# CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND

## ALLEGHENY COUNTY

## COMPLIANCE AUDIT REPORT

## FOR THE PERIOD

## JANUARY 1, 2010, TO DECEMBER 31, 2011

RELEASED MARCH 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

# CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND

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ABBREVIATION

PERC - Public Employee Retirement Commission

## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission (PERC) published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

| | | |
|---|---|---|
| Act 14 | - | Second Class City Code, Act of March 7, 1901 (P.L. 20, No. 14), as amended, 53 P.S. § 22101, et seq. |
| Act 147 | - | Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq. |

The City of Pittsburgh Comprehensive Municipal Pension Trust Fund serves as a common administrative and investment agent for the city's police, firemen's and nonuniformed employee defined benefit pension plans. Ordinances governing pension plan operations are codified in the Pittsburgh Code, Title 1, Administrative, Article XI, Personal, Chapter 192. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and nonuniformed employees.

EUGENE DEPASQUALE • AUDITOR GENERAL

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**EUGENE A. DePASQUALE**
**AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Pittsburgh
Allegheny County
Pittsburgh, PA 15219

We have conducted a compliance audit of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund for the period January 1, 2010, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and

2. To determine if the pension trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.

- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.

- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.

- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.

- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.

- Whether the pension trust fund is in compliance with state regulations for distressed municipalities.

- Whether the terms and methodologies of the issuance of bonds by the municipality, and any restrictions are in compliance with plan provisions and state regulations.

- Whether casino revenues are determined and deposited as directed by the Intergovernmental Cooperation Authority (ICA) and in accordance with applicable laws and regulations.

- Whether parking tax revenues are deposited timely by the city and in accordance with plan provisions and applicable laws and regulations.

The City of Pittsburgh contracted with an independent certified public accounting firm for annual audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund's combined financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Pittsburgh Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Police and Firemen's Pension Plans

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Nonuniformed Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Nonuniformed and Firemen's Pension Plans

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting An Underpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, in the prior audit report, we indicated extreme concern about the historical trend information contained in the respective schedules of funding progress included in that report which indicated a continued decline of assets available to satisfy the long-term liabilities of the fund. For example, the Police Pension Plan's Funded Ratio went from a high of 57% as of January 1, 2000, to a ratio of 27% as of January 1, 2009, the Firemen's Pension Plan's Funded Ratio went from 73% as of January 1, 2000, to 35% as of January 1, 2009, and the Nonuniformed Pension Plan's Funded Ratio went from 76% as of January 1, 2000, to 43% as of January 1, 2009. It was noted that this condition will require increased municipal contributions to fund the plans in accordance with Act 205 funding standards and we encouraged city officials to make responsible decisions when monitoring the funding of its pension plans to ensure their long-term financial stability.

As previously noted, Objective No. 2 of our audit of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

| Level | Indication | Funding Criteria |
|---|---|---|
| I | Minimal distress | 70-89% |
| II | Moderate distress | 50-69% |
| III | Severe distress | Less than 50% |

Act 205, as amended by Act 44, at Section 902(c) mandated the transfer of administration of the City of Pittsburgh's pension plans to the Pennsylvania Municipal Retirement System (PMRS) if the city was determined to be in Level III severe distress as of January 1, 2011. The January 1, 2011, actuarial valuation reports were to be filed with PERC by September 1, 2011. As noted in the Comments included in this audit report, in order to avoid a transfer of the city's pension plans to PMRS, the city adopted Ordinance Nos. 42 and 44 and Resolution No. 882 which are intended to provide additional funding to the Comprehensive Municipal Pension Trust Fund. During and subsequent to the current audit period, the city has made deposits of parking tax revenues to the pension trust fund pursuant to the terms of these documents. We urge the city to continue to take appropriate action to ensure the terms of these documents continue to be adhered to in the future.

The January 1, 2011, actuarial valuation reports filed with PERC for the city's police, firemen's and nonuniformed pension plans, which included the present value of anticipated future parking tax revenues referenced in this audit report, and were prepared using actuarial smoothing methodology, contained the following aggregated funding data:

| Actuarial Valuation of Assets | Actuarial Accrued Liability | Funding Ratio |
|---|---|---|
| $ 631,991,453 | $ 1,012,072,241 | 62% |

Based on this information, PERC issued a notification that the City of Pittsburgh Comprehensive Municipal Pension Trust Fund is currently in Level II moderate distress status. Utilizing data from the city's comprehensive annual financial report (CAFR), which does not include the fair market value of future funding from parking tax revenues as noted in the Comments section of this audit report, the net assets of the pension trust fund at fair market value on January 1, 2011, were $332,797,086, which represents 33 percent of the fund's actuarial accrued liability as of that date.

