COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Monday, April 18, 2011, 10:18 a.m.

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RES. 110161 - Five-Year Plan

BILL 110135 - Capital Program 2012 through 2017

BILL 110136 - FY 2012 Capital Budget

BILL 110137 - FY 2012 Operating Budget

BILL 110138 - Wage Tax Bill

COMMITTEE MEMBERS PRESENT:
Anna C. Verna, Chair
Marian B. Tasco, Co-Chair
Jannie C. Blackwell
Blondell Reynolds-Brown
Darrell L. Clarke
W. Wilson Goode, Jr.
Bill Green
William K. Greenlee
Curtis Jones, Jr.
Brian J. O'Neill
Frank Rizzo
Marian B. Tasco

- - -

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCIL PRESIDENT VERNA: Good morning. Sorry for the delay.

This is a continued public hearing of the Committee of the Whole. I would ask Mr. McPherson to please read the bills.

MR. McPHERSON: Resolution No. 110161, Five-Year Plan;

Bill No. 110135, the Capital Program, Fiscal 2012 through 2017;

Bill No. 110136, the Capital Budget for 2012;

Bill 110137, the Operating Budget for 2012; and

Bill No. 110138, the wage tax bill.

And we're taking testimony today on Bill No. 110137, the Operating Budget for Fiscal 2012.

(Witnesses come forward.)

COUNCIL PRESIDENT VERNA: Good morning.

MR. DUBOW: Good morning.

COUNCIL PRESIDENT VERNA:

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Please identify yourself for the record and proceed with your testimony.

MR. DUBOW: I'm Rob Dubow, Director of Finance, and I am pleased to provide testimony today on the Department's proposed Fiscal Year 2012 Operating Budget.

The proposed budget supports a number of departmental divisions, including: Executive direction, which is comprised of the Administrative Services Center; the Contracting Unit; the Recovery Unit and the Bureau of Administrative Adjudication; the Office of Budget and Program Evaluation; the Accounting Bureau; the Office of Administrative Review; and Risk Management.

And joining me here today are representatives from those divisions, and they'll be able to answer questions. And joining me at the table is First Deputy Cathy Paster.

The FY '12 General Fund Budget,

as proposed, totals $1.2 billion for Finance; that's an increase of about $41 million over our FY '11 estimated obligations. The increase is caused mainly by an almost $43 million increase in fringe benefit costs, which includes a $62 million increase in pension costs, and that's offset by approximately $19 million and other fringe benefit costs and a decrease of $2.6 million in Class 500 costs.

The direct General Fund appropriations proposed for the Finance Department's core budget are about $11.9 million. And while that's lower than the Fiscal Year 2011 Adopted Budget, the proposed direct appropriations are about $250,000 higher than the Fiscal Year 2011 estimated obligations.

Our proposed budget includes about a billion in Class 100 Funds; that's an increase of almost $43 million over estimated FY '11 obligations. And That fund will compensate about 146

Finance Department employees and will fund fringe benefits for all City and General Fund employees.

The $43 million increase, which resulted in a $62 million increase in pension costs, that's offset by about a $19 million increase in fringe benefit costs and a $30,000 decrease in their proposed $7.6 million core budget.

The $41.5 million in Class 200 funds is an increase of $730,000 over FY '11 estimated obligations. The largest portion of that appropriation is nearly $37 million for legal services provided by the Defenders' Association and Community Legal Services.

The increase is due to a $450,000 increase in the Defenders' contact and a $280,000 increase in the core budget, and that's due mostly to a $350,000 increase in our contract with ACS Government Solutions to administer and collect code violations and alarm fees. That increase will be more than offset by additional revenue that ACS is expected to collect, and will only paid be paid to them if that revenue materializes.

The $104,000 in our Class 300/400 is for materials, supplies, and equipment, and that's no change from 2011.

There is $98.5 million in Class 500 funds for contributions. That's a decrease of $2.6 million and includes: A $38.9 million contribution to the School District, which is an increase of $330,000 over the '11 budget; $25.4 million for Community College, which is unchanged from FY '11; $250,000 to Fund City Year; and $500,000 for the Mayor's Reward Fund. And includes $33.1 million to fund indemnities; that's a decrease of $3.7 million from FY '11.

The Office of the Director of Finance is committed to supporting the Administration's Fiscal Year '12 goal of 25 percent minority-, women-, and

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

disabled-owned business participation in City contracting. For this year, to date, we have an overall 46 percent participation rate in contracting opportunities. Based on the availability of funding for contracting opportunities, our Fiscal '12 participation goal is 40 percent.

As an attachment to the testimony, I've included information to respond to requests that Council has indicated be made of all departments. This includes information regarding participation on the largest FY '11 contracts in our core budget, whether those contracts were awarded through an RFP and if the service providers are in compliance with the living-wage requirements.

Also included is an attachment with demographic information broken down by gender and race for the entire department as well as for new hires in Fiscal '10 and Fiscal '11, information on the number of bilingual employees in the Department, and information concerning all vacancies within the Department.

Thank you again for the opportunity to testify in the FY '12 Budget, and I'm happy to answer any questions you may have.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Dubow, why are you proposing to increase the Defenders' Association contract by $450,000?

MR. DUBOW: That money is for benefit costs for the Defenders. As you know, we fund all of their costs through the contract.

One of the things that's been increasing for them is their health benefit costs, and that increase covers that.

COUNCIL PRESIDENT VERNA: What services does ASC provide to your office?

MR. DUBOW: ACS provides collections for code violation and alarm

fees.
COUNCIL PRESIDENT VERNA: And what is their fee arrangement?
MR. DUBOW: They get a percentage of the amount that's collected; I think it's a little under 11 percent.
And the increase here reflects anticipation that there will be increased revenue. And so, their percent would go up.
COUNCIL PRESIDENT VERNA: What amount have you included in your revenue estimates due to this contract?
MR. DUBOW: $8.35 million. And that's up from about 7.4 in the '11 budget.
COUNCIL PRESIDENT VERNA: On page 15 of your detail, you're requesting $775,880 for AON Consulting for health care and pension expert services.
Can you explain the scope of services they provide?
MR. DUBOW: Sure. AON provides

expert services for us in connection with collective-bargaining, and they've provided advice on both health care and pensions.

COUNCIL PRESIDENT VERNA: On page 52 of your detail, you're requesting an increase of $330,000 to the School District. This increase is due to wage-tax reductions of $60,000 and real-estate tax millage at $270,000.

Can you explain why these adjustments are needed?

MR. DUBOW: Yes. Two things. When we decrease the wage tax, the school income tax decreases; and by law, we're required to compensate the District for that change. And you can tell it's a very minor change there.

And the second part is, on the property tax, when we changed the millage rate, the split between the City and the School District change, that affects how the pilot from the Stadium District is allocated. So their allocation would go down, and we wanted to make them whole for that reduction.

COUNCIL PRESIDENT VERNA: Isn't the Administration proposing to freeze the wage tax rate at the Fiscal 2011 rates? And if so, why are we required to give the District $60,000?

MR. DUBOW: I think there's a little left over from the annualization of State-funded wage-tax cuts, and that flows to the District on its income tax.

COUNCIL PRESIDENT VERNA: On page 54 of your detail, you are requesting in Class 500 two new items: $250,000 for City Year and $500,000 for a Reward Fund.

Can you explain why these funds are need and how the Reward Fund will be utilized?

MR. DUBOW: Yeah. City Year is actually not new; it's something we've been doing for a number of years to help that organization provide its services, and we just thought it -- we should actually show it in the budget. We wind up doing it during the year, so that's been added to the budget this year.

The Reward Fund, I think the details of exactly how it would work are still being finalized. But essentially, it would provide incentives for people to provide information that would lead to the capture of alleged criminals.

COUNCIL PRESIDENT VERNA: Was City Fund in the budget last year?

MR. DUBOW: City Year?

COUNCIL PRESIDENT VERNA: City Year.

MR. DUBOW: It was not, but I think we provided funding for it through -- there was a Class 500 contribution.

COUNCIL PRESIDENT VERNA: On page 59 of your detail, you show a reduction of $11,867,000 in anticipated workforce savings. Can you explain what these savings are and how you arrived at this amount?

MR. DUBOW: Yeah. When we -- we -- a couple of years ago, as we were looking at collective-bargaining, we included about $25 million -- well, not about. $25 million in savings from all of our employees, so from the four unions and from exempt and non-represented employees.

As we either come to agreements, as we did through the award with the FOP, we'll make reductions as we did with non-reps and exempts in the City-administered health plan. We kind of moved some of the $25 million into actual savings achieved, and then the remainder is still shown as savings yet to be achieved.

So I'll take one step back. When we originally did the $25 million, we allocated it based on the payroll by union. So as we take out the potential of FOP savings and the exempt and non-reps, 'cause we've achieved those savings, this is the part that was allocated based on payroll to Firefighters 33 and 47.

COUNCIL PRESIDENT VERNA: Why is it that you expect these savings from the General Fund only?

MR. DUBOW: As opposed to in Water and Aviation also?

COUNCIL PRESIDENT VERNA: Mm-hmm.

MR. DUBOW: That's a good question. We should go back and look at that.

COUNCIL PRESIDENT VERNA: And you'll get back to us?

MR. DUBOW: Yes.

COUNCIL PRESIDENT VERNA: On page 65 of your detail, it shows that the Community Development Fund is being charged the same in Fiscal 2012 for pension obligation bonds as it paid in Fiscal 2011 while, at the same time, the 2012 pension payment is being reduced by $120,000.

Can you explain why only one

payment is being reduced?

MR. DUBOW: I think it's probably because the pension payment itself may be based actually on experience of members; whereas, the Pension Obligation Bond may just be split on the number of members.

COUNCIL PRESIDENT VERNA: But the Aviation -- both payments are increasing.

MR. DUBOW: Right. And there could be a different alignment between the number of members and the liability for those members in Aviation and Community Development. It's probably different for each fund.

COUNCIL PRESIDENT VERNA: Okay. The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN RIZZO: On page 26 and 27, there's something that interests me. Due to the recent promotions and

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

requirements of accounting -- and I'll read it -- accounting section supervisors, how's the work getting done in their absence? Who's supervising the employees?

MR. DUBOW: Say that again? I missed --

COUNCILMAN RIZZO: On page 26 and 27 --

MR. DUBOW: Right.

COUNCILMAN RIZZO: Due to the recent promotions and retirements of Accounting section supervisors, how has the work getting been done? In other words, Rob, who's supervising -- you didn't promote any supervisors.

MR. DUBOW: Right. No, it's a good question. The managers who are there are filling in and picking up that slack.

And one of the issues we had and one of the reasons that, you know, when you look at the vacancies that we're going to fill, there are vacancies in

Accounting, it's a place where we're understaffed and where we, you know, face some challenges.

So that's -- I mean, it's a good point. So other people are filling in.

COUNCILMAN RIZZO: Do you have anything in the budget to -- or do you have plans to see fill it?

MR. DUBOW: Yeah, yeah. That's in -- yes.

COUNCILMAN RIZZO: Let me see here. Also, I understand that part of the function of the department is the authorized appropriations process. In addition to the budget analyst, who has the authority to approve and deny these requests?

MR. DUBOW: I'm sorry. Say that again?

COUNCILMAN RIZZO: I understand that part of the function of the department --

MR. DUBOW: Right.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN RIZZO: -- is the authorized appropriations process, if I'm reading that correctly. In addition to the budget analyst, who has the authority to approve and deny a request?

Is that not clear?

MR. DUBOW: I...

(Witness comes forward.)

COUNCILMAN RIZZO: And I'll read on. This might --

MR. DUBOW: No, I think we understand.

COUNCILMAN RIZZO: I'm reading out of the book.

MR. KAUFFMAN: Mike Kauffman. I'm the Director of Accounting.

The other people that can authorize adjustments are the Grant Accounting Unit. And what they do is, they'll review to make sure that there's the appropriate grant-related material attached to an authorization that comes through before we'll post it.

COUNCILMAN RIZZO: Okay. Let

me read on, then.

Prior to the promotion and vacancies of accounting section supervisors, training was performed by supervisory level, which, normally, that's the case. Now rank-and-file employees are responsible for conducting training.

Is that a change in the policy, or is that just because of the problem with the lack of supervision?

MR. KAUFFMAN: I think what happened is that originally, when we went to this -- to a new system, the famous system in our accounting system, we were able to put this process in electronically. And when we first started it, it was done at a supervisory level.

However, we -- upon further review of that particular job, we didn't feel that it had to stay at a supervisory level; it could be done by someone who -- one of the accountants could do that.

COUNCILMAN RIZZO: Okay. Now, let me just go back to the timeline and filling those positions, those supervisory positions.

Mr. Dubow or whoever. The vacancies.

MR. KAUFFMAN: We're currently trying fill that. We recently asked to have the tests issued by our Human Resources Department so that we'd be able to fill that position.

COUNCILMAN RIZZO: Timeline. They get blamed for everything, Human Resources.

