

MONROEVILLE FINANCE AUTHORITY (MFA)

Meeting Minutes

July 12, 2012

I. Call to order

Bob Zurich opened the meeting at the request of the board because elections were not completed. The inaugural meeting of the Monroeville Finance Authority was called to order at 7:05pm on July 12, 2012, Council chambers, Municipality of Monroeville Bldg. Pledge of Allegiance was recited.

II. Roll call

Bob Zurich conducted a roll call. The following persons were present: Virginia Finnegan, Tom Weikel, Gary Pugliano, Rich Lopiccolo, Debra Balcik

III. Approval of minutes from last meeting (no prior meeting)

IV. Business matters of the Authority

a) Election of Officers

Chairman, Rich Lopiccolo, nominated by Gary Pugliano, 2nd by Virginia Finnegan, approved by entire board

Vice Chairman, Gary Pugliano, nominated by Tom Weikel, 2nd by Debbie Balcik, approved by entire board

Secretary, Debbie Balcik, nominated by Virginia Finnegan, 2nd by Tom Weikel, approved by entire board

Treasurer, Virginia Finnegan, nominated by Debbie Balcik, 2nd by Rich Lopiccolo, approved by entire board

Assistant Secretary-Treasurer, Tom Weikel, nominated by Rich Lopiccolo, 2nd by Virginia Finnegan, approved by entire board

b) Resolution approving bylaws for MFA

Meeting date and time to be determined based on need. All meetings, including work sessions, are required to be advertised at a minimum of 24 hours in advance.

Filing of Officers Certificates with the Department of State will be completed by Mr. Zurich

Discussion of bylaws, presented as a template from the County Financial Authority, was completed and voted upon by the MFA board. Bylaws were approved by motion of Debbie Balcik, 2nd by Gary Pugliano, approved by entire board

c) History of Formation of the MFA

Chairman, Rich Lopiccio, requested that Mr. Zunich provide the board and the public with the definition and the history of the formation of the MFA. The Monroeville Council had charged the Municipal Manager with looking for ways to increase revenue. UPMC requested bond funding in January 2012 and Mr. Dice, Monroeville Solicitor, approached Sean Logan from UPMC to discuss the request. It was agreed that this could be a positive outcome for the Municipality of Monroeville. In April 2012, the Monroeville Council passed the ordinance for the MFA. The Monroeville Home Rule charter guidelines for appointment of members to the MFA was followed with voting on members held June 12, 2012 at the regular council meeting. The formation of the MFA was submitted for state approval, approved July 2012, retroactively to the formation approval date.

d) Regular meeting was recessed at 7:25pm, Chair proposed the recess, 2nd by Virginia Finnegan, approved by entire board, to begin the TEFRA hearing

e) Tax Equity and Fiscal Responsibility Act (TEFRA) hearing began at 7:25pm with the introduction of Sara Davis Buss, Bond Council for UPMC. Ms. Davis Buss explained that a TEFRA hearing is required to allow for public input. The meeting had been advertised 14 days prior to the hearing in the Tribune Review, as required. Ms. Davis Buss reviewed the request was for 420 million with 210 million designated for capital investment projects.

Questions from MFA board.

Mr. Pugliano requested explanation from Ms. Davis Buss on how the MFA was different from the Harrisburg Authority that was liable when the incinerator plant bond failed. Ms. Davis Buss explained that MFA was not liable if the bonds were to fail due to the structure of the bonds and the MFA.

Tom Weikel requested explanation of the Beaver County bond issue but Ms. Davis Buss was not familiar. Mr. Weikel asked for discussion of underwriting for the bonds and was informed that the UPMC will select the underwriters from a very broad market.

Public Comment portion of hearing. 4 people had requested to speak before the board by submitting their names to the Municipality of Monroeville. Each speaker was advised by the Chairman that they would have 5 minutes to present to the MFA. The Chairman was the time keeper.

Merritt Bussiere, Research Director for Pittsburgh United, presented documents requesting they be entered into the record. Document one is testimony of John DeFazio, Allegheny County Council, at the public hearing of July 10, 2012. Document two, Hidden in Plain Sight: The Cost of UPMC Tax Exemptions, MFA agreed to enter into the record. Mr. Bussiere discussed the closing of Braddock Hospital, the UPMC Health Plan covered facilities and requested the bond be denied due to his statement that this was another "tax break" for UPMC providing an indirect 2 million to UPMC on the new bonds.

