

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON FINANCE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, December 6, 2017
3:35 p.m.

PRESENT:

COUNCILWOMAN JANNIE L. BLACKWELL, CHAIR
COUNCILWOMAN CINDY BASS
COUNCILMAN ALLAN DOMB
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN BOBBY HENON
COUNCILMAN DAVID OH
COUNCILWOMAN CHERELLE L. PARKER
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN MARK SQUILLA

BILL 171052 - An ordinance authorizing and approving the execution and delivery of a Service Agreement between the City of Philadelphia and the Philadelphia Authority for Industrial Development relating to the financing of energy conservation...

BILL 171053 - An ordinance authorizing the City of Philadelphia to enter into a guaranteed energy savings contract...

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1 12/6/17 - FINANCE - BILL 171052, ETC.

2 COUNCILWOMAN BLACKWELL: Thank
3 you very much. The Finance Committee is
4 being called to order. We note that we
5 have a quorum. To my left, Councilman
6 Henon, Vice Chair; Councilwoman Parker.
7 To her left, Councilwoman Reynolds Brown.
8 To my right, Councilman Greenlee. To his
9 right, Councilman Oh.

10 We thank them as well, and we
11 ask the Clerk to read the title of both
12 bills.

13 THE CLERK: 171052, an
14 ordinance authorizing and approving the
15 execution and delivery of a Service
16 Agreement between the City of
17 Philadelphia and the Philadelphia
18 Authority for Industrial Development
19 relating to the financing of energy
20 conservation and efficiency measures at
21 the Philadelphia Art Museum Main
22 Building, the Perelman Building and the
23 Rodin Building; approving the issuance by
24 such Authority of bonds, notes or other
25 evidences of indebtedness in one or more

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 series to finance or refinance such
3 project and authorizing and approving the
4 obligation of the City to pay in full
5 when due the Service Fee and other
6 amounts payable under the Service
7 Agreement; authorizing certain City
8 officers to take certain actions required
9 to issue such bonds, notes or other
10 evidences of indebtedness; covenanting
11 that the City will make necessary
12 appropriations in each of the City's
13 fiscal years to provide for, and will
14 make timely payments of, the Service Fee
15 and other amounts due under the Service
16 Agreement; and authorizing City officials
17 to take other necessary or appropriate
18 actions to effectuate the purpose of this
19 ordinance; all under certain terms and
20 conditions.

21 171053, an ordinance
22 authorizing the City of Philadelphia to
23 enter into a guaranteed energy savings
24 contract for the implementation and
25 evaluation of energy conservation and

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 efficiency measures designed to reduce
3 energy, water, wastewater or other
4 consumption or operating costs at
5 specified City properties, and under
6 certain terms and conditions.

7 COUNCILWOMAN BLACKWELL: Thank
8 you very much.

9 We will ask those who are
10 testifying to please come forward.

11 (Witnesses approached witness
12 table.)

13 COUNCILWOMAN BLACKWELL: We ask
14 that you identify yourself for the
15 record, begin your testimony. We'll
16 start with Mr. Dunbar.

17 MR. DUNBAR: Good afternoon,
18 Councilwoman Blackwell and members of the
19 Finance Committee. My name is Christian
20 Dunbar. I am the Deputy City Treasurer
21 for the City of Philadelphia. I am here
22 to testify on Bill No. 171052.

23 Bill No. 171052 would authorize
24 the financing for the evaluation and
25 implementation of energy conservation and

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 efficiency measures at the Philadelphia
3 Art Museum, the Perelman Building, and
4 the Rodin Building. Under the structure
5 authorized in this bill, the City would
6 conduct the financing through the
7 Philadelphia Authority for Industrial
8 Development. On behalf of the City, PAID
9 would issue bonds or notes in one or more
10 series up to \$15 million, plus cost of
11 issuance and credit enhancements.

12 Debt service will be funded by
13 the City through a Service Agreement
14 between the City and PAID. To that end,
15 the bill authorizes the City to make a
16 binding commitment to budget and
17 appropriate all amounts necessary to
18 provide PAID with the dollars necessary
19 to service the bonds.

20 This concludes my testimony.
21 I'd be happy to answer any questions.

22 COUNCILWOMAN BLACKWELL: Thank
23 you very much.

24 The Chair also notes Councilman
25 Domb.

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 Thank you very much.

3 Any questions so far, panel?

4 You would like to ask a question,
5 Councilman Domb?

6 COUNCILMAN DOMB: I'll wait for
7 the whole panel.

8 COUNCILWOMAN BLACKWELL: All
9 right. We will hear your testimony.
10 Please identify yourself for the record
11 and begin your testimony.

12 MR. AGALLOCO: Good afternoon,
13 Chairwoman Blackwell and members of City
14 Council Committee on Finance. I am Adam
15 Agalloco and I serve as the Energy
16 Manager for the City of Philadelphia.
17 I'm here to testify on behalf of the
18 Office of Sustainability on Bills No.
19 171052 and 171053. Together, these two
20 bills proposed authorize the Procurement
21 Commissioner, on behalf of the City, to
22 enter into a guaranteed energy savings
23 contract with the Philadelphia Energy
24 Authority and authorize the financing of
25 this project through the issuance of

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 bonds. These together would enable the
3 City to reduce long-term energy use and
4 cost at three Philadelphia Museum of Art
5 buildings - the Perelman Building, Rodin
6 Museum, and the Main Building, which is
7 the General Fund's single largest energy
8 user.