MR. KAUFFMAN: Oh, timeline? We would hope that within the next three months. We're coming up into our annual report season, if you will, and we want to have that position in place so that when we begin to do our annual report, that person will be able to assume responsibilities and do those tasks related to that job.

COUNCILMAN RIZZO: Terrific.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Thank you. Thanks for your good work.

Thanks, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Green.

COUNCILMAN GREEN: Thank you, Madam Chair.

Madam Chair, I'm going come back. I have a call I've been waiting for. I apologize.

(Pause in proceedings.)

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Green.

COUNCILMAN GREEN: I apologize.

COUNCIL PRESIDENT VERNA: That's all right.

COUNCILMAN GREEN: Thank you.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN GREEN: I have a few questions.

First, I want to say that working with your staff and the

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Department of Revenue, which is, I think, under the Department of Finance, and other people, we've done -- my staff and Councilwoman Quiñones-Sanchez's staff has done a lot of good work defining what is potential small-business tax relief, 100,000 and under, figuring out exactly how much that would cost and a way to implement it.

And also, I think we've figured out and agreed to how much it will cost to do single-sales factor apportionment, which would achieve policy goals -- both of which would achieve policy goals.

And we went into those discussions saying that we agreed on and would hope to come out of -- would hope would come out of those discussions. And just getting to know the people on the Revenue Department team and your team better through my staff and the good work they've done, I wanted to just commend that process.

Now that we're at the end of

that process, I think there's a disagreement about what actions should be taken. And, you know, I hope that we can resolve that in the next couple of weeks. But just the work that the staffs have done together, I think, was great, and I appreciate you making those resources available and I wanted to start with thanking you for that.

MR. DUBOW: Thanks. I appreciate that.

COUNCILMAN GREEN: The 3 percent budget reduction scenario provided for Finance included five items $350,000 in savings. I have questions about several of the items.

There's a $55,000 reduction described as "Decreased and insurance cost rule renewals" --

MR. DUBOW: Right.

COUNCILMAN GREEN: -- "will need to be at FY '11 levels."

Is this Class 280 reduction noted on page 46 of the Finance Office detail, and can you please describe this reduction?

MR. DUBOW: It is a cut we took, and I'm going ask Barry Scott, our risk manager, to come up and talk about the cut and what it means.

(Mr. Scott comes forward.)

MR. SCOTT: Barry Scott, Risk Manager.

COUNCILMAN GREEN: So, in other words, we took the cut.

MR. SCOTT: Yes, we did.

COUNCILMAN GREEN: Okay, great.

MR. DUBOW: Then you're done?

COUNCILMAN GREEN: Yeah.

MR. DUBOW: Okay.

COUNCILMAN GREEN: The next item listed --

MR. DUBOW: Thank you, Barry.

(Laughter.)

COUNCILMAN GREEN: Good job, Barry.

The next item listed is almost $93,000 in additional revenue due to increased reimbursement from the Philadelphia Parking Authority.

MR. DUBOW: We did that one too.

COUNCILMAN GREEN: You did that one also?

MR. DUBOW: Yep.

COUNCILMAN GREEN: Excellent. Where is that?

MS. PASTER: This is Cathy Paster, First Deputy Finance Director.

The revenue does not actually show in the Finance Department's budget; it's a General Fund revenue.

COUNCILMAN GREEN: Okay, that's great.

There's a $120,000 reduction described as a "decrease in lump-sum payments, elimination of temporary positions in Executive Division."

How much of this 120K is for a decrease in lump-sum payments?

MR. DUBOW: Actually, you know, the... We'll have to get back to you on that.

COUNCILMAN GREEN: Okay, that's fine. So the questions are: Does the Department have the ability to reduce these payments? And if so, you know, are they included?

(Indiscernible; parties talking over each other.)

MR. DUBOW: Right. As we looked at that, we thought we really didn't have the ability to do that, but we'll get you the split.

COUNCILMAN GREEN: Okay.

MR. DUBOW: And that's the one thing on the list that we wound up not doing. All of the others, I think, we took.

COUNCILMAN GREEN: Oh, okay. Including -- there's a temporary position in the Executive Direction section?

MR. DUBOW: Yep.

COUNCILMAN GREEN: Okay.

MR. DUBOW: Yes.

COUNCILMAN GREEN: The final

item is the 50K decrease in miscellaneous contracts?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay.

MR. DUBOW: And we took 15 of that.

COUNCILMAN GREEN: Like last year, I've been asking departments about new or unfilled positions to be filled in FY '12. The Finance Office budget detail shows variance vacant and new positions that are proposed to be filled in FY '12.

MR. DUBOW: Right.

COUNCILMAN GREEN: Unlike many other departments, Finance's FY '12 Budget does not have a vacancy allowance, which is used both to account for unfilled positions not being filled at the start of the fiscal year and also for turnover in the course of the fiscal year.

Starting with the currently unfilled positions, will Finance be able to fill out of its eight positions by

July 1st?

MR. DUBOW: That's our goal. We want to get them all filled so we have everyone onboard.

COUNCILMAN GREEN: You don't expect any attrition during the course of the year?

MR. DUBOW: We don't expect a lot of -- we don't expect attrition to be big enough to provide, you know, much --

COUNCILMAN GREEN: Is there anybody currently in DROP scheduled to leave from the Finance Department during the course of the next fiscal year?

MR. DUBOW: We'll get back to you on that.

COUNCILMAN GREEN: Okay. So would it be fair to say if you know people are going to retire, if you know people are going to be in DROP, that we should create a vacancy allowance in the Finance Department?

MR. DUBOW: Well, no, because if we know that they're going to retire, we can start the hiring process to get someone onboard so that there's not that gap.

COUNCILMAN GREEN: And is it -- are you saying it is realistic that all eight currently-vacant positions will be filled by July 1st, that there are tests for them, that there's a list that you've interviewed already?

MR. DUBOW: I'm saying that's our goal. I mean, obviously, you know, things slip, but that's our goal.

COUNCILMAN GREEN: Does every position have a -- has the test been taken or created for every position?

MR. DUBOW: Some of them are exempts. And I think for maybe all but one, the test has been -- there's a test that's been taken, maybe two.

COUNCILMAN GREEN: Two, okay. So there is potentially some vacancy allowance.

MR. DUBOW: Right. And I don't think it's much, but there's some potential.

COUNCILMAN GREEN: Right. Well, I think $50,000 may keep the pools open for another week. So, you know --

MR. DUBOW: Right. I don't think that there's --

COUNCILMAN GREEN: -- we look our dollars where we can fiend them.

MR. DUBOW: Yeah. I don't think that's much, but (inaudible).

COUNCILMAN GREEN: Like last year, I'm asking all departments about contracted services and I have questions about several of Finance's contracts.

As noted in the testimony, the Administration plans to increase by $350,000 the City's contract with ACS State and Local Solutions for administration and collection of code violation and alarm fees. You note that the additional fund will only be paid to ACS if it collects additional revenue for the City.

How is that contingency

structured in the contract?

MR. DUBOW: Under the contract, ACS gets a percent of the collections. I think it's a little under 11 percent.

COUNCILMAN GREEN: And is that cheaper than how we've been collecting them to date?

MR. DUBOW: It's consistent. We're just projecting an increase in rev -- and, actually -- well, actually, it's cheaper because their rates come down, the percents come -- we negotiated a new contract with a lower rate.

COUNCILMAN GREEN: So this is -- ACS currently does the collection --

MR. DUBOW: Yes.

COUNCILMAN GREEN: -- for you?

MR. DUBOW: Yeah.

COUNCILMAN GREEN: Okay. And the rate has come down slightly?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay. And so, would this be all of the code violations and other issues issued by BAA? Is that the --

MR. DUBOW: It's not BAA; it's the Office of Administrative Review.

COUNCILMAN GREEN: Okay. So the budget brief indicates no increase from FY '11 to FY '12 in burglar alarm license fees and for false burglar alarm fees -- or fines.

Does the Administration expect an increase in alarm-related revenues based on ACS's additional work?

MR. DUBOW: So if you look at the original budget from last year, they've gone up -- that's where it's a budget-to-budget increase. So that's what's being captured in the additional amount.

COUNCILMAN GREEN: We're not exactly clear on what revenue is anticipated to increase as a result of this additional collections --

MR. DUBOW: Okay. If you --

COUNCILMAN GREEN: -- from

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

which buckets and category?

MR. DUBOW: Yeah. Look at page 15 in the budget in brief. And the increase is in lines 78, 79 and -- well, 78 and 80, mostly in 78 from sweep collections.

COUNCILMAN GREEN: It's an increase not over what we anticipate collections --

(Indiscernible; parties talking over each other.)

MR. DUBOW: Right, from budget-to-budget, yes.

COUNCILMAN GREEN: Okay, okay. So would this...

MR. DUBOW: And again --

COUNCILMAN GREEN: Would this include --

MR. DUBOW: -- if collections don't come in, we don't spend the money.

COUNCILMAN GREEN: Right. So would this include fees or fines for Dumpster violations?

MR. DUBOW: Yes, yes, it would.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GREEN: I don't see that -- is that -- was that the sweep fees?

MR. DUBOW: Yes. It's in the sweep fees.

COUNCILMAN GREEN: So how much of that is -- could I get a breakdown of how much that is related to the fees and then how much of that is related to fine collection?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay. On page 22 of the Finance Budget details, there's a $2500 professional services contract listed for FY '11 and FY '12, with the provider noted as "to be selected" and the scope of work "capital consultant."

What is this work?

MR. DUBOW: I'll ask Rebecca Rhynhart.

(Ms. Rhynhart comes forward.)

MS. RHYNHART: Rebecca Rhynhart, Budget Director.

Actually, on the 2500, I actually need to look into what they're doing or what they would do. So I could get back to you on that.

COUNCILMAN GREEN: So this has not been let?

MS. RHYNHART: Yeah, I don't believe so. Actually, I need to check on it; I'm not familiar enough with it.

COUNCILMAN GREEN: Do you know, has a provider been identified?

MS. RHYNHART: Again, I don't -- I don't believe we have them under contract; that's why I think I would be familiar with them. So if I could get back to you.

COUNCILMAN GREEN: Okay. Without, you know, publicly mentioning the name of the provider, has someone been identified for this contract?

MS. RHYNHART: Again, I'm really not familiar with it.

COUNCILMAN GREEN: Okay, fine. If you would just get back to us.

MS. RHYNHART: Sure. I'm happy to.

COUNCILMAN GREEN: The Five-Year Plan resumes BPT and wage-tax reductions in FY '14, including gross-receipts reductions, which I believe were demonstrated to be far less damaging to the local economy and job creation than the net income proportion of the business-privilege tax but again delays -- and I think that was demonstrated during the hearing as well. But again delays implementation of the Cohen tax credit.

Following the hearings on Councilwoman Sanchez and my BPT reform last year, we understood there to be agreement that any further BPT reductions should be in the net income tax and not the gross-receipts tax.

I'd like to go through, for the record, the cost of the BPT reductions in the last three years of the plan and the amounts related to gross-receipts tax reductions.

Based on the backup detail provided by the Administration, the BPT rate changes will result in: revenue reductions of $3.882 million in FY '14, of which $2.8 million, or 72 percent, is from gross receipts; $15.447 million in FY '15, of which $12.123 million, or 78 percent, is from gross receipts; and $21.478 million in FY '16, of which $16.481 million, or 77 percent, is for gross receipts.

These figures are based on the Administration's charts, and I'd like for the Finance Office to confirm the numbers in writing to the Chair.

MR. DUBOW: Okay.

COUNCILMAN GREEN: I'm not asking you to do that off the top of your head.

MR. DUBOW: Okay.

COUNCILMAN GREEN: With respect to that, continuing gross-receipts reductions, as you know, based on the work done by our respective staffs, numbers we agree on take $15 million in tax away from the City of Philadelphia from people who have no nexus here to otherwise pay any taxes. And the rate is so low that it is comparable to gross receipts rates in the suburbs currently.

I'm wondering what analysis the Administration did to reach the conclusion that pursuing the course of reducing gross receipts instead of net income makes sense and why we would want to give up $15 million in revenue from people who take advantage of our market but otherwise pay no taxes here.

MR. DUBOW: A couple of things. First, I think, you know, we still disagree on the impact of gross receipts because --

COUNCILMAN GREEN: We don't disagree on that answer, right?

MR. DUBOW: Well, can I --

COUNCILMAN GREEN: We --

MR. DUBOW: Can I answer?

COUNCILMAN GREEN: Yeah, sure.

MR. DUBOW: I let you ask your whole question.

You know, we -- study after study have shown that gross-receipts tax has a very negative impact on business in Philadelphia and that reducing that rate has a positive impact.

That said, I think one of the things that we also agreed on is that through these discussions that, you know, we haven't concluded we would determine kind of what that best approach to business tax reduction is, and I thought that we were going to do that as part of this budget process, and we haven't concluded that process yet.