Tony Buba, 68 Ridge Road, Pittsburgh, PA 15221 presented to the board that UPMC is building monuments on the backs of the poor, referenced the closure of Braddock, the building of UPMC East and the new signage by Forbes Regional in Monroeville. Mr. Buba presented that the bonds would benefit the wealthy and suggested that MFA stand up against UPMC and deny the bond.

Charles Patterson, 418 Everts Court, East Liberty, PA. Presented that he is an employee of UPMC Presbyterian and he stated that UPMC is paying enough to their employees and that he is talked down to by his supervisors and would like a union to come to UPMC. He requested the bond not be approved because he does not want UPMC to get a tax break.

Leslie Poston, 2024 Kendron Drive, Pittsburgh, PA 15221 Presented that she is an employee of UPMC, was a Nursing Assistant and currently is a Unit Secretary. Stated her wages are too low, and that UPMC should not get tax free bonds because if UPMC paid more taxes we could have more buses to get employees to work.

Additional Public Comment: The Chairman addressed those present allowing time for any additional comments, requesting Monroeville residents be permitted to go first. The Mayor of Monroeville, Greg Erosenko, requested to provide comment. Mayor Erosenko presented the financial benefit to the Municipality of Monroeville with an anticipated 135,000 in August 2012 and approximately 100,000 each year after if the bond is fully funded. Mayor supported approval of the bond. No further comments from those in attendance.

TEFRA Hearing closed at 7:55pm, proposed by Tom Weikel, 2nd by Gary Pugliano, approved by entire board.

f) **Regular meeting resumed at 7:55pm**. Proposed reopening of meeting by Virginia Finnegan, 2nd by Tom Weikel, approved by entire board.

g) **Resolution approving bond issue**

UPMC had prior submitted to the board the proposal for consideration. The MFA will have no administration of the bonds, loan agreements will be handled by UPMC, documents presented by Ms. Davis Buss included review of sections 13 and 14 which outlined the no liability statements for the MFA. Mr. Pugliano questioned default on bonds in California but it was explained by Ms. Davis Buss that those were general obligation bonds and the UPMC request are revenue bonds therefore UPMC are responsible to the creditors not the MFA. Default would not lead to any responsibility of the MFA. Tom Weikel requested clarification if the full amount of the bond did not sell would they need to come back for bond revision. Ms. Davis Buss explained that they would need to come back if it is under the amount requested. She further explained that if the bonds were refinanced at a lower interest rate that UPMC would be subject to the same fee schedule and UPMC is seeking to close quickly due to the current low rates of interest. Fee schedules can be changed with each bond issued for future requestors. Gary Pugliano questioned who can invest and Mr. Hepenstal, Treasurer at UPMC, clarified that there is a wide variety of investors from individuals to corporations but a broker needs to handle all deals.

Gary Pugliano presented a motion to approve, 2nd by Debbie Balcik, approved by entire board.

h) **Resolution approving fee schedule for MFA**

Ms. Davis Buss explained that the fee schedule was used as a base for other bonds in Allegheny County. Mr. Zurich advised that it was customary legal fee schedule.

Tom Weikel presented a motion to approve, 2nd by Virginia Finnegan, approved by entire board.

i) **Old Business: none**

V. New business

- a) E.I.N and bank Account

E.I.N. number to be obtained by Mr. Zurich, motion to approve by Tom Weikel and 2nd by Virginia Finnegan, approved by entire board

- b) Advertising notification for future meetings will be taken care of by Mr. Zurich

VI. Adjournment

Bob Zurich opened the meeting at the request of the board because elections were not completed. adjourn the meeting, 2nd by Tom Weikel and approved by the entire board at 8:30pm.

Next meeting to discuss the opening of the bank account and future meetings will be held on Tuesday, July 17th at 7pm in the Monroeville Municipal building, room to be determined.