9 The Office of Sustainability is
10 responsible for coordinating and
11 implementation of Greenworks
12 Philadelphia, the City's sustainability
13 vision. Through Greenworks, the City has
14 developed a Municipal Energy Master Plan,
15 which is focused on lowering municipal
16 carbon emissions and reducing our energy
17 use and cleaning our energy supply.

18 The Energy Office as part of
19 the Office of Sustainability focuses on
20 completing projects and programs that
21 reduce utility costs while demonstrating
22 the City government's ability to lead by
23 example. We strongly believe that we
24 cannot ask residents and businesses to
25 take steps that we are not willing to do

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 ourselves.

3 To that end, today together
4 with our partners at the Philadelphia
5 Energy Authority and the Philadelphia
6 Museum of Art, we testify in support of a
7 project that demonstrates that commitment
8 to carbon reduction by implementing
9 energy efficiency in buildings that are
10 among the City's largest energy users.

11 The City used the Pennsylvania
12 Guaranteed Energy Savings Act to reduce
13 energy and utility costs at the City's
14 Quadplex buildings - City Hall, Municipal
15 Services Building, One Parkway Building,
16 and the Criminal Justice Center. Through
17 two years in the performance phase, I'm
18 pleased that the project has generated
19 revenue or avoided costs of more than \$6
20 million. We're looking to replicate the
21 success of the Quadplex project. We're
22 also building on several related
23 initiatives.

24 I'm joined today by the
25 Philadelphia Energy Authority's Executive

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 Director, Emily Schapira. She's going to
3 summarize how this fits into the
4 Philadelphia Energy Campaign, talk a
5 little bit about the jobs and creation --
6 job creation associated with this work.
7 And I'm also joined today by Gail
8 Harrity, the President of the
9 Philadelphia Museum of Art. I'm going to
10 let her talk a little bit about how this
11 fits in with the infrastructure work
12 happening at the Museum at this time.

13 This project began development
14 in early 2017 with the issuance of a
15 competitive RFQ. Ultimately we selected
16 Johnson Controls as a qualified ESCO to
17 determine the feasibility of energy
18 conservation measures in the buildings.

19 Building on their audit,
20 Johnson Controls completed a subsequent
21 review of the buildings and developed a
22 proposal of measures for the City, Energy
23 Authority, and Philadelphia Museum of Art
24 to review. The resulting measures are a
25 mix of high payback energy conservation

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 measures and long-term infrastructure
3 needs for the Philadelphia Museum of Art
4 that produced a project with strong
5 environmental benefits and improvements
6 to PMA operations. Following the City's
7 direction, Johnson Controls developed a
8 set of proposed energy conservation
9 measures that best fit this criteria.

10 I'm not going to go through all
11 of the proposed energy conservation
12 measures, but I'm happy to go through any
13 of them in detail, but we're touching a
14 lot of the lighting and HVAC systems, as
15 well as performing water conservation at
16 the Art Museum Main Building and the
17 Perelman Building and the Rodin Museum.

18 Through this project, Johnson
19 Controls has committed to working with
20 the City's Office of Economic Opportunity
21 and to contract with certified firms to
22 offer mentorship and capacity building to
23 the Philadelphia minority, women, and
24 disadvantaged businesses in specific
25 areas of energy efficiency. As the

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 project moves forward towards
3 implementation, Johnson Controls has
4 partnered with another of subcontractors
5 and has committed to a participation rate
6 of over 40 percent for the project.

7 And I should note too that
8 included today we submitted over on the
9 desk the participation form which was
10 signed off by the Office of Economic
11 Opportunity as well as the signed
12 Economic Opportunity Plan for the
13 project.

14 Should City Council approve the
15 project, the City, PEA, and Art Museum
16 will complete a technical review and
17 prepare for project implementation. We
18 expect project implementation to take
19 approximately 18 months.

20 By implementing these energy
21 conservation measures, we will make
22 much-needed basic improvements to these
23 three important buildings, yielding
24 guaranteed energy, carbon, and cost
25 savings to the General Fund, all while

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 improving operations at the Philadelphia
3 Museum of Art. This project continues to
4 demonstrate the City's commitment to
5 energy efficiency, the Municipal Energy
6 Master Plan, the Philadelphia Energy
7 Campaign, and the Art Museum's core
8 project initiatives.

9 I want to thank the broad set
10 of stakeholders we have, including the
11 Energy Authority, the Art Museum, the
12 Finance Department, the Law Department,
13 the Office of Economic Opportunity, as
14 well as Johnson Controls for their hard
15 work over the last year to help usher
16 this project along. It takes a lot of
17 people working together to bring a
18 project of this size to this point. We
19 still have a lot of work to do, but we're
20 excited to be here today. We look
21 forward to working with City Council and
22 with this group on implementation of this
23 project and positioning the City to take
24 increasingly aggressive steps towards
25 energy efficiency and carbon reduction in

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 the future.

3 Thank you.

4 COUNCILWOMAN BLACKWELL: Thank
5 you very much.

6 The Chair notes Councilman Mark
7 Squilla also in attendance.

8 We have to testify --

9 Councilman Domb, would you like to wait
10 for the other testimony?

11 COUNCILMAN DOMB: Whatever
12 you'd like.

13 COUNCILWOMAN BLACKWELL: Okay.
14 Then we'll finish the testimony and then
15 do our questions.

16 Emily Schapira, Executive
17 Director of Philadelphia Energy
18 Authority; Gail Harrity, President and
19 COO, Philadelphia Museum of Art.