COUNCILMAN GREEN: Okay. I guess based on the last meeting that the group had, I thought that it had been concluded. If you're saying it hasn't been concluded, I'll ask questions about that offline.

MR. DUBOW: Okay, 'cause I

think we left that with our saying that we would go off and do some analysis that looked at taking the money that we had for gross-receipts reduction in the plan and seeing what would happen if we applied that to the ideas we could come up with, and that that was going to be our next discussion.

COUNCILMAN GREEN: Okay, great.

Turning to the plan reductions in wage tax, I'd like to confirm the cost of the reductions in the nonresident rate.

By our math, the reduction in the nonresident rate costs $6.7 million in FY '14, $13.7 million in FY '15, and $21 million in FY '16.

What is the -- do you happen to know the analysis of the cost of the nonresident reductions?

Oh, that's the nonresident reductions? Can you just please confirm that those are the numbers?

MR. DUBOW: Yes, we can confirm

that.

COUNCILMAN GREEN: Okay. With respect to the Cohen low-income taxpayer credit, which the Administration proposes to delay until FY '17, how much would that credit cost per year?

MR. DUBOW: I can get you the breakout by year. Over the course of the plan, the amount's about $50 million.

COUNCILMAN GREEN: It's $50 million if we were to begin in this year. Is that what $10 million a year or --

MR. DUBOW: It was -- I think it was starting in either '13 or '14, so it wouldn't have started in '12. It was in '14. So it was up from '14, '15, and '16, and it would be a $50 million cost.

COUNCILMAN GREEN: So it's roughly $16 million a year? Is that --

MR. DUBOW: Well, I think it grows each year, so -- but we can get you the breakout by year.

COUNCILMAN GREEN: Okay, that's

great.

The proposed budget includes a $330,000 increase in the City's contribution to the School District, bringing the total contribution to $38.93 million. This is section 11, page 52.

Can you... is the City legally required to increase its contribution?

MR. DUBOW: For a portion of the contribution, yes; and for a portion, no.

The portion which is the smaller portion that compensates for wage tax reduction we're legally required to increase.

COUNCILMAN GREEN: Can you explain that?

MR. DUBOW: Yeah. When the wage-tax rate goes down, the school income tax rate goes down too. And under State law, we're required to compensate the School District for the loss in the school income tax.

There's a second portion this year --

COUNCILMAN GREEN: And that's Act 46?

MR. DUBOW: I think it's in Act 46, yeah.

There's a second portion that we're proposing this year, which is when the millage rate changed, the split on millage between the School District and the City changed so that the City's portion was higher. That changed the stadium pilot so that the School District would have gotten a smaller portion of the pilot, 'cause they were getting a smaller portion of the property tax.

We're proposing to hold them harmless from that change.

COUNCILMAN GREEN: What does "revenue-neutral" mean to the Administration in the context of property tax changes?

MR. DUBOW: Well, what we would -- our proposal for the property tax is that the amount of revenue we collect this year remain -- will -- I guess it's more of a projection -- will be maintained as we go forward because we'll be capturing value that we have not captured over the last almost ten years.

COUNCILMAN GREEN: I think the definition set forth in policy papers by then-candidate Nutter was that it was collecting the same amount of money after -- in dollars after the shift as before the shift. And that's sort of, I think, a common-sense understanding of what "revenue-neutral" means in that.

Would you agree that if you are taking additional dollars from the private sector, that that is a tax increase?

MR. DUBOW: No. If that's your definition, then anytime we collected more business-privilege taxes, that would be a tax increase even that was a result of increased business activity.

COUNCILMAN GREEN: So --

MR. DUBOW: And we've had, you know, years where there were dramatic increases even when we were reducing rates.

COUNCILMAN GREEN: So -- okay. So under the scenario that you previously testified about, what is the property tax revenue the School District would receive in FY '13?

MR. DUBOW: As I said last time, they wouldn't have an increase. And I think if our increase was about, you know --

COUNCILMAN GREEN: 20 percent.

MR. DUBOW: Theirs would be the same. And I think that would be about 120 million.

COUNCILMAN GREEN: Okay. Do you know how much the -- for the record, how much the property tax revenue the School District is projected to receive this fiscal year?

MR. DUBOW: I can get you that.

COUNCILMAN GREEN: It's

120 million less than it would be after the move to --

(Indiscernible; parties talking over each other.)

MR. DUBOW: I think it's around 600 but I'm not sure, so I --

COUNCILMAN GREEN: Right. And so, the increased property tax to the School District would be 120 million, which is 20 percent.

MR. DUBOW: Yeah. And that's just an estimate, and I'd have to go back and actually look at the numbers, but --

COUNCILMAN GREEN: Okay. That's all my questions, Madam Chair. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Jones.

COUNCILMAN JONES: Good morning Madam President.

Good morning.

MR. DUBOW: Good morning.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN JONES: Generally, we are -- is it safe to say that we are ahead of schedule by way of revenue enhancements that we put in from the sales tax and other taxes that were raised last year?

MR. DUBOW: The sales tax has been pretty healthy the last few months, so I think we are a little bit ahead.

And in property tax, it's probably too early to tell; we haven't seen all the collections yet.

COUNCILMAN JONES: In your plan, however, I do not see -- I see a provision for $25 million in reduction in benefit costs, which are give-backs from the unions, but I don't see a resolution on a contract.

MR. DUBOW: Right.

COUNCILMAN JONES: What are the potential impacts of those contract signings on the health of this budget, in your estimation?

MR. DUBOW: Just one -- it's

not -- we don't use 25 anymore. Because some of the savings have been realized, we're showing about 12 million.

And what we have said to the unions is that we expect that, you know, any contract will be consistent with what we have in the Five-Year Plan.

So to the extent, for example, that there are pay increases in a contract, we want other items in the contract that would pay for those increases and net us the savings that we show in our plan.

COUNCILMAN JONES: Where are we by way of anticipated revenue cuts, freezes, and the like with the Commonwealth of Pennsylvania?

MR. DUBOW: So the Governor's proposed budget had a number of cuts that would affect the City primarily in our social service agencies.

COUNCILMAN JONES: Which is DHS?

MR. DUBOW: DHS, Homeless,

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Health.

We are kind of working through how to react to those cuts and how to build them into our budget. I think those departments will all be here next week, and they'll have a lot more detail on what they're doing and how the cuts are affecting them.

COUNCILMAN JONES: So the two major areas are DHS but also the Philadelphia schools, correct?

MR. DUBOW: Right. Outside of our budget, there were obviously tremendous cuts to the School District, to institutions of higher education, and to hospitals.

So there's -- the impact of the cuts is much bigger beyond our budget and for the City in general.

COUNCILMAN JONES: To what degree does the School Board's cut impact us beyond the obvious of revenues to keep the schools open? They're dealing with a facilities management resizing, downsizing, whatever you want to call it. How are we working with them to look at efficiencies, economy of scales, multiple land swaps that possibly could happen? Is there a group working with them to look at those possibilities?

MR. DUBOW: Right. We've been working with them really since the beginning of the Administration to look for ways that we can kind of work together to generate efficiencies; looking, for example, of ways we might be helpful on their fleet.

We also have been working with them as they go through their facilities management to see, you know, if there are facilities that they're no longer using, what the best use for them going forward would be. So we have been in communication with them on those items.

COUNCILMAN JONES: It would be my hope that you involve the District Councilpeople and whatever other Councilpeople might be interested, but definitely the District Councilpeople as to determine some of the highest and best use for those facilities.

And I think the Mayor was forward-thinking in look at the inventory of City-owned properties, whether it was by Health Department, by Recreation Department, by other municipal property owners. But in addition, looking at what the School Board may have so that a good school site may make a better recreation site, considering population shifts.

So if we are having that dialogue, that discussion about those efficiencies, it should involve the District Councilpeople as well as the community to give some insight on that.

MR. DUBOW: Right.

COUNCILMAN JONES: And even though it looks like a problem, it could be a opportunity for us to gain land, gain advantage, and reduce some expenditures by consolidating certain services out of one building as opposed to possibly even as many as three.

MR. DUBOW: I agree.

COUNCILMAN JONES: So you will let the Chair know about that and invite us to said meetings? Is that a yes?

MR. DUBOW: That makes sense, yes.

COUNCILMAN JONES: Okay. Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Mr. Dubow.

MR. DUBOW: Good morning.

COUNCILMAN GOODE: I'll be very quick this morning because you provided all of the information that I needed within the handout.

My only question actually is: Is this going to be the format for the departments going forward?

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. DUBOW: Are you suggesting that it should be?

COUNCILMAN GOODE: Yes, I am.

MR. DUBOW: Okay. We'll work on that.

COUNCILMAN GOODE: Okay, thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Green.

COUNCILMAN GREEN: Thank you, Madam Chair.

I guess on the first day of testimony during the Capital Budget hearings, we discussed the need for City Council to get budget detail for the departments that are going to experience significant cuts.

MR. DUBOW: Yes.

COUNCILMAN GREEN: And we were assured that we would have that, you know, weeks in advance, and that's why the hearings were, in fact, delayed.

Those hearings begin Wednesday;

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

today is Monday, and we still don't have the budget detail.

MR. DUBOW: Right. And what I said at the time was that that was contingent on our getting clear information from the Commonwealth, which is still kind of rolling in.

So that's the reason for the delay.

COUNCILMAN GREEN: When do you -- I mean, I think I'd like to talk to those departments, when there's full information available, about where we're actually going to cut, because otherwise, we're not having a really meaningful conversation.

MR. DUBOW: Right. I mean, unfortunately now, the way that the Commonwealth's budget process is going, it doesn't look like there will be full information until sometime in June, because, you know, they still seem to have some disagreement up there about the way to resolve their budget issue.

COUNCILMAN GREEN: You know, we've had -- over the -- my last three years and over the last 25 years, a rather negative experience in Council with appropriating a certain dollar amount to departments and then having the Administration make its choices once there's an appropriation above what can be spent as to where the cuts should come rather than having that public debate about which priorities should be financed and which are less important, given the resources available.

And I just think that we're not doing our job as a body if we don't have the information about where you intend to cut versus not intend to cut.

You know, I can give you -- there are examples of where you would cut, like if CBH is going to cut what it's doing with the diversionary court system when the V.A. don't pay for things or when we need money for Mental Health Court or, you know, people who are being diverted because of substance-abuse problems from the system, that's where a lot of that money's coming from. If that money's going to be available, you know, we may not have money -- enough money in our prison budget.

And so, like, I would argue that we should be making that a priority within the funding of CBH and other things and in order to avoid having to increase our prison budget.

And I really think that we should not -- until we see the whole picture, we shouldn't just sort of let things go.

MR. DUBOW: Yeah, I think what we can do, and what we should and will do, is give you what -- the best information we have based on where the Commonwealth is now.

COUNCILMAN GREEN: And when will we get that? We need that in advance of the hearings.

MR. DUBOW: Yeah. We'll get

you that, you know, based on where they are right now.

The thing that we can't do is, you know, anticipate where they may go in June because we don't know what they might put back and, you know, where they might cut their budget.

But you're right, we should get you as quickly as we can the information on what we're doing based on what we have now.

COUNCILMAN GREEN: I think there was a contingency budget done last year, wasn't there? Or haven't we done a contingency budget in the past?

MR. DUBOW: Well, this is a little different because the contingency budget we did in the past was based on kind of -- on something that we had asked for; and if we didn't get it, we were going to -- we had an alternative scenario.

In this case, we don't know what they might do.

COUNCILMAN GREEN: But we know what they've projected.

MR. DUBOW: And that's what I'm saying we should get you and we will get you. We'll get you information on what's in the Governor's budget --

COUNCILMAN GREEN: Right. And --

MR. DUBOW: -- to the extent that we have good information.

COUNCILMAN GREEN: And so you can tell us what cuts will happen --

MR. DUBOW: Right.

COUNCILMAN GREEN: -- if that passes as is.

MR. DUBOW: Yes, yes.

COUNCILMAN GREEN: And then you can say, If we get an extra 10 million, this is what we'll do with it; if we get an extra 20 million, this is what we'll do with it.

MR. DUBOW: Yeah. It doesn't really work that way because, for example -- well, I don't want to -- they can -- they provide cuts in specific places for specific things. They don't just say $10 million.

COUNCILMAN GREEN: I acknowledge that; that is true.

Okay. So, I mean, should we be talking about passing a budget before June, then?

MR. DUBOW: Well, yes, because -- I mean, we don't -- they might not do anything. They might do something; we don't know. But we should, you know, pass the budget -- pass our budget when we are required under the Charter to pass it.

COUNCILMAN GREEN: Why don't -- well, I mean, budgets have been passed in June before, with no repercussions.

My question is essentially: Why wouldn't we just pass the budget on the Governor's budget and your chosen cuts? And then, if we get more money, you can come back to City Council and ask for increased appropriation authority.