Minutes submitted by: Debbie Balcik, Secretary, MFA

Minutes approved by: Tom Weikel, 2nd Gary Pugliano, Approved by entire board meeting of July 17, 2012

Testimony of John DeFazio, Allegheny County Council, at the Tuesday, July 10, 2012 Public Hearing held to consider issuance of revenue bonds by the Public Finance Authority of Wisconsin to benefit UPMC.

I am John DeFazio, director of District 10 of the United Steelworkers. I am also an elected member of Allegheny County Council.

On County Council, I've voted for UPMC bonds in the past. We want world-class health care here in Pittsburgh, and we support world-class health care institutions. But a lot of people around here, including me, think that UPMC has been acting too much like a big for-profit corporation that only cares about the bottom line.

For us on County Council, this really came to a head last fall when UPMC asked us to approve some more tax-exempt bonds. At that time, UPMC was saying they weren't going to renew their contract with Highmark. Highmark is the Blue Cross Blue Shield company here, and it's the biggest insurance company. Most people with insurance in the Pittsburgh area have Highmark. UPMC was going to cut off those 3 million patients, and tell them that they had to pay out-of-network rates, which no one can afford. UPMC said they wouldn't sign another contract with Highmark because Highmark was helping to save the West Penn Allegheny Health System, which competes with UPMC.

A non-profit, charitable organization should not be thinking just about how to beat their competition, which is another non-profit health system. But UPMC was threatening to cut off 3 million patients for just that reason. It took a lot of pressure from members of the legislature and from the governor – both parties – to get UPMC to extend their contract and not shut those people off. But that contract expires at the end of 2014, and UPMC is saying that it won't be renewed after that, so in a couple of years we're probably going to have to deal with all of that again, unless UPMC changes its attitude.

So, back in the fall, when UPMC was saying they were going to cut off Highmark patients, they came to County Council and asked us to approve tax-exempt bonds. As I said, I've voted for bonds like this plenty of times before, but this time I thought UPMC was going too far. I wasn't the only one. Remember, this was bipartisan. On County Council, we were saying we couldn't just give a rubber stamp to it this time. So they withdrew that proposal.

So now, months later, they instead go to an authority in Wisconsin and ask for tax-exempt bonds again. This is really an insult to the people of Allegheny County. UPMC needs to explain themselves to us before we agree to more tax breaks for them. It's fine to give a tax break to an organization that is actually acting like a non-profit, charitable organization, but it's another thing to give a tax break to an organization that is acting like a big corporation that's just out to make profits.

And you can call this whatever you want, but it is another tax break for UPMC. As an elected official I'm supposed to be fiscally responsible. And if UPMC issues tax-exempt bonds, then UPMC pays less for them, and the people who buy the bonds are not paying taxes on them.

That means less money for public services. Right now, at all levels of government, we have to look people in the eye and tell them that we have to make cuts. Teachers are being laid off everywhere in our schools. In Allegheny County, at the Port Authority, they're saying to the people who drive our buses that they have to take a huge pay cut, or we're going to cut service by 35%.

When all this is going on, how can I turn around and give a tax break to a 10 billion dollar corporation, a corporation that made over 700 million dollars in profits just last year? They settled the Highmark thing for now, but that is coming back in a couple of years. And they're expanding overseas, in Italy, Ireland, Cyprus, even China, even though they closed hospitals here, in the South Side and Braddock.

These bonds still need to be approved by an elected body in Pennsylvania. I can promise you that if these bonds end up at Allegheny County Council for approval, I will be asking some tough questions. For example, how much money is UPMC saving on this? Can they answer that question? It might not be a lot of money to UPMC, but it is a lot of money to the rest of us. We need that tax revenue to keep our public services going. They'll have a tough time convincing me to vote for another tax break for UPMC.

Hidden in Plain Sight: The Cost of UPMC Tax Exemptions

Because of its tax-exempt status, UPMC pays very little in taxes. Calculating the value of its property, the amount of its income, and the value of its tax exemptions on bonds, UPMC's special status shields them from approximately \$204 million in costs each year-- to the expense of our tax coffers.

Potential Property taxes: \$40 million

UPMC is the largest private landowner in Allegheny County. Most of its properties are tax-exempt, and it holds 33% more tax-exempt real estate by dollar value than the next-largest private landowner and four times as much tax-exempt real estate as the one after that.