20 Is there anyone else here who
21 would like to testify?

22 (No response.)

23 COUNCILWOMAN BLACKWELL: All
24 right. After this, we'll ask everybody
25 to remain so that we can entertain

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2 questions.

3 (Witnesses approached witness
4 table.)

5 COUNCILWOMAN BLACKWELL: Thank
6 you very much. Identify yourself for the
7 record.

8 MS. SCHAPIRA: Great. Thank
9 you, Chairwoman Blackwell and members of
10 the Committee of Finance. I'm Emily
11 Schapira. I'm the Executive Director of
12 the Philadelphia Energy Authority. I am
13 very pleased to share our strong support
14 for and our perspective on Bills 171052
15 and 171053 to execute and support an
16 energy performance project on the
17 Philadelphia Museum of Art.

18 Our mission at the Philadelphia
19 Energy Authority is to drive energy
20 affordability and sustainability for our
21 city, and as you may know, in February of
22 2016, with the leadership of Council
23 President Clarke, we launched the
24 Philadelphia Energy Campaign to that end.
25 That campaign is a ten-year \$1 billion

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2 investment in energy efficiency and clean
3 energy projects in City buildings,
4 schools, low and moderate-income housing,
5 and small businesses citywide. It will
6 create 10,000 jobs and help build our
7 city's clean energy economy.

8 The two bills before you today
9 are a major step forward in the Energy
10 Campaign. Representing the City's second
11 energy performance contract after an
12 extremely successful project at the
13 Quadplex, this initiative at the Art
14 Museum is critical to reducing utility
15 costs, helping meet our city's
16 environmental commitments, creating jobs
17 and economic development. So I'll touch
18 very briefly on just five key points.

19 First, this project represents
20 a reduction of as much as 25 percent of
21 energy and water use in the City's
22 highest consuming buildings that are part
23 of the General Fund. So for us, that's a
24 big deal. It's a great place to start.

25 Second, it will create jobs.

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2 Seventy-four direct jobs will be created
3 in the construction phase of this project
4 and more than 153 additional indirect and
5 induced jobs throughout the life of the
6 project, for a total of 227 net jobs will
7 be created.

8 In my written testimony, I
9 provided some additional technical detail
10 on our job estimating and tracking model,
11 which we had developed specifically for
12 Philadelphia using local recent labor
13 market data by the economists at the
14 American Council for an Energy Efficient
15 Economy late last year. Our spreadsheet
16 with economic data can also be made
17 available if anybody wants it.

18 This project will exceed our
19 initial diversity requirements as well.
20 We put in the RFP a requirement of a
21 minimum of 35 percent M/W/DBE
22 participation, and we will reach more
23 than 40 in the final construct. So we're
24 very excited about that.

25 Fourth, this project sets a

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 critical precedent for other City
3 departments and buildings. It
4 demonstrates really a collaborative,
5 sophisticated approach that achieves
6 energy outcomes while also respecting the
7 unique functions and requirements and
8 sensitivities of one of our city's most
9 complex buildings. That's been really
10 important as we've approached other
11 departments and other projects to see
12 that something as complex as the Art
13 Museum can do this.

14 We're also currently working
15 with the School District on their first
16 energy performance pilot, just as a side
17 note, which is -- and they're really
18 watching the Art Museum very carefully to
19 see how that goes. So we know for the
20 School District, this mechanism will
21 unlock hundreds of millions of dollars in
22 new capital funding for the District. So
23 it's important to address those building
24 repairs and system upgrades, and this
25 really sets that precedent for them.

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2 The final thing here that we
3 feel very excited about is that we've
4 been an active member of this project
5 development team, and the Energy
6 Authority will hold the contract with
7 Johnson Controls in partnership with the
8 City and PAID, which will allow the City
9 to take full advantage of the expertise,
10 resources, and the construct of the
11 Energy Authority.

12 I'd like to note that PEA will
13 not be the bond issuer on this project,
14 as you can tell from the first ordinance.
15 Bond counsel advised some clarifications
16 were required in PEA's Articles of
17 Incorporation before we could go forward
18 with issuing debt, so we're in the
19 process of understanding those needed
20 revisions and getting that resolved.

21 We are in agreement that this
22 project should move forward via PAID, and
23 we're very appreciative of the
24 Treasurer's Office and the Finance Office
25 with their assistance in making sure

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 we're prepared for the next opportunity.

3 We'll continue to be involved
4 in tracking this project's progress on
5 construction, energy reduction, job
6 creation, and diversity participation,
7 and we will support the Energy Office
8 throughout the measurement and
9 verification process over the next few
10 years at least.

11 We'd like to express our deep
12 thanks to the team at the Philadelphia
13 Museum of Art and at Johnson Controls for
14 figuring out how to integrate this energy
15 project seamlessly into their ongoing
16 core renovation project. This is going
17 to allow us to reduce costs and
18 disruption by doing it all together at
19 once, and it was no small feat to
20 engineer. So thank you very much.

21 Thank you to the Committee for
22 your time today. We hope to have the
23 opportunity to save the City money,
24 create living wage jobs, and advance the
25 Energy Campaign through this project.

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2 COUNCILWOMAN BLACKWELL: Thank
3 you very much.

4 Ms. Harrity.

5 MS. HARRITY: Good afternoon,
6 Chairwoman Blackwell and members of the
7 Finance Committee. My name is Gail
8 Harrity. I am the President and Chief
9 Operating Officer of the Philadelphia
10 Museum of Art.