While we acknowledge the actions city officials have taken to increase the plans' funding levels by January 1, 2011, which included the dedication of future parking tax revenues, decreased investment return assumptions and amortization period requirements which all were included in the plans' respective actuarial valuation reports, city officials in their fiduciary capacity must ensure that fiscally responsible decisions are made that will benefit the City of Pittsburgh and its taxpayers to ensure the city's pension plans have adequate resources to meet current and future benefit obligations to the city's hard-working police officers, firefighters and municipal employees. It is clear that the City of Pittsburgh's Comprehensive Municipal Pension Trust Fund continues to face serious financial difficulties that city officials must address.

The contents of this report were discussed with officials of the City of Pittsburgh and, where appropriate, their responses have been included in the report.

John M Lori

December 20, 2012

JOHN M. LORI
Deputy Auditor General for Audits

EUGENE DEPASQUALE
AUDITOR GENERAL

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

  The city reimbursed $8,281 to the Commonwealth for the overpayments of state aid received in 2008 and 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2012 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

The City of Pittsburgh has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefits – (Police and Firemen's Pension Plans)

- Inconsistent Pension Benefits – (Nonuniformed Pension Plan)

Police and Firemen's Pension Plans

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the police and firemen's pension plan governing documents were amended by Ordinance No. 22, which was formally adopted by the city on October 18, 2001. Ordinance No. 22 contains a benefit provision that conflicts with the collective bargaining agreement between the city and its police officers, as follows:

| Benefit Provision | Ordinance No. 22 | Collective Bargaining Agreement |
|---|---|---|
| Final average salary | Beneficiaries under Policemen's Benefit Plan No. 2, who retire or who become eligible to receive a pension allowance on or after January 1, 1988, shall be entitled to receive from the fund, per month, an amount equaling 50% of the average monthly earnings received by the contributor as an employee of the Bureau of Police of the city during the last 48 consecutive months preceding retirement. If any employee has not been employed in the Bureau of Police at least 48 months, but is otherwise entitled to a pension, the employee's pension shall equal not less than 50% of the amount which would constitute the average monthly earnings received by the beneficiary as an employee of the Bureau of Police. | For employees hired on or after January 1, 1992, the pension benefit will be determined on the basis of the last three (3) years of pay.<br><br>(Section 14 of the police pension plan handbook states, in part, beneficiaries under the fund, who retire or who become eligible to receive a pension allowance…shall be entitled to receive from the fund, per month, an amount equaling fifty per centum of the average monthly salary earned by the contributor as an employee of the Bureau of Police of the city during any three calendar years of service or the last thirty-six months immediately preceding retirement.) |

Police and Firemen's Pension Plans – (Continued)

Finding No. 1 – (Continued)

With respect to the firemen's pension plan, Ordinance No. 22 provides that beneficiaries under Firemen's Benefit Plan No. 2 who retire on or after January 1, 1988, shall be entitled to receive, per month, an amount equaling 50 percent of the average monthly earnings received by the contributor as an employee of the Bureau of Fire of the city during the last 48 consecutive months preceding retirement. If any employee has not been employed in the Bureau of Fire at least 48 months, but is otherwise entitled to a pension, the employee's pension shall equal not less than 50% of the amount which would constitute the average monthly earnings received by the beneficiary as an employee of the Bureau of Fire. However, it has been determined that contrary to the ordinance, it has been the city's practice to provide pension benefits for all members of the firemen's pension plan based on 50 percent of the member's average monthly wages during any 3 calendar years of service or the last 36 months preceding retirement.

Furthermore, actuarial valuation report forms 201C for the police pension plan, with valuation dates of January 1, 2007, January 1, 2009 and January 1, 2011, submitted to PERC, reported the benefit provision included in the collective bargaining agreement. In addition, actuarial valuation report form 202C for the firemen's pension plan, with valuation dates of January 1, 2007, January 1, 2009 and January 1, 2011, submitted to PERC, reported the pension benefit to be based on wages averaged over the 36 month period prior to retirement.