Countywide, UPMC uses its non-profit status to avoid \$40 million in property taxes annually. In the City of Pittsburgh – where UPMC tax-exempt real estate accounts for over 5% of the total assessed value of *all real estate in the city* – the Pittsburgh Public Schools alone would receive \$14 million more annually if UPMC paid full and fair property taxes. 20% of the school district's projected deficit for this year is accounted for by UPMC's special status alone, and the money involved could restore nearly half of the projected teacher job cuts in the district.

The \$40 million UPMC does not pay could equate to 555 teaching positions countywide, or could make up for nearly two-thirds of the Port Authority budget deficit that threatens a 35% cut in bus service.

Potential Income taxes: \$133 million

UPMC would have posted an estimated \$471.7 million in taxable income in fiscal year 2011 if it were for-profit.

On the Federal and state level, a conservative estimate shows that UPMC avoided over \$133 million in income taxes last year by claiming non-profit status. If they paid a full and fair share, that \$133 million would cover the projected deficits of both the Port Authority and the Pittsburgh Public Schools.

Reduced interest payments from tax-exempt bonds: \$31 million

UPMC pays an estimated \$31 million less each year in interest rate payments as an indirect benefit because its bonds are tax-exempt.

All told, UPMC's direct and indirect tax breaks in its most recent fiscal year amounted to an estimated \$204 million.

UPMC could have paid this and still had over \$267 million in profit left over.

Local Property Taxes

UPMC, when all its subsidiaries are taken into account, is the largest private tax-exempt landowner in Allegheny County. It owns over \$1.33 billion in real estate (at 2011 assessed value) that is exempt from taxes. The University of Pittsburgh is the second-largest private tax-exempt landowner, with some \$1.01 billion in tax-exempt real estate; the list then drops off steeply. The next-largest private tax-exempt landowner has real estate valued at \$327.5 million, or about a quarter of the assessed value of UPMC tax-exempt properties.¹

At 2012 combined millage rates for Allegheny County as well as the municipalities and school districts where these UPMC facilities are located, the company pays an estimated \$5.4 million in local property taxes on its taxable properties, but avoids paying \$40 million annually based on tax exemptions of most of its properties.²

UPMC's real estate is overwhelmingly in the City of Pittsburgh, where their tax-exempt properties alone account for over 5% of the assessed value of *all real estate* – tax-exempt or not – in the City of Pittsburgh.³

If UPMC paid full and fair taxes on these properties, Pittsburgh Public Schools would receive an additional \$14 million annually. Last year the school district began making cuts in anticipation of a projected deficit of \$68 million for this calendar year.⁴ With a full tax payment from UPMC, Pittsburgh Public Schools could fill 20% of its budget hole, bringing back 195 furloughed teachers⁵ or about half of the 398 positions expected to be eliminated in the district's 2012 budget.⁶

Countywide, if UPMC paid the full and fair \$40 million in annual property taxes it would equate to 555 teaching positions. Alternatively, UPMC property taxes alone could make up nearly two-

¹ Allegheny County, followed by the Sports and Exhibition Authority, are the two largest tax-exempt property owners in the county, followed by UPMC as the largest private tax-exempt landowner. UPMC also owns some \$180 million in taxable real estate; if its exempt and non-exempt land is added together, UPMC is the largest private landowner of any kind in the county.

² See methodology section for how these figures were calculated.

³ The total assessed value of tax-exempt real estate in the City of Pittsburgh is \$7.78 billion, and taxable real estate is assessed at \$12.13 billion, and there is an additional \$69.9 million in assessed real estate that is classified as public utility real estate and subject to the PURTA tax, for combined assessed value of \$19.98 billion in the city. UPMC's tax-exempt real estate in the city is valued at over \$1.01 billion, meaning that it accounts for over 5% of the value of all real estate in the city – and over 13% of the city's tax-exempt real estate.

⁴ <http://www.wtae.com/news/28327121/detail.html>

⁵ BLS put the average teacher salary in a secondary school in the Pittsburgh region at \$54,300 in May 2010; see <http://www.bls.gov/ro3/oespateachers.htm>. Assuming 3 percent raises in each of the last two years (bringing average salary to \$57,607), and assuming that the cost of benefits for Pennsylvania teachers is around a quarter of salary (see <http://www.teachersalaryinfo.com/cents-of-benefits-to-every-dollar-of-teacher-salary.html>), the average cost of a teacher is then \$72,008. On \$14.08 million in Pittsburgh school taxes that UPMC would be paying if its properties were taxable, this works out to 195 teachers.