MR. DUBOW: Yes. I think that's what we're proposing to do.
COUNCILMAN GREEN: So then I'm confused about why we've been delayed in getting the information because --
MR. DUBOW: Oh, because --
COUNCILMAN GREEN: Because --
MR. DUBOW: So, for example, we knew overall levels of cuts, but what we needed to know was, for example, if there's a cut in DPW, if that cut will be made in a specific way, it requires us to react in a specific way.
That's the kind of detail that we need from them and that we're getting.
COUNCILMAN GREEN: Okay. So when can we get -- when will we get material to review for Wednesday's hearing?
MR. DUBOW: I thought they started Monday.
COUNCILMAN GREEN: Wednesday.
MR. DUBOW: Who's Wednesday?
COUNCILMAN GREEN: Public

Health, DPH.

MR. DUBOW: We'll get back to you today with when we can get you the information. We just need to do that.

COUNCILMAN GREEN: Okay. I mean, if you can't get it to us --

MR. DUBOW: We'll get you something before --

COUNCILMAN GREEN: -- today, it's hard to do it --

MR. DUBOW: I understand.

COUNCILMAN GREEN: All right. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions from members of the committee?

(No further questions.)

COUNCIL PRESIDENT VERNA: Seeing no one, thank you.

Our next department...?

MR. McPHERSON: Is the Property Assessment Office.

MR. DUBOW: I'm following up to

our discussion.

We will get you information today on State budget cuts and how we intend to handle them.

COUNCIL PRESIDENT VERNA: When will we get the testimony for Wednesday? We do have a 48-hour rule.

MS. RHYNHART: It should be coming over very shortly.

COUNCIL PRESIDENT VERNA: I beg your pardon?

MS. RHYNHART: We'll send it over shortly. We'll send it now.

COUNCIL PRESIDENT VERNA: Thank you.

(Witnesses come forward.)

COUNCIL PRESIDENT VERNA: Good morning. Welcome. Thank you for your patience.

Please identify yourself for the record and proceed with your testimony.

MR. McKEITHON: Good morning. My name is Richard McKeithon. I'm the

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Chief Assessment Officer for the City of Philadelphia.

Madam President and members of Council, I'm Richard McKeithon, Chief Assessment Officer for the Office of Property Assessment, also known as OPA.

Here with me today are several members of my senior management team. They are Veronica Daniel, Administrative Services Director; Mike Piper, Real Property Assistant Administrator; Jean Machiz, Real Property Assistant Administrator; Tom Dougherty, Acting Information Systems Group Manager. And also I have with me James (indiscernible), Junior, one of my most competent residential supervisors.

We are here to testify on proposed 2012 Fiscal Year Operating Budget. OPA is primarily charged with discovering, listing, and valuing all of the real property in the City of Philadelphia in a fair and equitable manner. Additionally, OPA is tasked with

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

providing with a response to real-property tax-appeal cases, applying real-property tax-exemptions, and administering the Real Property Tax Abatement Program.

There are 577,798 parcels of real property in the City of Philadelphia. These parcels include residential, condominium, multifamily, large apartment, retail, hospitality, office, industrial, warehouse, hospital, government (City, state, and federal), religious-exempt and non-exempt property uses.

For Fiscal Year 2012, we are requesting from Council a General Fund budgetary allowance of $11,740,696, a $5,632,166 increase from the current year.

As you know, OPA was in existence for less than a full year in Fiscal '11, since it was officially created on October 1, 2010. As a result, the Fiscal '12 budget shows an increase for two reasons: The budget will fund a full twelve months after funding nine months in Fiscal '11, and the budget includes additional resources to ensure that the office can complete the reassessments.

The additional resources will be used for 89 new employees and for information technology equipment and software that is capable of handling the technology used in sketching, modeling, imaging, et cetera. It will also be used to secure of services of various consultants that are well known experts in the assessment valuation profession.

Our estimated total expenditures of $11,740,696 for Fiscal Year 2012 are allocated as follows:

Class 100, employee compensation, et cetera: 227 full-time positions, with $10,421,886;

Class 200, professional services: $960,278;

Class 300 and 400, for supplies

and equipment: $358,532;

For a total of $11,740,696.

For 2010, the City's taxable market value was $38,584,769,215. The City's taxable assessment was $12,347,126,142.

The OPA's disadvantaged business participation rate for Fiscal Year 2010 was 36 percent for Class 200 expenditures. The Department expects 20 percent participation for Fiscal Year 2011 and worked with the OEO to establish a Fiscal Year 2012 goal of 25 percent. OPA will continue to work with the OEO in order to obtain maximum D/B/E participation.

In summary, the Office of Property Assessment continues to strive to reach its ultimate goal of valuing all real-property parcels throughout City of Philadelphia in a fair and equitable manner and at a hundred percent of market value. In order to reach this goal, OPA will conduct the following steps:

1. Research of numerous real-property sales transactions that have occurred over the last three years in attempt to estimate the direction and pace of the real estate market.

2. Formulate and test market models to predict value for various property types.

3. Conduct field inspections to obtain vital information on properties such as condition, size, and current use.

4. Review permits from the Department of Licenses and Inspections that have been taken out by property owners.

During the same time frame, requests for income expense data income that only captures the income stream relating to the real property will be mailed to property owners of various hotels, office buildings, multifamily complexes, strip malls, and industrial warehouses in an effort to ensure that those properties are also assessed in a manner that reflects fair and true market value.

The budgetary funding that OPA's is requesting, which includes resources for 89 additional positions as well as an grade of the IT hardware and software throughout the office, will allow the department to ensure that it reaches its ultimate goal of fair and equitable assessments that represent true market value, using methodologies that follow industry standards.

Thank you for your consideration, and I will take any questions at this time.

COUNCIL PRESIDENT VERNA: Thank you very much, sir.

You mention in your testimony that you are requesting 89 new positions for Fiscal Year 2012. What are the position titles, and are there current civil service lists for them?

MR. McKEITHON: Well, the bulk of the positions are evaluators; those are actually individuals that go out and value the properties.

In addition to that, we have a position for a database administrator, an abatement coordinator, I believe a couple of supervisory positions, but the bulk of them are actually evaluator positions.

COUNCIL PRESIDENT VERNA: Are they civil service positions?

MR. McKEITHON: Well, the evaluator positions will be civil service positions. The database administrator, the abatement coordinator, the actual modeler will be exempt positions.

COUNCIL PRESIDENT VERNA: Is there an existing civil service list for the evaluators?

MR. McKEITHON: At this time, we're in the process of working with Human Resources to establish that. We're in the early phases of that process now.

COUNCIL PRESIDENT VERNA: On page 10 of your detail, you're requesting $400,000 for camera system imaging. Can you explain why you need these funds and the services you will receive?

MR. McKEITHON: Certainly. My vision about the camera system or the database system that we're currently using, it's customary to have an image of every parcel throughout the City. When you pull up a particular record, you should be able to have an image of that particular parcel, and that's what I want to establish here, in the City of Philadelphia.

Currently, we don't have that in our system. And so, I think it's very necessary because, one, one of the first things you do when you actually look into the value of property or get some information on the property, you want to see it.

And so, we currently don't have a mechanism for that; we don't have any images, only the ones that we may have recorded over the recent years. But as a whole, our system doesn't have images, and I wanted to establish that file for our system.

COUNCIL PRESIDENT VERNA: You also mention in your testimony that the City has 577,798 parcels of property. Can you tell us how many of these are tax-exempt and their market value?

MR. McKEITHON: We'll probably have to -- we'll have to get that for you. We can --

COUNCIL PRESIDENT VERNA: I think somebody in the back of the room may have the list for you.

MR. McKEITHON: Okay.

(Witness comes forward.)

COUNCIL PRESIDENT VERNA: Good morning. Please identify yourself for the record.

MR. PIPER: Good morning, Madam President and members of Council. I'm Michael Piper, Deputy Administrator of the Office of Property Assessment.

To answer your question, currently, there are 24,724 properties that are fully exempt --

COUNCIL PRESIDENT VERNA: I'm sorry, 24,000...

MR. PIPER: 24,724, and there are 16,003 properties that are partially exempt, and a market value of $38,558,902,478.

COUNCIL PRESIDENT VERNA: All these billions are too fast for me. Do you mind again?

MR. PIPER: $38,558,902,478.

COUNCIL PRESIDENT VERNA: Does your office review these properties to ensure that they're not being used for a taxable purpose?

MR. PIPER: We do. We do routinely audit properties in which there's any doubt in which, you know, we -- you know, if we're not sure, for instance, a church is having services or a property that's receiving an exemption because they've been granted one based on the idea that they're having classes because it's a school, if it's not obvious, we do.

MR. McKEITHON: And let me add to that, if I may.

In the future, my plan is to actually conduct an audit of all exempt properties every three years. So every exempt property would, on a rotational basis, get a request to send in information verifying the fact that they should still be exempt.

And so, one of the conditions of getting additional employees will go to that effect.

COUNCIL PRESIDENT VERNA: I guess I sound very naive, but I'm going to ask the question anyway.

With the hospitals that we have in the City -- and I won't mention any one of them -- they seem to expand for blocks and blocks and blocks.

Tell me, if you will, which one of those buildings would be exempt. Would the hospital itself be exempt?

MR. McKEITHON: Well, it's all

in the use. Typically hospitals are exempt.

COUNCIL PRESIDENT VERNA: All right.

MR. McKEITHON: But it depends on how they're structured. I have seen some that are non-exempt. It depends on how they are structured.

We have the Law Department look into exemption applications, and they have different guidelines on what qualifies you for exemption, but it all depends on how they run, how they're operated for profit, and things like that. There are many different variables that go into play.

So the hospital property -- the actual hospital can be exempt, but some the other parcels that they own may not qualify. It depends on how they're being used.

COUNCIL PRESIDENT VERNA: How about for physician services? Supposing with the expansion that they make, if one of the buildings is being used for physician services, is that also exempt?

MR. PIPER: Typically, the way that would work is, once the evaluator inspects the property, if the report indicates that the physician, for instance, conducts or administers services in a portion of the property that the nonprofit organization owns, and that doctor, that physician, is an employee of the hospital, typically, that part of the property would be exempted.

If the physician, however, was a for-profit entity working for him or herself, typically, it would not be exempted.

MR. McKEITHON: And see, we have to get into those details once we're reviewing the applications and exactly what they have filled out and how the -- in accordance to the law, so...

COUNCIL PRESIDENT VERNA: But if they have a retail store in any one of the buildings, the retail store should be paying taxes for that portion of the building, would they not?

MR. PIPER: That portion of the building would be taxable, yes, correct.

COUNCIL PRESIDENT VERNA: And with the churches, is it only the house of worship that's exempt from paying any taxes?

MR. McKEITHON: Well, typically, once again, churches are exempt, but that doesn't necessarily mean that all church property is exempt.

We have a process, and Mike can explain it, but it's all in the use of the particular property.

Exemption depends on use. There are categories for exemptions such as religious, charitable, et cetera, but it depends on how that entity is actually using that property.

COUNCIL PRESIDENT VERNA: I would love to see that one. We do have an awful lot of properties that are exempt. I think it's something that we should definitely be looking into.

Does your office review these properties? You did say that you review them to ensure that they are not being used for a taxable purpose?

MR. McKEITHON: Our goal is to audit all of them at least once every three years.

We have a process that they apply for exemptions now, but I think we need -- my goal is to have an annual process, a rotating process, where they would have to at least attempt to give us information that they should still remain exempt at least once every three years.

COUNCIL PRESIDENT VERNA: When do you expect to complete the reassessment project, and when will we have use for the data?

MR. McKEITHON: Our goal is to complete the reassessment in the fall of 2012. We're working hard towards that goal each and every day. So that's -- that's our response. That's our goal, is to have it completed by the fall of 2012.

COUNCIL PRESIDENT VERNA: Once the citywide reassessment project is completed, what will be your reassessment policy going forward?

MR. McKEITHON: Every year, I believe that it -- once a reassessment is completed, you have to maintain it. And so, every year, we will expect portions of the City will continue to collect data on a rotational basis.

There are standards in our profession that dictate that you should do field inspections for every parcel at least once every four years or so, and I fully intend on doing that.

I'm not looking to just complete the reassessment and then let things go back to where they are now. I intended to maintain the reassessment and look at these values each and every year.

COUNCIL PRESIDENT VERNA: Thank you very much, sir.

Councilman Greenlee.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GREENLEE: Thank you, Madam President.

Good afternoon, it is now, to everyone.

Mr. McKeithon, first of all, just to follow up on what the Council President just asked, so just so I'm clear, the idea -- your goal is to have all of this completed by fall of 2012, so the bills that go out, first the assessment notices go out the late summer of 2012 would be included in that. So it would be for the bills --

MR. McKEITHON: Well, the notice --

COUNCILMAN GREENLEE: -- that would go out in late 2012 for FY '13. Is that right?

MR. McKEITHON: The assessment notices I'm looking to get out -- my goal is to have them out by fall, meaning possibly November of 2012. And then from that point, bills would be generated by Revenue and sent out.

COUNCILMAN GREENLEE: So it would be a little bit later than we're doing it now then.