11 On behalf of the Museum's
12 leadership, including our Board of
13 Directors led by Chair Leslie Ann Miller,
14 I am pleased to be here today to testify
15 in support of Bills 171052 and 171053,
16 both authorizing the City to finance and
17 enter into an agreement for an energy
18 conservation project at three of the
19 Museum's buildings, including the Main
20 Building, the Perelman Building, and the
21 Rodin Museum.

22 The Philadelphia Museum of Art
23 has enjoyed a longstanding partnership
24 with the City of Philadelphia, dating
25 back to our founding nearly 150 years

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 ago. This energy conservation project is
3 the most recent manifestation of this
4 partnership and has been truly a
5 collaborative effort between the City,
6 the Museum, the Energy Authority, and our
7 competitively selected vendor Johnson
8 Controls Inc.

9 The Museum is the cultural
10 heart of the City of Philadelphia, a
11 source of civic pride, an educational
12 resource, and an economic engine. In
13 Fiscal 2017, we welcomed nearly 800,000
14 visitors through our doors, including
15 67,000 schoolchildren.

16 As the largest museum in the
17 City, we are committed to ensuring that
18 our collections and our programming are
19 accessible to all audiences. Adult
20 admission is \$20, which has been
21 consistent since 2012. We offer reduced
22 admission for seniors and students, and
23 children under 12 and students at local
24 art schools are always free. While the
25 general admission pricing is comparable

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2 or even modest compared to other
3 institutions in the region and around the
4 country, we understand that for many
5 residents, even this is cost prohibitive
6 and, thus, we offer multiple
7 opportunities for people to visit the
8 Museum and take part in educational
9 programming at low or no cost.

10 For example, we offer free
11 visits for all Philadelphia public and
12 charter school students, \$2 admission for
13 any adult with a PA Access card, a
14 pay-what-you-wish admission policy every
15 Wednesday evening and first Sunday of the
16 month. Also free are programs such as
17 the Words at Play Vocabulary initiative
18 that uses creative play to help parents
19 strengthen their child's vocabulary, and
20 a multi-year partnership with our
21 neighbors at the Mantua Civic
22 Association, which has resulted in
23 activities such as Bulbs not Bullets and
24 the new Spring Garden Street mural.

25 As a result of this activity,

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2 each year the Museum generates more than

3 \$250 million of economic impact on the

4 City and regional economies, as well as

5 nearly 19 million in tax revenue. An

6 investment in the Museum yields an

7 excellent return, one which helps the

8 City to address its financial challenges.

9 The Museum is also a driving force for

10 why people want to live, work, and play

11 in Philadelphia.

12 As a City-owned institution,

13 the City provides critical capital and

14 operating support to secure and maintain

15 our buildings and directly pays the

16 Museum's utilities. Of course, this

17 level of usage is necessary, as

18 international museum standards require

19 our buildings to be climate controlled at

20 all times to protect the priceless works

21 of art housed in the collection, and the

22 sheer magnitude of the building, the Main

23 Building, which includes over 600,000

24 square feet of dedicated gallery space,

25 gallery, education, and office spaces

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 also contributes to this consumption.

3 But despite the necessity of
4 our energy consumption, as a longstanding
5 partner with the City, we understand and
6 embrace the need to reduce this level of
7 energy usage to help save costs. To that
8 end, we have worked with the City over
9 several administrations to reduce our
10 energy consumption through smaller,
11 targeted investments in new systems and a
12 commitment from our staff at all levels
13 to assist in the efforts. As a result of
14 this work, we have experienced success in
15 reducing our energy and were even lauded
16 in the 2014 Municipal Energy benchmarking
17 report for our efforts. But despite
18 these gains, it has become clear that a
19 much larger investment is needed if we
20 want to significantly reduce our
21 consumption, which is what this project
22 seeks to do.

23 A significant investment in
24 energy-efficient lighting, electrical
25 infrastructure, heating and cooling,

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 system upgrades, and water and stormwater
3 improvements at the three buildings will
4 allow us to address some of the most
5 significant sources of energy usage at
6 one time in order to maximize reduction
7 of energy consumption.

8 The Museum is well poised to
9 lead a successful project at this time as
10 we undergo construction of the Core
11 Project, the first major interior
12 renovation of the historic Main Building
13 since it opened in 1928. As many of you
14 are aware, the Core Project will upgrade
15 and replace many of the Museum's aging
16 building systems, some of which are
17 original to the building or well past
18 their useful life. It will also renovate
19 and improve public and education spaces
20 and enhance accessibility and circulation
21 within our landmark building.

22 While the scope of this energy
23 conservation project is completely
24 outside of the scope of work for the Core
25 Project, proceeding with the energy

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 conservation project during the Core
3 Project construction will increase
4 efficacy by allowing Johnson Controls and
5 their subcontractors to access the areas
6 of the Main Building that are temporarily
7 exposed during construction, as well as
8 the benefit of coordinating with the
9 Museum's general contractor, L.F.
10 Driscoll, who is on site and knows the
11 buildings inside and out.

12 While we are under major
13 construction, we and the Office of
14 Sustainability feel confident in our
15 ability to help steward this project,
16 which is a City priority, in an efficient
17 and timely manner and to achieve the best
18 results that we can.

19 We look forward to working with
20 all of our partners here today to
21 successfully implement this project, and
22 we are also deeply committed to working
23 with Johnson Controls to achieve the
24 inclusive participation goals set in the
25 Equal Opportunity Plan.