⁶ <http://www.post-gazette.com/pg/11355/1198265-53.stm>

thirds of the projected \$64 million deficit at the Port Authority⁷ that is threatening a 35% cut in bus service.⁸

Income Taxes

UPMC's operating profits were \$454.3 million in fiscal year 2011. But with certain income on investments (which is typically taxable for for-profit companies), and with the system's interest payments on its debts (which are typically deducted from a for-profit's tax liability), UPMC would have had an estimated \$471.7 million in taxable income in fiscal year 2011 if it were for-profit. If we assume that the system's effective tax rate would be 30%, UPMC would have paid \$141.5 million in income taxes. Instead, largely non-profit UPMC noted that it paid only \$8.4 million in income taxes in fiscal year 2011, for an effective tax rate of around 1.68%.⁹ This amounts to UPMC avoiding \$133 million in income taxes.

This is, if anything, an underestimate of UPMC's income tax reduction because of its non-profit status. While for-profit companies make use of countless tricks to reduce their tax liabilities, comparing UPMC with the country's largest for-profit health systems reveals that UPMC would likely pay even more than a 30% income tax rate if it were subject to the same taxation as for-profit companies. See the following table comparing UPMC income taxes with the largest for-profit systems.

Health System Income Taxes and Tax Rates, 2010-11 ¹⁰				
Company	Income Tax Expense (Benefit), 2011	Income Tax Expense (Benefit), 2010	Effective Tax Rate, 2011	Effective Tax Rate, 2010
UPMC	\$8.4	\$2.3	1.7%	1.0%
HCA	\$719	\$658	20.2%	29.5%
Universal Health Services	\$247	\$152	38.3%	39.8%
Community Health Systems	\$138	\$164	34.0%	35.2%
Health Management Associates	\$106	\$101	34.0%	35.2%
LifePoint Hospitals	\$98	\$82	37.6%	34.6%
Tenet	\$61	(\$977)	37.9%	(Benefit)

Of these companies, only Tenet had a lower tax rate than UPMC over the two most recent years due to Tenet's history of losses which reduce its tax liabilities. UPMC, by contrast, has been profitable year after year. HCA's seemingly low effective rate of around 20% in 2011 is due to a large non-taxable acquisition that year; the table shows that HCA's effective tax rate was closer to 30% in the year before. The others show tax rates in the mid-thirties. Therefore, the estimate

⁷ <http://www.portauthority.org/paac/CompanyInfoProjects/BudgetFinances/ServiceReductions.aspx>

⁸ <http://pittsburgh.cbslocal.com/2012/02/29/riders-demand-action-to-prevent-port-authority-cuts>

⁹ All information derived from Consolidated Statement of Operations and Changes in Net Assets, p. 3, in UPMC Audited Consolidated Financial Statements for the Year Ended June 30, 2011. See methodology section for more detailed explanations on how these figures were calculated.

¹⁰ Sources: Company 10-Ks and Capital IQ. Also audited financial statements in the case of UPMC. Numbers are in millions.

that UPMC would have an effective income tax rate of around 30% if it were a for-profit is conservative.

If UPMC did pay full and fair corporate income taxes, the additional \$133 million would be available to fund badly-needed public services. In one year, UPMC's fair tax payment could cover both the entire projected deficit for the Port Authority of Allegheny County (\$64 million) and the projected deficit for this year in the Pittsburgh Public Schools (\$68 million).