MR. McKEITHON: I -- I -- is that --

COUNCILMAN GREENLEE: 'Cause usually they go out in, like, late August, right? 'Cause it's --

MR. McKEITHON: Mr. Dubow will respond to that.

COUNCILMAN GREENLEE: Okay.

(Rob Dubow comes forward.)

MR. DUBOW: Yeah, Councilman, the idea is that the bills -- Revenue would be sending the bills out in December of 2012. So people, if they wanted to, could pay them before the end of the year, but they would be for FY '13.

COUNCILMAN GREENLEE: Okay. But just so I'm -- I'm not trying to nit-pick the timeframe here, but -- 'cause usually, as Mr. Piper, I think, started saying, the notices go out -- the assessment notices go out, what, late August, so it gives the people the chance to appeal them.

Is that --

MR. McKEITHON: Well, that's how --

COUNCILMAN GREENLEE: I mean, I know we're talking about the future here.

MR. McKEITHON: Right.

COUNCILMAN GREENLEE: But I'm just trying to get the procedure down, sort of.

MR. McKEITHON: They'll still have an opportunity to appeal.

COUNCILMAN GREENLEE: Uh-huh.

MR. McKEITHON: Once we get notices out, typically, most jurisdictions will give you 30 days or so to appeal, so they'll still have an opportunity to appeal.

COUNCILMAN GREENLEE: Mm-hmm.

MR. McKEITHON: And then, based on those decisions, I guess their bills would be -- I don't want to speak for

Revenue, but I guess their bills would be adjusted.

COUNCILMAN GREENLEE: Okay. I'm just saying it sounds like a tight time frame. If it's fall by the time you have the numbers ready, you know, people have to have the chance to appeal. And if there's appeals upheld, for example -- you know where I'm going with this?

MR. McKEITHON: Right.

COUNCILMAN GREENLEE: It doesn't sound like you'll have the chance to get the bills out in December, right?

MR. McKEITHON: Well, once again, we're working as diligently --

COUNCILMAN GREENLEE: No, I understand, I understand.

MR. McKEITHON: -- as we can to get to the fall of 2012.

COUNCILMAN GREENLEE: Yeah, an I understand. I'm just saying that that's a little bit different time frame than we've been working on; am I right?

MR. PIPER: Just a little. A

couple of months. I would agree that it is tight.

COUNCILMAN GREENLEE: Mm-hmm, okay, all right.

The civil service positions you talk about, particularly evaluator, now that test hasn't been actually set up yet so that -- am I right?

MS. DANIELS: Good morning.

COUNCILMAN GREENLEE: Good morning.

MS. DANIELS: I'm Veronica Daniels, the Administrative Services Director.

That exam has not yet been scheduled. We are actually working with Personnel to change the specs of that exam --

COUNCILMAN GREENLEE: The specs?

MS. DANIELS: -- or of that position.

COUNCILMAN GREENLEE: Okay. That's where I was going, 'cause I know for, say, Evaluator I, I think the requirement's always been a bachelor's degree; is that right?

MS. DANIELS: It has been in the past.

COUNCILMAN GREENLEE: Is that being looked at as possibly being changed?

MS. DANIELS: It is.

COUNCILMAN GREENLEE: Okay. I know one of the big criticisms, if you will, whether it was fair or not, was that we needed more professionals.

If you're lowering that, what would be -- is that going against that argument?

MR. McKEITHON: Well, we are, as opposed to just making it a mandatory bachelor's, we're looking at the CPE certification, which is what our industry professionals would normally have.

COUNCILMAN GREENLEE: And what is that? Could you -- CPE is...?

MR. McKEITHON: Certified

Public Evaluator.

COUNCILMAN GREENLEE: Okay.

MR. McKEITHON: So that's a professional credential that's specifically for property assessment versus just someone having the bachelor's degree in any particular field. We think that this would just be equally, if not more, credible to have something in that particular field.

COUNCILMAN GREENLEE: So you're looking for something specific toward evaluating.

MR. McKEITHON: Exactly.

COUNCILMAN GREENLEE: And how do those CPEs -- you don't necessarily have to have a bachelor's degree; is that --

MR. McKEITHON: No. But we do require, in addition to a CPE, some level of experience, years of experience, knowledge of the real-property field and things like that.

COUNCILMAN GREENLEE: Okay.

Last question. On Evaluator IIs, I don't know if you've looked at that, but that's always been an advancement position, right?

Are you still looking at that the same way or hiring somebody -- would that be new hires necessarily or both or --

MS. DANIELS: In the past, the Evaluator II was in a career advancement position.

COUNCILMAN GREENLEE: Right.

MS. DANIELS: The way that the positions will be structured in future is that the department could hire an individual based on their experience at either level.

COUNCILMAN GREENLEE: Either level. It would still be the opportunity for advancement possibly? I mean, would they just --

MR. McKEITHON: Definitely, yeah.

COUNCILMAN GREENLEE: Mm-hmm.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. McKEITHON: I want to create an environment where if I get a good candidate and they have experience, knowledge, et cetera, good credentials, I can hire them at an EV II.

COUNCILMAN GREENLEE: Mm-hmm.

MR. McKEITHON: And also have the flexibility to hire someone at an EV I and they work their way up to an EV II.

COUNCILMAN GREENLEE: Mm-hmm.

MR. McKEITHON: So this would give us more flexibility and, in my opinion, be more realistic with the real-world environment.

COUNCILMAN GREENLEE: Okay. Thank you. Thank you all.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Jones.

COUNCILMAN JONES: Thank you, Madam President.

Just so I can put my arms around this, did you say the number and value of -- well, first of all, good afternoon.

MR. McKEITHON: How you doing.

COUNCILMAN JONES: The number and value of tax-exempt properties was 38 billion?

MR. PIPER: Yes, the market value of the exempt properties is 38 billion, correct.

COUNCILMAN JONES: And what is the -- and I guess a simple way to put this is: What is Philadelphia's real estate that is taxable worth?

MR. PIPER: Excuse me. Just a second, Councilman, because I'm looking at something here, and I want to make sure I gave you the right number.

Councilman, I beg your pardon. The exempt market value total is 17 billion -- not 38 billion, but $17,521,033,504.

COUNCILMAN JONES: So do I

understand the figure to be 38 billion of taxable property?

MR. PIPER: No. The 17 billion is the exempt portion, and the 38 billion is the taxable, that's correct.

COUNCILMAN JONES: Yeah.

MR. PIPER: Yes.

COUNCILMAN JONES: All right. So --

COUNCIL PRESIDENT VERNA: (Inaudible, off-mic.)

COUNCILMAN JONES: Yes.

COUNCIL PRESIDENT VERNA: I have made notes of what you testified to earlier.

MR. PIPER: Yes.

COUNCIL PRESIDENT VERNA: And you did say "38 billion, 588 thousand." What figure is it really?

MR. PIPER: I'm going to give it to you -- and I apologize, Madam President. I'm looking at ten different columns here.

The exempt market value is

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

$17,521,033,504.

COUNCIL PRESIDENT VERNA: And you did say --

I'm sorry, Councilman.

COUNCILMAN JONES: You're right on point. We're in the same direction.

COUNCIL PRESIDENT VERNA: And you did say that there were 24,724 properties that were exempt?

MR. PIPER: That were fully exempt, and that number is correct.

COUNCIL PRESIDENT VERNA: And 16,003 were partially exempt.

MR. PIPER: Yes, that's correct.

COUNCIL PRESIDENT VERNA: Okay. I'm sorry, Councilman.

COUNCILMAN JONES: No, no, you're -- no, for clarification purposes, I thank you.

COUNCIL PRESIDENT VERNA: Thank you.

COUNCILMAN JONES: How much is Philly worth -- real estate, taxable?

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. PIPER: The 38 billion is the taxable.

COUNCILMAN JONES: And exempt is...?

MR. PIPER: 17.

COUNCILMAN JONES: What percentage of Philadelphia is exempt?

MR. PIPER: Hold on a second. Let me get my calculator.

MR. McKEITHON: We'd have to do the math on that. We can get that for you.

COUNCILMAN JONES: Let me say this. I'm getting scared here. It looks like more than half of our exempt property -- half of our value is exempt.

MR. PIPER: I agree. We do have a lot of exempt properties in the City of Philadelphia.

COUNCILMAN JONES: All right. I need you to -- you're in an exact science. I'm in the "about" business; I can estimate, guesstimate. I need you to calculate that for us --

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. PIPER: Okay.

COUNCILMAN JONES: -- so that we know what we're working with.

MR. PIPER: Okay.

COUNCILMAN JONES: And let me further ask, you said periodically, you send out inspectors to check to see if indeed a tax-exempt property is being used for said purposes, correct?

MR. PIPER: Yes.

COUNCILMAN JONES: What is the frequency of those inspections and the percentage of properties annually that you do inspect?

MR. PIPER: That's also a number I'd have to get and calculate based on what it is we've done in the past.

But, of course, as Mr. McKeithon said, you know, what we're doing is developing a plan to inspect all of them within three years.

COUNCILMAN JONES: What I do need to know is, what did we do last year? If it ain't measured, it ain't managed.

And I'm asking you: Last year, how many properties did we inspect? What was the results of those inspections? How many were found to be operating under the said purposes? And how many were not?

MR. McKEITHON: We can get that for you.

COUNCILMAN JONES: I'm waiting.

MR. McKEITHON: We can --

COUNCILMAN JONES: No, you don't have somebody who can --

MR. McKEITHON: No, we'd have to go back --

COUNCILMAN JONES: This is at the -- I can -- without being a soothsayer, you're going to be the most popular department this time next year. When I tell you that all of us are going to be at your -- we're going to want to know this data so we can communicate that back to our constituents, both businesses, nonprofits, and regular taxpayers alike. Sharpen your pencils, 'cause those are the questions we need to know.

People are already questioning whether or not this temporary real-estate tax will be revenue-neutral, and we need to have faith in the numbers, the calculation, the inspection process, the exemption process, that indeed we are getting the money due us and that the people that are doing nonprofit, philanthropic kind of activities are indeed doing that.

And so, I need to know how many inspections you make.

COUNCIL PRESIDENT VERNA: How long would it take you gentlemen to get that information, come back to us, and let us know?

MR. McKEITHON: I would estimate a few days.

COUNCIL PRESIDENT VERNA: A few days?

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. McKEITHON: Yes. We would have to go back to our office and research some record.

COUNCIL PRESIDENT VERNA: You don't have a good computer system, I guess, huh?

MR. McKEITHON: We are asking for budget funds for our computer hardware and software.

COUNCIL PRESIDENT VERNA: Oh.

MR. McKEITHON: We're pretty bad off IT-wise right now, and that's why we're asking for a lot of this funding.

But, once again, I think that, you know, I want to emphasize --

COUNCIL PRESIDENT VERNA: If we were to continue this hearing until later this afternoon, would you be able to come in and provide the information that Councilman Jones is asking for?

MR. McKEITHON: We could do our best, but I wouldn't say without any degree of certainty that we could gather that by this afternoon. I mean, we would really have to go back to our office and research some records. It may take some physical detail. It's not as simple, I believe, as pressing a button.

So if you will allow us, we could definitely attempt to get you that within a few days.

COUNCILMAN JONES: Madam President, if I may?

COUNCIL PRESIDENT VERNA: Councilman Jones.

COUNCILMAN JONES: This is such an important issue.

COUNCIL PRESIDENT VERNA: I concur.

COUNCILMAN JONES: They need to take the time that they need, but they need to take the time and get this information to us.

The confidence in this information is at the heart of what a taxpayer needs to know, that there is a system that is not a wild-ass guess.

Thank you, Madam President.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCIL PRESIDENT VERNA:
You're welcome.

Councilman Green.

COUNCILMAN GREEN: Thank you,
Madam Chair.

Mr. McKeithon, under State law,
by what date must someone appeal a
property assessment for the next calendar
year?

MR. McKEITHON: Well, under
State law, here, in the City of
Philadelphia, once the assessment notices
are mailed, we give opportunity to appeal
within 30 days, correct?

COUNCILMAN GREEN: That's
right, but there's a State law
requirement, a date certain by which all
appeals must be put in place; it's in the
First-Class City Act. By what date is
that?

MR. McKEITHON: They have an
opportunity to nunc pro tunc, I believe,
indefinitely.

COUNCILMAN GREEN: I'm just

asking you for the date.

MR. PIPER: Councilman Green, the date is the first Monday of October or --

COUNCILMAN GREEN: The first Monday of October.

MR. PIPER: Yes. Or thirty days --

COUNCILMAN GREEN: And you plan to --

MR. PIPER: -- after the assessment date notice.

COUNCILMAN GREEN: And you plan to send out the assessments when?

MR. McKEITHON: Our goal is to have them done by the fall of 2012, no later than November of 2012.

COUNCILMAN GREEN: November of 2012.

MR. McKEITHON: Mm-hmm.

COUNCILMAN GREEN: Okay. And for -- so let's just make sure that that would comply with State law, okay.