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2 As always, we are grateful for
3 our longstanding partnership with the
4 City of Philadelphia.

5 Thank you very much, and we're
6 happy to answer any questions.

7 COUNCILWOMAN BLACKWELL: Thank
8 you.

9 The Chair notes that
10 Councilwoman Cindy Bass is here. So the
11 entire Finance Committee has been
12 present.

13 We will now entertain
14 questions.

15 Councilman Domb.

16 COUNCILMAN DOMB: Thank you,
17 Madam Chairwoman.

18 And good afternoon. I just
19 have some basic questions. You're asking
20 us to authorize 15 million to be borrowed
21 for three properties?

22 Probably Adam would be good.

23 I would like to know the
24 savings per year. It looks like in the
25 report the payback is five years. Is

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 that accurate or is that inaccurate?

3 MR. AGALLOCO: That's not
4 accurate. So we're authorizing -- we're
5 looking for authorization for up to \$15
6 million, but that is not expected to be
7 the amount that we would issue for the
8 debt.

9 COUNCILMAN DOMB: I guess my
10 question before we get to that is, what
11 is the energy savings per year that we
12 can expect from making that investment?

13 MR. AGALLOCO: So the
14 guaranteed savings associated with the
15 project -- and there's a project
16 guarantee from Johnson Controls. In the
17 first year it's for \$766,000 for the
18 project.

19 COUNCILMAN DOMB: So what year
20 does 15 million get paid back?

21 MR. AGALLOCO: From a simple
22 payback perspective?

23 COUNCILMAN DOMB: Basically I'm
24 viewing it like you're asking us to
25 borrow 15 million. How are we getting

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 the money back?

3 MR. AGALLOCO: So let me answer
4 it a slightly different way, which is to
5 say that the project guarantee, the
6 \$766,000 as an annual savings, will fully
7 cover the debt service for the project,
8 and that's required by the Guaranteed
9 Energy Savings Act, the state act. Then
10 we anticipate that we'll have actually
11 more savings than the debt service,
12 because we anticipate that utility costs
13 will escalate over time, so our savings
14 will actually grow over time. But the
15 baseline level of this is that the
16 utility cost savings, the guaranteed
17 utility cost savings from Johnson
18 Controls fully covers the debt for the
19 project.

20 COUNCILMAN DOMB: But the debt
21 is based on what amortization schedule?

22 MR. DUNBAR: It's based on a
23 20-year amortization schedule at 2.75
24 percent.

25 COUNCILMAN DOMB: 20-year?

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 MR. DUNBAR: That's the
3 assumption that we're using, which we
4 think is relatively conservative, but we
5 wanted to make sure we use a conservative
6 number.

7 COUNCILMAN DOMB: So in our
8 world, that means it's a 20-year payback.
9 It's not a great investment, but I
10 understand why we're doing it. But it's
11 like 5 percent a year. It seems to me it
12 should be a higher payback than that.

13 MR. DUNBAR: Well, there's a
14 higher payback. We're just using 20
15 years to amortize the debt.

16 COUNCILMAN DOMB: But if you're
17 talking 766 multiplied over 20 years,
18 you're getting to the 15 million. What's
19 the interest rate on the loan?

20 MR. DUNBAR: We're using 2.75
21 percent.

22 COUNCILMAN DOMB: In the
23 package are most of these improvements
24 we're putting in the useful life? It
25 said a lot of them were 15 years.

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2 MR. AGALLOCO: So I think that
3 that can be the case in some of our
4 measures. Things like lighting will not
5 last for -- they'll last for 15 years,
6 but that lighting will then be replaced
7 by lighting that is basically as
8 efficient. So we think of an LED bulb,
9 that burning out, you're able to put in
10 another LED bulb.

11 COUNCILMAN DOMB: So the costs
12 are minimal for the replacements in 15
13 years.

14 MR. AGALLOCO: Exactly. But
15 we're setting ourselves up for future
16 infrastructure. So whereas the longer
17 term investments are things like we're
18 putting in a new chiller through this
19 project. That's a 20- to 30-year
20 investment, because that chiller will
21 still be working in 25, 30 years.

22 MR. DUNBAR: And also I'll just
23 add, over the 20-year life, the estimated
24 total savings is 22 million, which is a
25 net savings of 6 million over the 20-year

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 period.

3 COUNCILMAN DOMB: What is the
4 total cost of the debt with interest over
5 20 years?

6 MR. DUNBAR: 15.3 million.

7 COUNCILMAN DOMB: If you borrow
8 15 million at 2.75 over 15 years?

9 MR. DUNBAR: We don't
10 anticipate that the project will be 15
11 million. We anticipate that the project
12 will be somewhere just under 12 million.

13 COUNCILMAN DOMB: Okay. That's
14 better. Well, that's good. That's
15 better.

16 Let me ask one other question
17 then and then I'll be done. I've asked
18 this before, so it's not a new question.
19 By the way, I love seeing paybacks like
20 this with energy. That's great. I just
21 would like to see the payback quicker.