Criteria: The plan's governing documents should contain consistent, clearly defined and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: The city failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. For the period January 1, 2005, to December 31, 2011, the fund began paying pension benefits to 76 police plan retirees and 55 firemen's plan retirees whose pension benefits were not calculated in accordance with Ordinance No. 22.

Recommendation: We again recommend that municipal officials consult with their solicitor and take the appropriate action to ensure that the plans' governing documents properly reflect all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

Police and Firemen's Pension Plans – (Continued)

Finding No. 1 – (Continued)

Management's Response: City officials agreed with the finding and are working with their solicitor to insure that all documents properly reflect all benefit obligations of the pension plan and that any inconsistencies among the various plans are eliminated.

Auditor's Conclusion: Evidence of such compliance should be immediately submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402-D Finance Building, Harrisburg, PA 17120.

## Nonuniformed Pension Plan

### Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, inconsistencies in benefit provisions exist between the nonuniformed pension plan's governing document, as amended by Ordinance No. 22, and the various collective bargaining agreements (CBAs).

The CBAs between the city and The Fraternal Association of Professional Paramedics for the periods January 1, 2001, to December 31, 2005, and January 1, 2006, to December 31, 2011, contain the following inconsistency:

| Benefit Provision | Ordinance No. 22 (Section 192.26 (b)) | Collective Bargaining Agreement |
|---|---|---|
| Normal retirement benefit | The amount of any monthly pension of a member who terminates service prior to age 60 shall be either of the following as the member may elect at the time of termination of services: 1) A deferred pension, commencing on attainment of age 60, computed under the provisions of subsection (a) hereof based only on credited service and average monthly earnings to the date of early retirement; or 2) A reduced pension, commencing prior to age 60, equal to the deferred pension to which the member would have been eligible had he or she elected, reduced .5% for each month that the commencement of the pension precedes the month of the member's attainment of age 60. | Section 21A provides, effective January 1, 2003, bargaining unit employees shall be entitled to retire with the full pension benefits at age 55 and there shall be no actuarial reduction for employees electing to retire at age 55. |

Nonuniformed Pension Plan – (Continued)

Finding No. 2 – (Continued)

The CBAs between the city and the AFSCME District Council 84 Local 2719 for the period January 1, 2005, to December 31, 2009, and January 1, 2010, to December 31, 2014, contain the following inconsistency:

| Benefit Provision | Ordinance No. 22 (Section 192.21) | Collective Bargaining Agreement |
|---|---|---|
| Social Security offset | There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset). | Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset. |

The CBA between the city and the Pittsburgh Recreation Teachers Union Local 668 for the period January 1, 2005, to December 31, 2014, contains the following inconsistency:

| Benefit Provision | Ordinance No. 22 (Section 192.21) | Collective Bargaining Agreement |
|---|---|---|
| Social Security offset | There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset). | Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset. |

Nonuniformed Pension Plan – (Continued)

Finding No. 2 – (Continued)

The CBAs between the city and the AFSCME AFL-CIO Local 2037 for the period January 1, 2005, to December 31, 2009, and January 1, 2010, to December 31, 2014, contains the following inconsistency:

| Benefit Provision | Ordinance No. 22 (Section 192.21) | Collective Bargaining Agreement |
|---|---|---|
| Social Security offset | There is hereby established a pension benefit plan which shall be known as the Municipal Benefit Plan No. 2 for eligible employees of the city hired on or after January 1, 1988. The provisions contained in this Municipal Benefit Plan No. 2 shall become a part of the municipal pension plan. . . (Eliminates Social Security offset). | Employees hired January 1, 2005 or thereafter shall receive those benefits established within Act 187 of 1975, which includes a Social Security offset. |

Criteria: The plan's governing documents should contain consistent, clearly defined and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: The city failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials consult with their solicitor and take the appropriate action to ensure that the plan's governing document properly reflects all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

Management's Response: City officials agreed with the finding and have drafted ordinances to amend Sections 192.33 & 192.43 of the Pittsburgh Code to correct the inconsistent benefit provisions noted, however, these ordinances have not yet been adopted.

Auditor's Conclusion: Evidence of such compliance should be immediately submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402-D Finance Building, Harrisburg, PA 17120.