So before -- in order to have a

new millage rate apply for the calendar year of 2013, which is what everybody in the Administration has been contemplating and talking about, we have to pass millage in May of 2012. How do we do that when you have not sent out notices until the fall?

Is this how we get back-door tax increase, a formula applied to values we don't know what it is yet?

(Rob Dubow returns to witness table.)

MR. DUBOW: So in terms of millage rate, obviously, that's not a question for the Office of Property Assessment because they just set the values.

In terms of setting millage rate, you know, we'll have -- we'll have to look at how we handle that next spring. I mean, if we leave the millage rate unchanged and then we have new assessments that will be at actual value, obviously, that would create, you know, several times more revenue than we generate now, so we will not want to do that.

So that's something we have to, you know, work on with Council, you know, the best way to approach that.

COUNCILMAN GREEN: But, I mean, really, what we have to do is coordinate the actual value, give people time to assess -- what you're really saying is, we can't release new assessments, or should not responsibly release new assessments, until the spring of 2013, when we know what the actual total aggregate value of real estate in the City of Philadelphia is so that we could appropriately set a millage rate and have a debate about whether or not we've captured increased value, whether or not it's revenue-neutral, rather than -- I mean, you're basically asking us to give you a blank check on some formulaic basis, which is the only way this could happen, to allow you to do tax increases.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Basically, we'd be abdicating our responsibility of setting millage.

I can't believe that you'd consider that we would -- I can't believe you'd think we'd possibly consider doing what you're suggesting.

MR. DUBOW: I haven't actually suggested anything. What I suggested was that this is a complicated issue that we need to work on Council with. I didn't suggest anything specifically.

COUNCILMAN GREEN: But I don't understand how we're -- how -- I -- I mean, basically, the testimony is, we're going to send out new property assessments in November of 2012, and you will have already -- in order for everything in the Five-Year Plan and Budget to be true, we will have already had to pass a millage rate that is, you know, a guess, rather than waiting for the numbers.

MR. DUBOW: I think what I said -- and I'll say it again -- is that this is a complicated issue, and we need to work on this with Council.

COUNCILMAN GREEN: Well, wake up, Philadelphia.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Mr. Dubow, could you stay at the table.

I'll take a shot at this from a different perspective. Do we not know what the aggregate assessed value is going to be over the next five years?

MR. DUBOW: We do not yet know what that will be.

COUNCILMAN GOODE: But we have figures within the Five-Year Plan.

MR. DUBOW: Yes. We have in the Five-Year Plan the revenue we think we'll generate.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GOODE: And what is that based upon?

MR. DUBOW: That's based on a couple of things. One, for '12, it's based on the assumption that we're not changing assessments this year, so it's just based on where the millage rate is.

For '13, it's based on the assumption that we will set a millage rate that will produce the amount of revenue that's in the plan and that will allow us to capture the growth that we've seen in the market over the last, you know, ten years or so.

COUNCILMAN GOODE: And how accurate is that assessment?

MR. DUBOW: Well, we hope it will be very accurate.

COUNCILMAN GOODE: And so, to some extent, we do know what the aggregate assessed value is going to be, or we're close to it.

MR. DUBOW: We know what we think the combination of assessed value and millage will be, but don't know what either one of those will be.

COUNCILMAN GOODE: And so, we are expecting 20 percent growth.

MR. DUBOW: Yeah. And we have two different analyses. One that's been fairly public from eConsult said that since 2004, growth has been well over 30 percent. The consultants that we used for our Five-Year Plan, IHS, put that same growth at around 25 percent.

So they both put it, you know, a little bit above over what we think we'll be capturing.

COUNCILMAN GOODE: But the figure we're using right now is 20 percent growth.

MR. DUBOW: About, that's right.

COUNCILMAN GOODE: And so, that would give us what in terms of aggravate assessed value?

MR. DUBOW: It dep -- we don't actually -- the assessed value isn't going to be very different from what it is now.

COUNCILMAN GOODE: Not aggregately it would not.

MR. DUBOW: It will 'cause we only have -- we use fractional assessments now, and it will be a full --

COUNCILMAN GOODE: I understand that you have 38.5 billion and that you have the taxable assessment as 12.3. I'm assuming that's the predetermined ratio of 32 percent?

MR. DUBOW: That's the target. It's a little off from that, but --

COUNCILMAN GOODE: So you if were not using the predetermined ratio but using the full value, it's assumed that in terms if it were actually taxable, it would be 38.5 billion, with 20 percent growth.

MR. DUBOW: Well, since we'd be using actual value, you would see it almost triple, I guess, or more than that, or a little more than that. The assessed values would go up by a little -- by more than three times.

COUNCILMAN GOODE: So give me a guess at what you think the aggregate assessed value is going to be with 20 percent growth.

MR. DUBOW: What is it now? So it would clearly be well over a hundred. I mean, these guys are the professionals. It would be well over a hundred.

COUNCILMAN GOODE: So at the end of the day, it would not require more than a 1 percent tax rate.

MR. DUBOW: Well, if we are at 9 now, and it more than tripled, I think we'd still be over 1, but we could be under 2.

COUNCILMAN GOODE: But we would not -- we'd still be roughly at 1 percent.

MR. DUBOW: I'm sorry. What?

COUNCILMAN GOODE: We would still be roughly at 1 percent.

MR. DUBOW: I think we'd be

closer to 2, but I'd have to kind of do the math. It think it's a little higher than that.

COUNCILMAN GOODE: Okay. The reason I'm saying it is, it seems that it's not as murky as we're claiming it is. I mean, if you're able to put figures in a five-year plan, if you're able to calculate what the expected growth is going to be, of course, you can't do it per property and should not do it per property without doing it the right way. And that's the job of the Office of Property Assessment.

MR. DUBOW: Right.

COUNCILMAN GOODE: But for our purposes, it is what it is in terms of we know that the rate is going to be 1 to 2 percent.

MR. DUBOW: Right.

COUNCILMAN GOODE: And that the assessment is meant to be accurate.

MR. DUBOW: Correct.

COUNCILMAN GOODE: And so, I'm

just saying this for the record. So that means that Council's job in this, in terms of setting the rate, is not going to be completely simplified because we're going to want to put in certain protections for seniors and long-term homeowners.

MR. DUBOW: Right.

COUNCILMAN GOODE: And that's going to force us to look at the rate hard in terms of what we're bringing in.

But at the same time, property tax bills that go dawn will go down based upon fair assessments, and property tax bills that will go up will go up based upon fair assessments, not necessarily based upon tax rate.

MR. DUBOW: That's absolutely correct.

COUNCILMAN GOODE: Okay. Thank you, Madam President.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

The Chair recognizes Councilman Jones.

COUNCILMAN JONES: Thank you, Madam President.

A couple of quick questions since you're going to be in the data-gathering phase. One question would be: How many vacant properties are there in the City of Philadelphia?

MR. McKEITHON: Okay. We can run a report on that. We'll give you that at the same time we give you the information about the exempt properties.

COUNCILMAN JONES: And I'd like to know what the appraised --

MR. McKEITHON: Total assessed value is?

COUNCILMAN JONES: -- total assessed value of that is, and differentiate that by those in City inventory.

So, if there are 35,000 -- it's 40,000, actually, of vacant properties, 10 percent owned are by the City.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. McKEITHON: Mm-hmm.

COUNCILMAN JONES: What is the total number and assessed value? And then, if it's owned by us, what is that of the property?

MR. McKEITHON: Okay.

COUNCILMAN JONES: So I want it broken down in those two categories.

MR. McKEITHON: All right. Now, before we go any further, I want to say that we haven't inspected those properties in quite some time; that's why I wanted to get out and do field inspections.

And so, we'll just be giving you what we have prior to any type of field inspection.

COUNCILMAN JONES: If we're guessing, we might as well guess about that, too.

Can we also -- are you calculating the impact of storm-water fees that we're now going to assess properties with and what the impact on value will be of the increase in the storm-water management fees?

MR. McKEITHON: Well, we would deal with storm-water management fees; we're only dealing with the assessed value of the real priority, using industry standards.

So the storm water fees may be generated based on an assessment, but we don't -- it doesn't work the other way around.

COUNCILMAN JONES: So if a property that currently has a $25,000 assessment goes to $250,000, which some of them testified in here, based on the formula, that has no impact on the value of the property in your assessment?

MR. McKEITHON: We are going to assess property based off of industry standards of comparability, sales, things of that nature. I don't know exactly how the storm water fee --

COUNCILMAN JONES: It's based on --

MR. McKEITHON: -- department got its value, so --

COUNCILMAN JONES: It's on square footage of porous and non-porous surfaces and what that rain water runoff impact is on our system.

And there's a -- and so, if someone were buying a property or considering a manufacturing facility in Philadelphia, that has an impact on value.

MR. McKEITHON: But, see, the way we're going to value is, what would they pay for it? We're going to not consider what the storm-water issue would be, runoff, things like -- we're going to look at what they pay for per square foot, what it's zoned, things of that nature.

COUNCILMAN JONES: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman

Green.

COUNCILMAN GREEN: Thank you, Madam President.

So, just following up on my previous line of questioning, I had a couple of thoughts.

If someone -- if the entire City receives assessments in November and it's legal for them to appeal after they receive them or it's legal for us to send them and have them apply past the date to appeal, which I understand you're going to look at, when would, you know, those 30 or 40 or 50,000 appeals be heard by?

MR. McKEITHON: Well, we're going to have an appeal process in-house first, where individuals can contact us, and we're going to get through those as quickly as possible.

COUNCILMAN GREEN: Right.

MR. McKEITHON: Now, there's another level, which is with the actual board.

COUNCILMAN GREEN: Right.

MR. McKEITHON: And I can't speak for when they'll schedule them.

COUNCILMAN GREEN: Sure, but when you're appealing your assessment --

MR. McKEITHON: Mm-hmm.

COUNCILMAN GREEN: -- can you pay what you think it's worth, or do you have to pay, when due, what the original assessment notice said?

MR. McKEITHON: Once again, that will be a question for the Revenue Department. I -- we level the assessments; we don't deal with how you pay what you pay -- what the terms are for any types of payment.

COUNCILMAN GREEN: Is there anyone here from the Administration who can answer that question?

(Rob Dubow returns to witness table.)

MR. DUBOW: I don't actually know the answer to that question. We can actually check with Revenue and get back to you.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GREENLEE: Point of information.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: I think this actually is a point of information. My understanding is that the Revenue Department expects you to pay the bill on time.

COUNCILMAN GREEN: That is correct.

COUNCILMAN GREENLEE: And then if you win your appeal, you apply for a refund. That's always been my understanding. I'm pretty sure I'm right.

COUNCILMAN GREEN: Councilman, I believe you are correct. And what that means is, we'll be sending out all of these notices without enough time for tens of thousands of people who are likely to appeal. They will be required to pay an amount to the Revenue Department because the appeal process will not be over by the time the taxes are due, and then we will be requiring people to -- and basically, they will -- if they win their appeal, they can get a refund.

So for tens of thousands of Philadelphians, because we're trying to rush this -- well, I mean, it just seems like not a good process.

MR. DUBOW: Well, if we --

COUNCILMAN GREEN: Do you have any thoughts about that?

MR. DUBOW: If we get to next spring and it looks like the timing is pushed back so that we wouldn't give people time to appeal, we'll have to discuss, you know, what our options are, which would be -- the primary one would be not doing the assessments next year and then looking at, you know, where we set the millage. And if we reduce the millage back to where it was, what we do in terms of budget to keep it in balance.

But we'll have to look at that

when we get to it next year.

COUNCILMAN GREEN: So did we get a number for the aggregate value of real estate in the City of Philadelphia based upon market value today?

MR. McKEITHON: Yeah. It was 38 billion.

COUNCILMAN GREEN: 38 billion?

MR. McKEITHON: Right.

COUNCILMAN GREEN: And is it your testimony that the aggregate value, after you complete full value --

MR. DUBOW: That 38 is taxable. The total is 56.

COUNCILMAN GREEN: 56 billion, okay.

MR. DUBOW: Including tax-exempt.

COUNCILMAN GREEN: Including tax-exempt. So is it your testimony, then, that the aggregate value of real estate, after we go to full value or market value for all properties in the City, will be 56 million plus 20 percent?

MR. DUBOW: Well, I --

COUNCILMAN GREEN: Which allows us to capture the value that we don't have in the current market value of real estate.

MR. DUBOW: It will be a little different from what we testified to earlier is that since we're only really doing fractional assessments now, so just looking at taxable, that 38 billion would probably be more like something like something over a hundred billion, but that there would be an increase over that of 20 percent.

COUNCILMAN GREEN: Sorry. So my question was: What was the aggregate market value -- not assessed value -- in the City today?

MR. DUBOW: It's 56 billion, including exempt properties.

COUNCILMAN GREEN: That's the market value.

MR. DUBOW: Yes.

COUNCILMAN GREEN: So that has

nothing to do with the millage that's applied to it, correct?

MR. DUBOW: That has nothing to do with millage, but it has to do with assessments. The assessments are still fractional. That number would still go up when we went to full value.