22 So I know that we looked at at
23 one point PGW, and if I recall, the
24 infrastructure cost for the Art Museum
25 was 12 to 13 million and the aesthetics

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 were about another 7 or 8 million. It
3 was like \$20 million to convert from
4 Veolia to PGW, but the annual savings
5 were \$2 million a year, which is a 10
6 percent return. And I know that it's not
7 in the cards right now, but I guess my
8 question is, if this return is not even
9 close to 10 percent, why do we not go the
10 PGW path for two reasons, one, the return
11 is higher and, two, think of it this way,
12 we are all together on this. We own the
13 Art Museum, the City of Philadelphia. We
14 own PGW. Imagine if you were in your own
15 business and you owned real estate, but
16 you used another utility company and you
17 didn't use your own. Because when we add
18 \$2 million of value to PGW, on a 5
19 percent cap rate, we raise the value of
20 PGW 40 million.

21 So I guess I just want to put
22 that out there, because I really feel we
23 should be looking at that. I know that
24 it wasn't in the cards right now, but the
25 savings are greater, not just for the Art

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 Museum, almost double, but for PGW a \$40
3 million value.

4 MR. AGALLOCO: Thank you,
5 Councilman. I know we've talked about
6 this a good bit, and I understand your
7 perspective with regards to PGW. As you
8 know, we are interested in that project
9 and converting, but the answer is
10 basically not right now because of the
11 current infrastructure there. I do think
12 we need to refresh some of those numbers
13 from PGW and continue to look at that
14 opportunity at the Art Museum, and we're
15 committed to continuing to kind of track
16 that as a project for the future.

17 COUNCILMAN DOMB: I just want
18 to make sure we keep it on the radar,
19 because it's something we should do.
20 Thank you.

21 Thank you, Madam Chairwoman.

22 COUNCILWOMAN BLACKWELL: Thank
23 you.

24 Councilman Oh.

25 COUNCILMAN OH: Thank you very

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 much, Madam Chairwoman.

3 My question is about the
4 MBE/WBE participation. What is the total
5 participation for MBE and WBE?

6 MR. AGALLOCO: In terms of
7 dollar figures? I can tell you in
8 aggregate it's at 40 percent for the
9 project or anticipated to be over 40
10 percent for the project.

11 MR. DUNBAR: 43.

12 COUNCILMAN OH: Okay. So I'm
13 looking at this form here. Is this the
14 form we're talking about?

15 MR. AGALLOCO: Correct. Yes.

16 COUNCILMAN OH: Okay. And
17 according to this form, how do you get to
18 40 percent?

19 MR. AGALLOCO: So if you are
20 looking at the top right corner is
21 probably the best place where -- we've
22 got 6 percent from MBE, 34 percent from
23 WBE. So those two, 6 plus 34.

24 COUNCILMAN OH: The reason I'm
25 bringing it up is because, I don't know,

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 I think I've missed this my entire time
3 here in City Council. It's kind of funny
4 because I'm embarrassed.

5 There are seven companies, and
6 each company has less than 12 percent
7 minority participation or female
8 participation. Let's just talk about
9 female participation. One company has 5
10 percent, one company has 11 percent, one
11 company has 2 percent, one company has 3
12 percent, one company has 0 percent, one
13 company has 11 percent, and one company
14 has 2 percent. That does not equal 34
15 percent.

16 MR. AGALLOCO: So to be clear,
17 this is not the workforce participation.
18 This is the percent of the total contract
19 that each company is going to be doing on
20 the project. So when we say Cahill
21 Controls at 11 percent, that's 11 percent
22 of the total project that they are doing.
23 So these are additive.

24 COUNCILMAN OH: So let me make
25 sure I understand. In terms of the

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 category that says Participation, where
3 it says WBE it says 5 percent.

4 MR. AGALLOCO: That's 5 percent
5 of the total contract to Johnson
6 Controls.

7 COUNCILMAN OH: Five percent of
8 the total contract of Johnson Controls is
9 going to go to a subcontractor, which is
10 Global Energy Services.

11 MR. AGALLOCO: Correct.

12 COUNCILMAN OH: Five percent of
13 the contract, and it's categorized under
14 WBE because that is a woman-owned
15 business?

16 MR. AGALLOCO: Correct.

17 COUNCILMAN OH: Okay. And then
18 6 percent of the total contract for
19 Johnson Controls is going to go to Salveo
20 Management Services, which is a
21 minority-owned firm.

22 MR. AGALLOCO: Correct.

23 COUNCILMAN OH: So in terms of
24 minority and female-owned firms and the
25 percentage of the work of the total

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 contract, that is 40 percent.

3 MR. AGALLOCO: Correct.

4 COUNCILMAN OH: Okay. Does it
5 indicate -- and it may not, but does it
6 indicate anywhere of the female-owned
7 company, let's say Cahill Controls, which
8 is getting 11 percent of this contract,
9 what percentage of that company is
10 female?

11 MR. AGALLOCO: So I can't speak
12 to specifically what percentage is
13 female. We do have some kind of
14 background on the workforce and the folks
15 that will actually be working on the
16 project. So I'd love to have Johnson
17 Controls actually come up and answer that
18 question, if that's okay.

19 COUNCILMAN OH: Yeah. And just
20 so I'm sure, because I'm not even sure
21 that I'm -- like this is the system that
22 we have currently, so I'm not saying it's
23 anybody's fault or anything like this,
24 and I've looked at this. I'm just trying
25 to better understand it.

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 What is your title and position
3 again?