Firemen's and Nonuniformed Pension Plans

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the city received overpayments of state aid for the years 2008 and 2009 due to errors on the Certification Forms AG 385 filed by the city. The city reimbursed $8,281 to the Commonwealth for the overpayments of state aid received; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2012.

The city certified 1 ineligible nonuniformed employee (1 unit) and failed to certify 1 eligible firefighter (2 units) on the Certification Form AG 385 filed in 2012. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and ensure full compliance with the prior audit recommendation.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the city for distribution to its pension plans. Because the city's state aid allocation was based on unit value, the city received an underpayment of state aid of $3,576 as identified below:

| Type Of Plan | Units Overstated (Understated) | Unit Value | State Aid Overpayment (Underpayment) |
|---|---|---|---|
| Nonuniformed | 1 | $ 3,576 | $ 3,576 |
| Firemen's | (2) | $ 3,576 | (7,152) |
| Total Net Underpayment of State Aid | | | $ (3,576) |

Although the city will be reimbursed for the underpayment of state aid due to the city's certification error, the full amount of the 2012 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Firemen's and Nonuniformed Pension Plans – (Continued)

Finding No. 3 – (Continued)

Recommendation: We again recommend that, in the future, plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: City officials agreed with the finding without exception.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

## SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

### POLICE PENSION PLAN

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)] |
| 01-01-07 | $ 114,889,067 | $ 353,521,990 | $ 238,632,923 | 32.5% | $ 54,861,899 | 435.0% |
| 01-01-09 | 105,564,988 | 387,857,613 | 282,292,625 | 27.2% | 63,787,288 | 442.6% |
| 01-01-11 | 235,012,542 | 390,253,799 | 155,241,257 | 60.2% | 67,225,218 | 230.9% |

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)] |
| 01-01-07 | $ 142,787,099 | $ 308,412,402 | $ 165,625,303 | 46.3% | $ 47,573,078 | 348.1% |
| 01-01-09 | 118,292,383 | 334,059,624 | 215,767,241 | 35.4% | 47,509,475 | 454.2% |
| 01-01-11 | 209,936,926 | 339,135,347 | 129,198,421 | 61.9% | 49,516,116 | 260.9% |

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

SCHEDULES OF FUNDING PROGRESS – (Continued)

NONUNIFORMED PENSION PLAN

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)] |
| 01-01-07 | $ 117,692,558 | $ 237,314,186 | $ 119,621,628 | 49.6% | $ 70,189,133 | 170.4% |
| 01-01-09 | 115,322,537 | 267,615,711 | 152,293,174 | 43.1% | 73,072,430 | 208.4% |
| 01-01-11 | 187,041,985 | 282,683,095 | 95,641,110 | 66.2% | 81,443,567 | 117.4% |

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and losses using the tabular smoothing method subject to a minimum of 70% and maximum of 130% of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2006 | $ 18,429,806 | 100.0% |
| 2007 | 19,923,487 | 100.0% |
| 2008 | 19,768,698 | 101.8% |
| 2009 | 20,240,957 | 100.0% |
| 2010 | 20,429,249 | 225.8% |
| 2011 | 19,702,627 | 143.8% |

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2006 | $ 10,432,886 | 100.0% |
| 2007 | 7,850,916 | 100.0% |
| 2008 | 7,900,618 | 100.7% |
| 2009 | 14,116,164 | 100.0% |
| 2010 | 14,408,404 | 225.8% |
| 2011 | 15,736,257 | 132.5% |

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

NONUNIFORMED PENSION PLAN

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2006 | $ 10,920,565 | 100.0% |
| 2007 | 10,383,206 | 100.0% |
| 2008 | 10,457,628 | 100.0% |
| 2009 | 10,158,310 | 100.0% |
| 2010 | 10,334,489 | 225.8% |
| 2011 | 11,057,077 | 144.1% |

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

## POLICE PENSION PLAN

| | |
|---|---|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 27 years |
| Asset valuation method | Tabular smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases | 5.0% |
| Cost-of-living adjustments | 3.5% |

## FIREMEN'S PENSION PLAN

| | |
|---|---|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 27 years |
| Asset valuation method | Tabular smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases | 5.75% |
| Cost-of-living adjustments | 3.5% |

## NONUNIFORMED PENSION PLAN

| | |
|---|---|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 27 years |
| Asset valuation method | Tabular smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases | 4.0% |
| Cost-of-living adjustments | 3.5% |

## ACT 44 OF 2009

As noted in the Letter from the Auditor General, Act 205, as amended by Act 44, at Section 902(c) mandated the transfer of administration of the City of Pittsburgh's pension plans to PMRS if the City was determined to be in Level III Severe Distress as of January 1, 2011. The January 1, 2011, actuarial valuation reports were to be filed with PERC by September 1, 2011.

