The pension contribution would then increase to \$99.0 million in 2019, which would be \$12.6 million (or 14.6 percent) higher than in 2018, partly to account for dropping the assumed investment rate return from 7.5 percent to 7.25 percent.

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## Fiscal Success, Act 47, Municipalities Fiscal Recovery Program City of Pittsburgh

- In addition to meeting the Five Major Objectives above, the City made adjustments to accounting, budgeting, fund balance, borrowing, capital improvement planning, and purchasing practices.
- With these fiscal objectives met and the adoption of best management practices executed, the City of Pittsburgh successfully Exited Act 47 on February 12, 2018.

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City of Pittsburgh**

- Governor Tom Wolf explained, : “This turnaround was not easy – it took a lot of hard work, a lot of collaboration, and yes, some constructive arguments about where the City was headed, but in the face of it all, Pittsburgh stood united—desperately working to improve its stability and its financial health. Pittsburgh’s recovery has captured the attention of the nation, and frankly, the world. We’ve transformed a rust belt City that was a symbol of economic decline into one of the most dynamic examples of innovation for the new economy in the world.”