Reduced Interest Payments from Tax-Exempt Bonds

UPMC's non-profit status allows it to issue tax-exempt bonds. This is usually a routine process for non-profits, but Allegheny County elected officials raised serious questions about one of UPMC's proposed bond issues in the fall of 2011. The strong opposition forced the County Executive to withdraw the tax exempt bond proposal for lack of support¹¹ and UPMC subsequently issued taxable bonds instead.¹²

Still, most of UPMC's nearly \$3 billion in revenue bonds are tax-exempt. The people who hold these bonds – most of them wealthy individual investors – do not pay taxes on them, and as a result, they are willing to accept a lower interest rate payment. UPMC therefore saves on interest payments and indirectly benefits from the tax exemptions afforded to its bondholders. The value of these reduced interest payments amounts to an estimated \$31 million per year.¹³

¹¹ <http://old.post-gazette.com/pg/11315/1189069-455-0.stm>

¹² <http://www.beckershospitalreview.com/racs/-/icd-9/-/icd-10/upmc-to-issue-100m-in-taxable-bonds.html>

¹³ See Methodology section for an explanation of how these figures were derived.

Methodology: Property Taxes

Analysis of property taxes is based on the Allegheny County property assessments database. This database, which was purchased from the county, includes assessed values to be used for 2012 property taxes. In keeping with the county's decision to use the old base-year assessments for this year's taxes, these property values do not take into account the recent countywide reassessment. At the same time, the millage rates in each municipality and overlapping school district also remain.¹⁴ Because anti-windfall provisions in state law require millage rates to be adjusted downward after a reassessment, it is reasonable to assume that the tax liability estimates for UPMC will remain roughly the same, even though assessed values will increase. The Allegheny County millage rate used for this analysis is 5.69, taking into account a 1-mill tax increase passed by County Council for this year. Millage rates for municipalities and school districts then vary widely.

An Excel file is appended to this document showing each identified UPMC property, including the name of the UPMC subsidiary that owns the property. The list includes only property owned by UPMC or one of its subsidiaries, and does not include leased property.

Methodology: Income Taxes

UPMC's operating profits were \$454.3 million in fiscal year 2011.¹⁵ It also brought in \$220.8 million in interest and dividend income and on sales of securities, all of which would typically be taxed if it were a for-profit operation.¹⁶

It further paid \$122.5 million in interest on its debts, and for-profit corporations mostly can count their interest expense before calculating their tax liability; this interest rate payment would have been roughly \$31 million higher if UPMC's bonds were not tax-exempt (see section on tax-exempt bond methodology below). All told, then, UPMC would have had an estimated \$471.7 million in taxable income in fiscal year 2011 if it were a for-profit. If we assume that the system's effective tax rate were 30%, UPMC would have paid \$141.5 million in income taxes.

Instead, largely non-profit UPMC noted that it paid \$8.4 million in income taxes in fiscal year 2011; this works out to a tax rate of 1.55% on \$503 million in operating income, plus realized investment gains, minus interest payments (in this case not including the estimated \$31 million more in interest payments for which the system would be liable if its bond debt were taxable). This amounts to an income tax benefit to UPMC of \$133.1 million.

¹⁴ These can be found at <http://www.alleghenycounty.us/treasure/millmuni.asp>. Note that the tiny municipalities of McDonald and Trafford do not use Allegheny County assessed values, but there were no UPMC properties in these municipalities in any case.

¹⁵ Financial statements, p. 3.

¹⁶ Financial statements, Note 4, p. 14. The \$220.8 million figure includes interest income (\$42.5 million), dividend income (\$27.6 million), and net realized gains on sales of securities (\$172.9 million), less \$22.2 million in traditional investment manager and trustee fees. It does not include unrealized investment gains (or losses), which are typically not taxable in a for-profit company.

Methodology: Reduced Interest Payments on Tax-Exempt Bonds

UPMC is rated at an AA- level by two credit rating agencies and an A+ level by another. For this analysis, we assume that the average bond is a 10-year AA rated credit. In recent months, corporate bond yields have hit record lows,¹⁷ and interest rates are low enough generally that the “spread” between tax-exempt municipal bonds and taxable corporate bonds is low. As of this writing, the difference in yield between an AA rated 10 year municipal bond and a corporate bond of the same grade is 1.08 percentage points.¹⁸

UPMC, as of the end of its fiscal year 2011, had over \$2.9 billion in revenue bonds.¹⁹ The difference of 1.08% amounts to over \$31 million per year.

¹⁷ <http://online.wsj.com/article/BT-CO-20120215-719020.html>

¹⁸ http://finance.yahoo.com/bonds/composite_bond_rates, accessed March 29, 2012.

¹⁹ Financial statements, balance sheet, p. 2.