COUNCILMAN GREEN: No, no. I'm asking what the assessment -- I'm asking what the market value is, not the assessed value.

MR. DUBOW: Right. But I'm telling you, even the market value, we don't capture full our value there. Even that will go up dramatically when we do the actual value -- when we finish the actual vale initiative.

COUNCILMAN GREEN: So what is the market value today?

MR. DUBOW: The market value, under the current assessment process, and the current process is including exempt and taxable, is 56. But that doesn't capture what the actual value is. That's why we're going through this process.

COUNCILMAN GREEN: Well, it doesn't capture the actual value of each property because some, as we've seen from Inquirer reporting and otherwise, is higher, and in many areas is lower, than the market value assigned to it by the Office of Property Assessment.

MR. DUBOW: And in aggregate, it is lower. The aggregate is lower than the actual value, even aside from the --

COUNCILMAN GREEN: And that's the question: What is the aggregate going to be? Is it going to be 20 percent more?

MR. DUBOW: It will be -- there will be two parts of -- it will be more for two reasons.

One, aside from the 20 percent issue, even without that, the way we do assessments now, we're only capturing a fraction of value.

COUNCILMAN GREEN: No, we're capturing the full value and we're

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

applying --

MR. DUBOW: No --

COUNCILMAN GREEN: -- 33 percent to it.

MR. DUBOW: No, we're not. We're not capturing full value; that's part of the problem.

In addition to the 33 percent -- I guess the number I used to hear may have changed -- is that, on average, we're getting about 70 percent.

So if you just equalized everything, you would be at 70 percent of where values are at now.

COUNCILMAN GREEN: So on top of that --

MR. DUBOW: That was --

(Indiscernible; parties talking over each other.)

COUNCILMAN GREEN: I understand your point.

MR. DUBOW: No, that was before not capturing the 20 percent in value, so --

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GREEN: So --

MR. DUBOW: -- there are a few things going on.

COUNCILMAN GREEN: -- what you're saying is that it has been the policy of the BRT to make the market value at 70 percent of actual value.

MR. DUBOW: On average, that's where they wound up.

COUNCILMAN GREEN: Okay. So when you look at 70 percent of -- same question, just worded a different way.

When you look at 70 percent of the actual value, after we get the new assessment, will that be 20 percent higher --

MR. DUBOW: Yes.

COUNCILMAN GREEN: -- than 56 billion?

MR. DUBOW: And so, let me put it this way: 56 billion is --

COUNCILMAN GREEN: 70 percent of the market value.

MR. DUBOW: So you adjust that

up and get to your number.

(Indiscernible; parties talking over each other.)

COUNCILMAN GREEN: -- 30, right.

MR. DUBOW: And then there's 20 percent growth on top of that.

COUNCILMAN GREEN: On top of that.

MR. DUBOW: Yes.

COUNCILMAN GREEN: And that's what we expect.

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay, very good. That will be interesting to see.

MR. DUBOW: Do you have more for me or --

COUNCILMAN GREEN: No.

So I really don't know where to go from here because we really -- we seem to be setting in place a process or a motion that is unrealistic to begin with, 'cause there's no way we can get through assessments for the -- by the time the taxes are due. And I just don't know how to ask any more questions about that.

I just want to make it clear to the public what's happening here, that we are going to -- if the Five-Year Plan is going to be realistic, as submitted to PICA, we are going to have to next year vote on a millage, or a formulaic millage, that will be -- which, without having information about what full value is in the City or how it's going to affect different neighborhood and areas, which is the stated purpose by the Administration for the delay in going to actual value for the last two years.

That's all I have to say, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions from members of the Committee?

COUNCILMAN GREENLEE: Madam President.

COUNCIL PRESIDENT VERNA: The

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Just very quickly, and I don't want to belabor this time frame, but I have to say just for the record that I agree basically with what Councilman Green said.

But on these new positions you want to hire Mr. McKeithon, the evaluators and whatever, what time frame do you have for hiring them? I mean, when ideally would you like them in place? 'cause I know you said you're still evaluating -- you're still going over the qualification possibilities.

MS. DANIELS: Excuse me. We're really working with Personnel, and Personnel is actually working very diligently with our department and has prioritized some of our needs.

We're already anticipating that we will get results somewhere in early fall.

COUNCILMAN GREENLEE: So the results of the testing.

MS. DANIELS: Yes.

COUNCILMAN GREENLEE: Yeah, early fall. So that would mean the people would be hired when?

MS. DANIELS: As soon as we get the results, we'll begin processing them immediately.

COUNCILMAN GREENLEE: Mm-hmm.

MS. DANIELS: So as soon as the list is certified, we'll already be in place. We're already doing things now, you know, things that we can do ahead of time, establishing, you know, packages and things like that.

COUNCILMAN GREENLEE: Mm-hmm.

MS. DANIELS: So that when it's time to hire, we're ready to do that.

COUNCILMAN GREENLEE: It still sounds like a tight time frame to me, but again, I won't belabor it. Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes

Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you, Madam President.

I only rise to say, obviously, Council does not understand or agree or understand how they intend to do it the way they want to do it. And, certainly, before we pass a budget, all of this -- this that affects everybody in our city needs to be worked out. And certainly, we would expect that to happen.

This is such an important issue to not have info or to say it's somebody else's decision or to say we'll see. You can't tax people based on "we will see." And certainly, all of my cheatings feel this way.

So we would hope that when they return to this Council, because, obviously, they need to before we can consider passing this budget, then we'll have more answers.

Thank you.

COUNCIL PRESIDENT VERNA:

You're welcome.

The Chair again recognizes Councilman Green.

COUNCILMAN GREEN: Thank you, Madam Chair.

I actually have a budget question. And that is, your vacancy allowance in your department is $100,000. Based on the fact that you don't have a test for the 80 people, when do you realistically expect to be able to make your first hire?

And then do you expect to be able to -- do you expect to or even want to hire the 80th person off the first test, or do you want to hire a little bit and then do another test and see if you can get a different pool of more qualified -- you know, of higher-quality candidates than the previous test at the bottom of the list?

And so, could you walk through -- because, obviously, July 1st, you're not going to have 90 new employees.

MS. DANIELS: Right. When our budget was first created, we were really not sure of what the test schedule would be like. So the vacancy allowance that you see was based on what we thought was going on at that moment.

But in the meantime, you are right, we won't be to hire until about, you know, early fall.

When that test is given, I mean, it's our hope that because of the change in the specs that the exam will produce a list of highly qualified candidates. We're hoping that with some outreach in the communities, and we will be reaching out to City Council and some other areas to help us to get the word out about this position and about the qualifications so that we can get a good pool of applicants then.

With that said, we are hoping that we can at least hire a good number of those people, because once an exam is given, you know, it doesn't just disappear; it's out there for two years.

COUNCILMAN GREEN: When do you -- I mean, you'd have to have at least -- in order to have a really good pool of 80 candidates, you'd have to have hundreds of people taking the test probably, right?

MS. DANIELS: I agree.

MR. McKEITHON: And we're realistic about the fact that we may not get 80 at one time; we'll get them as they come in.

We're hoping we can take advantage of things like the market has been down for the last couple of years and --

COUNCILMAN GREEN: Absolutely, which is why the change in standards is so surprising.

MR. McKEITHON: And so, you know, we're looking to take advantage of any good talent that's out there, that's available right now.

But we know there's -- you

know, chances are you're not going to get 80 at one time.

COUNCILMAN GREEN: So how many will you have hired by, say, December, or January of next year?

MR. McKEITHON: I'm hoping we will have hired at least -- I can't say now actually 'cause you never know, but I'm hoping we will have hired at least a third or maybe a half.

COUNCILMAN GREEN: Okay. Let's --

MR. McKEITHON: We'll have to see what --

COUNCILMAN GREEN: So none will be hired until early fall. So can we say that the start date will likely be October 1st for the first batch?

MS. DANIELS: It very well could be.

COUNCILMAN GREEN: But is it likely to be October 1st?

MS. DANIELS: I would guess that that's a good guess because we are basing it on the process of changing the specs and the exam.

COUNCILMAN GREEN: And then that will likely be half that we'll hire then.

MS. DANIELS: That's a guess.

MR. McKEITHON: And we're hoping.

COUNCILMAN GREEN: I mean, you can't bring in 80 people at once, you know, in a practical matter, right?

MS. DANIELS: Right.

COUNCILMAN GREEN: So the additional funding for the 90 new portions is about $4.5 million. So that's roughly $450,000 a month.

So in July, they won't be hired; August, they won't be hired; September, they won't be hired. There's a million-and-a-half dollars too much in Class 100 in your budget to begin with.

In October, half are going to be hired. Let's just give you two-thirds. We can take another million-5 easily out of your budget. And still, you will have all the money you need to do the hiring that you've just testified you're going to be able to do.

MR. McKEITHON: Well, once again, we said this was a guess. I mean, we can't say for sure exactly. I mean, this is a guestimate.

COUNCILMAN GREEN: Well, I understand, but we can only -- I'm only going to -- I mean, we should not appropriate on anything other than your best guess, and it's clear that you won't have people there before October 1st.

MR. McKEITHON: I'm very optimistic that we'll have them all there. I have to --

COUNCILMAN GREEN: By October 1st?

MR. McKEITHON: -- to conduct myself in that matter.

COUNCILMAN GREEN: Okay.

MR. McKEITHON: I don't want to lose candidates because I'm not prepared to --

COUNCILMAN GREEN: Well, you could always come back to City Council if the -- and request additional appropriation.

But based on your testimony, it seems to me you don't need the full $4.5 million. There's significant money there that can be put towards, I don't know, keeping the pools open another two weeks or other things like that.

So thank you very much for your testimony.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Very quickly. What do these positions pay?

MS. DANIELS: I'm sorry?

COUNCILMAN GOODE: What do the positions pay?

MS. DANIELS: The Evaluator I begins at 34,000.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN GOODE: And are we sure we have people in this region or even that we can recruit that will want to serve in a position at that?

MS. DANIELS: Which is why we're changing the way that we hire. Part of the process, part of the due process and the changing of the specs, that's what we discussed earlier, was allowing us to hire not just as an Evaluator I at the first step; it would also allow us to hire at an Evaluator II level hire.

But we can hire anywhere along that range.

COUNCILMAN GOODE: But do you know what you'll be able to recruit at that level of salary? In other words, what --

MS. DANIELS: I can say it's difficult.

MR. McKEITHON: Right. There's no way we can really know for sure. It's a goal. I mean, there's no way to know that there are individuals. It may be, it may not.

COUNCILMAN GOODE: At this point, how many people do you want to hire at Evaluator I and how many people do you want to hire at Evaluator II of the 80 positions?

MR. McKEITHON: We can't say that there's a set number. Typically, they will trickle in evenly.

I would expect a lot of people will come in between a I and II. But, you know, we don't really want to take a chance in saying that a lot of -- three individuals might come in. We just don't know.

COUNCILMAN GOODE: Well, will trying recruit an Evaluator II be more helpful in recruiting it and getting more people in at an earlier point in the year?

MS. DANIELS: I can say that in past experience, I have had people who did not take the job because they couldn't start at a II. You know, we've had that problem.

So the beginning are salary of $34,000 can be a challenge for us.

COUNCILMAN GOODE: And so, you're equally reciting for both positions at the same, or what final decisions have you made in terms of classifications?

MS. DANIELS: We are -- what happens is, when we give the exam, the exam will be given at the beginning level.

But based on personal -- a candidate's personal experience, it will allow us to hire within the range.

COUNCILMAN GOODE: So your budget may change in terms of who you're hiring anyway.

MS. DANIELS: It absolutely may.

COUNCILMAN GOODE: Okay. Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank

you.

Are there any other questions from members of the committee?

(No further questions.)

COUNCIL PRESIDENT VERNA: Seeing none, thank you very much.

This committee will stand in recess until a quarter of 2.

Thank you.

(Lunch break taken.)

* * *

(Proceedings resume.)

COUNCIL PRESIDENT VERNA: I would ask all Councilmembers to please come to the Caucus for the continued public hearing of the committee of the Whole.

* * *

COUNCIL PRESIDENT VERNA: Good afternoon. This is a continued public hearing of the Committee of the Whole.

We will now hear from the Board of Pension and Retirement.

(Witnesses come forward.)

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCIL PRESIDENT VERNA: Good afternoon. Welcome.

Please identify yourself for the record.

MR. BIELLI: My name is Francis Bielli, Executive Director.

MR. WOOLWORTH: My name is Brad Woolworth, Head of Private Markets and Real Assets.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Bielli, you're going to be testifying?

MR. BIELLI: Yes.

COUNCIL PRESIDENT VERNA: Okay. Please proceed.

MR. BIELLI: Good afternoon, Council President Verna and members of Council. My name is Francis Bielli. I'm the Executive Director of the Board of Pensions and Retirement.