4 MR. AGALLOCO: My title is
5 Energy Manager in the Office of
6 Sustainability. And I can talk -- I
7 should talk a little bit more broadly
8 about what we've done on the Economic
9 Opportunity Plan for this project. So
10 since the beginning of the project, we
11 really prioritized the Economic
12 Opportunity Plan and pushed our selection
13 process towards vendors that had
14 experience in these spaces and had
15 experience both contracting with folks
16 but also on the workforce aspect. So
17 it's been a priority as we went through
18 and kind of selected Johnson Controls and
19 then since then in developing these ECMs.
20 They've signed an Economic Opportunity
21 Plan for participation, as we provided
22 here. That Economic Opportunity Plan
23 also includes workforce requirements.

24 COUNCILMAN OH: Let me say
25 this: I don't need Johnson Controls to

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 come up, because I'm not really being
3 critical of them. What I'm being
4 critical of is the way our city -- see,
5 when I see participation, I see the
6 subcontractor and I see participation,
7 and I somewhat thought -- and it was
8 unclear to me -- that when it said
9 subcontractor, it wasn't clear to me that
10 they were a minority or female or a
11 disabled contract. It just says
12 contractor. And I thought that 5 percent
13 might indicate under WBE that they were 5
14 percent women on the job.

15 This now is clear to me -- and
16 I thought it might, but I wasn't clear --
17 that this is a woman-owned business.

18 MR. AGALLOCO: Correct.

19 COUNCILMAN OH: I don't know
20 what percentage of the business actually
21 has female employees, and so I don't know
22 how many women are actually working on
23 this project. I know a woman owns the
24 business. I'd like to know of the
25 employees, how many are minorities,

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 women, and persons with disabilities,
3 because that's the category. And that's
4 really for our office of OEO and for this
5 I would -- one, I don't know if we're
6 capturing those numbers. I think we
7 should.

8 MR. AGALLOCO: We will be in
9 this project. So I should make that
10 really clear. Through this project
11 there's an option and the Economic
12 Opportunity Plan has an option for an
13 oversight committee. The City is
14 committed to participating in that as
15 well as the Art Museum and the Energy
16 Authority, and we'll be tracking both
17 participation as well as workforce
18 throughout the life of the project. So
19 we'll be able to report back to you.

20 COUNCILMAN OH: That's great.
21 Thank you so much.

22 I will finally end with this,
23 that we have disparity studies that show
24 what level of participation, I believe,
25 that they're qualified; for example,

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 minority workers in the City, and the 6
3 percent on this project simply means that
4 6 percent of the work is going to a
5 minority-owned subcontractor. It doesn't
6 tell me what percentage of the workforce
7 is minority. It could be 1 percent or it
8 could be 90 percent for all I know. It's
9 just not revealing to me kind of where we
10 are in our city's goals of diversity and
11 inclusion in consistency with
12 non-discrimination and our Constitution.
13 And so if anybody listening would just
14 take that into the future, that we really
15 should know that.

16 MR. AGALLOCO: Well, and that's
17 good feedback for us as we plan on doing
18 future projects through this vehicle. I
19 know that Energy Authority is
20 particularly focused on jobs, on creating
21 jobs for folks that need them most. So
22 we can look at how we can ask for that
23 information on future projects and try to
24 capture that.

25 COUNCILMAN OH: Fantastic.

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 Thank you so much.

3 COUNCILWOMAN BLACKWELL: Thank
4 you.

5 We certainly agree with and
6 thank Councilman Oh for those important
7 comments, and we would like the details
8 given to us in a way that's clearer, easy
9 to understand so that we know just where
10 we are when it comes to participation
11 levels.

12 Councilwoman Reynolds Brown.

13 COUNCILWOMAN BROWN: Good
14 afternoon, everyone, and thank you, Madam
15 Chair.

16 Councilman Oh, and I'm sure all
17 members of this Committee are marching
18 down the same road, because my line of
19 questioning is precisely in the same
20 area.

21 First, tell me, if you would,
22 you state in the testimony that Johnson
23 Controls has partnered with a number of
24 M/W/DSBE subcontractors who have
25 committed to a participation rate of 42

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 percent. Share with us how that
3 commitment was arrived at, where did that
4 number come from.

5 MR. AGALLOCO: Sure. So when
6 we initially put out the project, we've
7 got a number of different energy
8 conservation measures. So we're going
9 out and with Johnson Controls, they're
10 pricing for a chiller installation and
11 for lighting installation. They go to
12 kind of a broad stake of vendors, and I'm
13 happy that in this project, there's a lot
14 of folks that they've worked with in the
15 past, which I think is helpful. And then
16 from there, sort of got firm quotes for
17 that work, and that is then passed on
18 basically to the City for the project
19 scope.

20 COUNCILWOMAN BROWN: All right.
21 So Johnson Controls ID'd these
22 prospective vendors here?

23 MR. AGALLOCO: Right. And I
24 think one of the things that's tricky is,
25 we are selecting then the energy

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 conservation measures that we want to go
3 forward with. So there are some measures
4 that we didn't select because they didn't
5 have good payback, so they weren't kind
6 of a good return on investment, and the
7 contractors that were associated with
8 that work then don't necessarily move
9 forward to the final project. So it sort
10 of shakes out a little bit -- it's a
11 little bit an iterative process, I guess,
12 to sort of arrive at the project, but we
13 had an overall goal for about 35 percent.
14 We're happy that we're meeting that.

15 COUNCILWOMAN BROWN: Well, I'm
16 pleased to hear too there's an oversight
17 committee.

18 What type of company is Salveo
19 Management Services, Inc.?

20 MR. AGALLOCO: I believe
21 they're a mechanical contractor.

22 COUNCILWOMAN BROWN: Mechanical
23 contractor, okay. And I've had similar
24 questions congruent with Councilman Oh
25 with regards to the WBE. So at the end

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 of the day, the bulk of the
3 subcontracting opportunities are going to
4 women-owned businesses and only one to a
5 minority-owned business?