In an attempt to avert a takeover of the city's pension plans by PMRS, Pittsburgh City Council adopted Ordinance Nos. 42 and 44 and Resolution No. 882, effective December 31, 2010.

Ordinance No. 42 irrevocably dedicated to the Comprehensive Municipal Pension Trust Fund the receipts of revenue from the city's parking tax for the years 2011 through 2041. Ordinance No. 44 details the payment schedule which provides for annual deposits of $13,376,000 for the years 2011 through 2017, and $26,752,000 for the years 2018 through 2041, resulting in total deposits to the Fund in the amount of $735,680,000.

Resolution No. 882 requested that the Intergovernmental Cooperation Authority (ICA) authorize the transfer of $45,000,000 from the City Restricted Debt Fund to the Comprehensive Municipal Pension Trust Fund for the new purpose of improving the cash position of the Fund. The ICA subsequently approved the transfer of the funds.

Pursuant to Ordinance Nos. 42 and 44, the city recognized the fair market value of the future funding from parking tax revenues in the amount of $238,572,759 as an asset in the revised January 1, 2011, actuarial valuation reports filed with PERC. Consequently the aggregate funding ratio of the city plans' increased to 62 percent. In a letter to the city dated September 19, 2011, PERC accepted the city's revised actuarial valuation reports (noting that the original valuations were prepared based on asset information included in the city's CAFR which did not include the fair value of future parking revenues) and notified the city that in accordance with the aggregated funding status of its plans as of January 1, 2011, the city was determined to be in Level II Moderate Distress Status.

During the current audit period, on September 30, 2011, the city transferred parking tax revenues in the amount of $13,376,000 to the pension fund pursuant to Ordinance No. 44. Subsequent to the current audit period in 2012, the city has made 4 separate deposits of parking tax revenues in the amounts of $3,344,000, totaling $13,376,000.

The Department of the Auditor General will continue to monitor the city's compliance with Act 205, as amended by Act 44 of 2009, and the implementation of Ordinance Nos. 42 and 44 during future audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund.

## ACT 71 OF 2004

The Commonwealth of Pennsylvania declared the City of Pittsburgh financially distressed in 2004 pursuant to the provisions of Act 47 and established the Intergovernmental Cooperation Authority (ICA) and an Act 47 oversight team to help the city reach fiscal solvency. The mission/policy of ICA is described at Section 102 of Act 11 of 2004, titled Intergovernmental Cooperation Authority for cities of the Second Class.

Act 71 of 2004 specifically provides that the local share of gaming revenue from licensees located in the City of Pittsburgh shall be directed to the ICA. Act 71 directs the ICA to utilize gaming revenue to reduce debt, increase pension funding or for any other purposes determined to be in the best interest of the City of Pittsburgh by the ICA.

The Board of the ICA has determined to release gaming funds only after it has completed an exhaustive review and analysis of the conditions that contribute to the structural fiscal weakness of the city's financial picture, and has made an informed determination as to the highest and best use of those funds.

In 2011, the ICA directed the payment of 1.4 million of gaming revenues in addition to the city contributions in order to offset the pension systems decreased cash flows. These funds were deposited into the pension plans in January of 2012.

In October 2012, the ICA directed the payment of $7.455 million of gaming revenues for deposit into the pension trust fund. These funds were deposited into the city's general fund as reimbursement for contributions required and paid by the city in excess of the city's 2012 minimum municipal obligations due to the pension plans.

The Department of the Auditor General will continue to monitor the ongoing deposits of gaming revenue into the city's pension trust fund during future audits of the City of Pittsburgh Comprehensive Municipal Pension Trust Fund.

CITY OF PITTSBURGH COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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| | |
|---|---|
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| Ms. Darlene M. Harris | Council President |
| Mr. Michael Lamb | Controller |
| Mr. Scott Kunka | Finance Director |
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