6 MR. AGALLOCO: Correct.

7 COUNCILWOMAN BROWN: So that
8 needs to be reflected for the record.
9 Okay.

10 More about the oversight
11 committee. So has that been in place
12 yet? When will that be in place? Who
13 will serve on it? What are the answers
14 to those questions?

15 MR. AGALLOCO: So we've only
16 had initial conversations about how that
17 oversight committee will work. I can say
18 that firmly our office is interested in
19 it based off our experience with the
20 Quadplex, and I can speak for the Museum
21 as well as the Philadelphia Energy
22 Authority as very willing and interested
23 participants in that. I think as soon as
24 we get the project kind of contract
25 signed and the ink dry, we'll initiate

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 those project meetings. Until then,
3 we've been pushing Johnson Controls
4 collectively as a group to make sure that
5 they're meeting the best and good-faith
6 efforts, both on participation but also
7 on workforce, and it's our intention to
8 continue to do that.

9 I know that the Art Museum has
10 a fair amount of experience with
11 oversight committees, so we'll probably
12 lean on that experience. And I know that
13 the Energy Authority is really interested
14 in this space, as they're interested in
15 creating jobs through energy efficiency.

16 COUNCILMAN GREENLEE: Point of
17 information, Madam Chair.

18 COUNCILWOMAN BROWN: Please.
19 Sure.

20 COUNCILMAN GREENLEE: Just on
21 that issue of oversight, on the overall
22 project, I'm a member of the oversight
23 committee.

24 COUNCILWOMAN BROWN: Are you,
25 Councilman?

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 COUNCILMAN GREENLEE: And State
3 Representative Donna Bullock is the
4 Chair. And I will say in fairness to the
5 Art Museum, we've been trying to be very
6 diligent on keeping up. We have a
7 meeting every month and keep up with the
8 numbers. It's still fairly early in the
9 process. Obviously this is a different
10 group we're talking about, but I just
11 mention that as there has been a
12 commitment previously through the Core
13 Project for the Art Museum to have what I
14 think is an aggressive oversight
15 committee.

16 COUNCILWOMAN BROWN: So you
17 knew that I was going to ask was there a
18 presence of Council on that oversight
19 committee. So I'm pleased to hear that
20 there is.

21 COUNCILMAN GREENLEE: I think
22 they -- if I trip a few times, I'm at the
23 Art Museum, so I guess that's why they
24 put me on there.

25 COUNCILWOMAN BROWN: Okay.

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 That goes to all the questions I had
3 listed here. And so we really do need to
4 underscore Councilman Oh's questions,
5 raised in bold letters, underscored, with
6 exclamation points, because those issues
7 are shared by all the members of this
8 body, every single day, for every major
9 initiative that comes before this
10 legislative body.

11 So thank you for being
12 conscientious about it, and I'm pleased
13 to know that we have a member of our team
14 on that oversight committee.

15 Thank you very much.

16 COUNCILWOMAN BLACKWELL: Thank
17 you very much, Councilwoman. And we are
18 also glad to hear about this committee,
19 because during these times and times we
20 live in, our folks expect more of us, and
21 we have to make sure we have inclusion
22 and participation. We're fighting
23 really, really hard on that issue, and
24 our people expect us to do no less.

25 Are there other questions or

1 12/6/17 - FINANCE - BILL 171052, ETC.

2 comments?

3 (No response.)

4 COUNCILWOMAN BLACKWELL: Thank
5 you, Councilwoman Reynolds Brown and
6 Councilman Oh, for dealing with those
7 issues and bringing them up.

8 That will complete our public
9 hearing then and we'll now enter the
10 public meeting, and the Chair recognizes
11 Councilman Henon for a motion on Bill
12 Nos. 171052 and 171053.

13 COUNCILMAN HENON: Thank you,
14 Madam Chair. I move that Bill No. 171052
15 and 171053 be reported from this
16 Committee with a favorable recommendation
17 and further move that the rules of
18 Council be suspended to permit the first
19 reading of these bills at our next
20 session of City Council.

21 (Duly seconded.)

22 COUNCILWOMAN BLACKWELL: It has
23 been moved and properly seconded that
24 Bill Nos. 171052 and 171053 be reported
25 from this Committee with a favorable

1 12/6/17 - FINANCE - BILL 171052, ETC.
2 recommendation and further moved that the
3 rules of Council be suspended so as to
4 permit first reading of these bills at
5 our next session of Council.

6 All those in favor?

7 (Aye.)

8 COUNCILWOMAN BLACKWELL:

9 Opposed?

10 (No response.)

11 COUNCILWOMAN BLACKWELL: The
12 ayes have it, motion carries, and Bill
13 Nos. 171052 and 171053 will be reported
14 from this Committee with a favorable
15 recommendation and a recommendation for a
16 suspension of the rules so as to permit
17 first reading at our next session of
18 Council.

19 That concludes our business of
20 the Finance Committee. Thank you all
21 very, very much, all those in attendance
22 and especially the Committee, and this
23 hearing is adjourned.

24 (Committee on Finance concluded
25 at 4:20 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
contained fully and accurately in the
stenographic notes taken by me upon the
foregoing matter, and that this is a true and
correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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