Brad Woolworth, Investment Officer; Mark Murphy, Deputy Pension Director; Shamika Taliaferro and Teresa

Gray, Pension Program Administrators; and David Fegan, Executive Assistant, are here with me today.

The Board of Pensions and Retirement has submitted a budget request for Fiscal Year 2012 for $8,491,000, which is the same as the Board's estimated obligations for Fiscal Year 2011.

The employee compensation for Class 100, personnel services, is $3,945,000, and there is another $2,209,000 for fringe benefits.

We have budgeted $2,074,000 in Class 200 for purchase of services;

We estimate we will need $125,000 in Class 300 for material and supplies;

$13,000 in Class 400 for equipment;

And $125,000 in Class 800 for payments to other funds;

For a total of $8,491,000.

The Fiscal Year 2012 Budget

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

contains funding in the Pension Fund for 79 positions that service more than 64,000 participants, the same number of positions budgeted for the current fiscal year.

Comparing the first eight months of FY '11 with the same period of time in FY '12, overtime costs have been reduced by over $34,000, and the cost of using temporary staff has been reduced by over $20,000.

From July 1, 2010, through March 31, 2011, there have been 915 retirements, and 1,009 withdrawals of contributions. The totals for the corresponding period for FY '12 were 1,068 retirements and 1,003 withdrawals of contribution.

For the period July 1, 2010, through April 7, 2011, there were 1,820 DROP applications received and 807 final DROP enrollments. The corresponding period of July 1, 2009, through April of 2010, there were a total of 461 DROP applications; and of that group, there were 340 final DROP enrollments.

The Board of Pensions and Retirement is committed to supporting the Administration's goal of 25 percent minority-, women-, and disabled-owned businesses participation in City contracting. The Board of Pensions and Retirement's FY '12 participation goal was discussed with OEO, and our agreed target is 15 percent.

In FY '12, minority- and women-owned firms were paid $3,327,000, or 10.9 percent, of the fees paid for managing the Board's investments in providing research, consulting, legal, and various other services in support of the Board's efforts.

Through the first quarter of FY '11 fees paid to minority- and women-owned firms totaled $1,031,004, or 13.1 percent, of all fees paid by the Board.

Fees paid to investment

managers make up the largest portion of the Board's contract expenses. These management fees are asset-based and can vary greatly, depending on the change of asset levels, making fees for the remainder of FY '11 and FY '12 difficult project.

Efforts by the Board to increase minority participation include the Opportunity Fund. The Opportunity Fund creates opportunities for minority- and women-owned firms to manage portions of the Board's portfolio. This program has grown from an original allocation of $80 million in 1999 to $186 billion today. Several managers who originally started with small allocations as part of this fund now manage larger allocations as part of the main fund.

A traditional hurdle for many minority- and women-owned firms is that they have not yet built the years of experience or the amount of assets that other firms have had the chance to build.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

In order to develop greater levels of participation, the Board relaxes the experience and asset requirements for minority- and women-owned firms so they can better compete for Board contracts. These relaxed guidelines are included in all of our RFPs issued by the Board for investment manager services.

Additional outreach to increase the Board's participation percentage includes sending notification of every RFP to the following organizations: The African-American Chamber of Commerce of Pennsylvania, New Jersey, and Delaware; the Greater Philadelphia Chamber of Commerce; the National Association of Asian-Americans Professionals; the Greater Philadelphia Urban Affairs Coalition; and the Women's Business Development Center. Furthermore, we send notification of all RFPs to OEO.

Additionally, the Board has corresponded with each current consultant for non-RFP opportunities in the area of hedge funds, private equity, and real estate, stressing the importance of increasing our participation level.

Retirement planning seminars continue to be attended by an average of 60 percent per session. Ten of these programs are held each year.

A secondary retirement education program designed to serve younger employees has been in place for four years. The average attendance at these sessions, which are held ten times per year, is 40 employees.

The projected cost for providing these programs in FY '11 has been reduced by 16 percent below the FY '10 costs, from $49,500 to $41,600.

The deferred compensation seminars have expanded to include visits to all site departments, with existing and newly appointed employees. The processing time for loans from deferred compensation has dropped from eleven days to four. The enrollment in deferred

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

compensation has steadily increased, with 15,032 participants through March 29, 2011, and an 11 percent increase from the 13,500 participants in 2008, when ICMARC was selected as the fund's deferred compensation administrator.

Participation in deferred compensation allows an employee to make pretax contributions, which grow tax deferred, reduce the participant's adjusted gross income, and enhance retirement savings. The Board, in conjunction with ICMARC, continues to focus on increasing both education and participation in the deferred compensation program.

The Board of Pensions continues to make use of our current technology to make our process more efficient. The Board has imaged the files of all active employees, retirees, and vested members. All incoming documents are imaged, then placed into the individual member's imaged file.

Recently, we have designated the imaged file as the official pension file and are coordinating the process of sending the backup paper files to remote storage. This transition furthers our goals to strategically incorporate the technology available to create a process less reliant on paper.

Technology has also allowed the Board to automate the appointment schedule for counselors, obtain complete pension files on desktop computers, centralize all benefit payroll functions into a newly-created financial unit, and create benefit calculation templates from our existing Microsoft Excel program.

Despite improvements we have made using the technical currently availability, the Board continues to believe a new and comprehensive system for compiling electronic records, processing retirements, and making benefit payments would create greater efficiencies. We are working with the

Division of Technology, the Office of Human Relations, and Finance to develop an integrated system that will allow Board staff to easily download employee data for all HR and Finance into a program which will calculate retirement benefits, contribution withdrawals, and bills for purchasing service credit.

The Pension Fund returned 14 percent for the fiscal year ending June 30, 2010. The return placed the fund in the top quarter tile among all quartile among all public funds. Based on the annual actuarial valuation, the fund's actuarial return, which is the ten-year smooth return, as of June 30, 2010 was 12.9 percent, and the funding ratio was 47 percent, up from 45 percent as of June 30, 2009.

During the first half of 2010, the Board approved a new asset allocation that continues to provide investment parameters that optimally and efficiently balance return and risk expectations based on reasonable and realistic long-term capital-market assumptions.

The primary changes in asset allocations were a decrease in exposure to domestic equities, developed non-U.S. equities and core bonds, and an increase in exposure to emerging market equities, emerging market debt, high-yield fixed income, and hedge funneled.

In addition, a new asset class, Real Assets, was added to increase exposure to tangible investments that exhibit positive return correlations with inflation and provide diversification benefits to the overall portfolio.

The Board continues to look for ways to diversify the fund's assets while producing an interview return at a reasonable level of risk.

The Board also took action to lower the expected future earnings rate for the fund. In October of 2010, the Board passed a resolution that would lower the expected earnings rate from

8.25 to 8.15 commencing in Fiscal Year 2011. The reduced assumption rate provides a more realistic return expectation for the fund based on risk parameters commensurate with a public retirement system.

The annualized return for the fund since 1988 is 8.19 percent. The 8.15 assumed rate of return is the lowest the fund has had since 1992. From 1992 through 2005, the rate was 9 percent. The rate was reduced to 8.75 in 2006, 8.25 in 2009, and the current 8.15 in 2011.

The reduced assumed rate of return enhances the long-term viability of the fund, provides a long-term planning tool for investment decisions, and benefits the employees with a more stable pension fund.

It is the goal of the Board staff to continue to provide education and approve services to its members, and I respectfully request your approval of this proposed budget.

We'd be glad to try to answer any questions that you may have.

COUNCIL PRESIDENT VERNA: Thank you very much.

How many money managers do you have and how are they selected?

MR. BIELLI: The money managers are selected by the Board. Some of the money managers, the equity money managers, are responding to our peer requests. Managers in the area of hedge fund, private equity, and real estate are brought forward by research by our investment staff and/or the consultants that we use in those particular areas.

The prospective managers make a presentation to the Board, filers are selected, and then the manager is actually selected.

Mr. Woolworth will be able to tell you exactly how many matters we do have.

MR. WOOLWORTH: Sure. So

depending on the asset class, we have a total of --

COUNCIL PRESIDENT VERNA: I'm sorry. Would you pull the microphone up closer to you, please.

MR. WOOLWORTH: Oh, sure. I'm sorry.

So depending on the asset class, in total -- and I have to add the numbers in my head. Let me just do that real quickly.

Okay. We have 121 managers in total. That includes private equity, real estate, hedge fund, plus our equity managers, our portfolio alpha overlay, et cetera.

COUNCIL PRESIDENT VERNA: Thank you.

MR. WOOLWORTH: You're welcome.

COUNCIL PRESIDENT VERNA: Once a firm is selected, how is their performance monitored?

MR. WOOLWORTH: Sure. So we monitor performance on a monthly basis.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

If it's in the public equity realm -- so that includes both public equity and fixed income, for alternative assets that are more illiquid, such as private equity and real estate, that performance data is given on a quarterly basis.

My understanding is that the policy is to look at managers on a quarterly basis to see how they performed. But managers -- you know, let's assume that they have -- you know, performance is not good over a year's time frame. We would definitely take a second look, maybe put them on watch.

But we typically -- to actually take action, if something is going wrong, we would need kind of three years of returns.

COUNCIL PRESIDENT VERNA: Three years?

MR. WOOLWORTH: Correct.

COUNCIL PRESIDENT VERNA: So my next question was going to be: What happens if a firm is not meeting its benchmark? And at what point are they placed? You mean you keep a watch for three years before you can replace them?

MR. WOOLWORTH: It -- it -- it does depend. Obviously, certain circumstances can get a manager removed.

COUNCIL PRESIDENT VERNA: I'm sorry?

MR. WOOLWORTH: Under certain circumstance, a manager could potentially be removed earlier.

I'm not an expert on this particular process, but --

COUNCIL PRESIDENT VERNA: Who is?

MR. WOOLWORTH: The Chief Investment Officer.

COUNCIL PRESIDENT VERNA: Continue.

MR. WOOLWORTH: Sure. So we're constantly monitoring performance of managers. And if there was a significant event that was taking place at the manager's firm, if the person that we had invested with, who is the head of a firm, had suddenly left, that would be a big indication that something was wrong, and we would put them on watch, or potentially probate them.

We would continue to monitor performance to see if it was impacting the firm. If it did, the Board has the ability to terminate a manager at any time. That is up to the Board's discretion.

We try not to overreact to short-term return declines, especially if you look at the market recently. I think everybody was in decline. So we take a relatively pragmatic approach.

But certain factors obviously are stronger than others. If staff is suddenly leaving, if the firm manager's total assets suddenly decline because everyone is trying to pull out, those would be significant, and we would act immediately to recommend termination.

COUNCIL PRESIDENT VERNA: How

are the money managers paid?

MR. WOOLWORTH: In the equity and fixed income space, the money managers receive a fee based on total assets under management. It could be like a half of a percent, as an example.

If a manager had $100 million under management and they received a half a percent per year, then they would be receiving $500,000 per year.

COUNCIL PRESIDENT VERNA: Are they soft dollars?

MR. WOOLWORTH: I'm sorry?

COUNCIL PRESIDENT VERNA: Are they soft dollars?

MR. WOOLWORTH: No.

COUNCIL PRESIDENT VERNA: Are they paid through appropriations?

MR. WOOLWORTH: I'm sorry. Repeat the question.

COUNCIL PRESIDENT VERNA: Are they paid through appropriations?

MR. BIELLI: No, they're not paid through appropriations.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCIL PRESIDENT VERNA: I think I asked the question earlier, how are they paid?

MR. WOOLWORTH: They're paid based on their assets under management. So we send them --

(Addressing Mr. Bielli.)

Right? Isn't that how it works?

MR. BIELLI: Yes. The Board votes to invest with a certain money manager. That money from the Pension Fund will be allocated to that money manager, and the money manager will receive --

COUNCIL PRESIDENT VERNA: I'm being told that the City Charter indicates that they must be paid through appropriations. Now, if they're not paid through appropriations, how are they being paid?

MR. BIELLI: No, they are paid through the assets that are invested with that firm.

COUNCIL PRESIDENT VERNA: So,

again, I repeat, they're soft dollars, are they not?

MR. BIELLI: I believe they are, yes.

(Rob Dubow returns to witness table.)

COUNCIL PRESIDENT VERNA: Mr. Dubow?

MR. DUBOW: Yeah, that's right. They're netted out of the assets that the managers manage, and that's the way that they're paid.

COUNCIL PRESIDENT VERNA: And can you tell us the percentage that they're paid?

MR. DUBOW: It varies by manager, but I think Mr. Woolworth can give you the range.

MR. WOOLWORTH: Sure. And let me clarify. "Soft dollars" in the investment industry tends to mean something else; I didn't understand the question. It has to do with referral fees paid to brokers that -- I won't get into that.

So I understand your question. The way you meant it, it is paid as they have indicated.

The range for fees depends on the type of manager in the equity and fixed-income space that are publicly traded securities. The management fees are based on total assets under management, and they are generally relatively low.

In the alternative space, it can -- the total management fees are based both on the amount of capital under management and also a performance fee. And that would be in the real-estate, private-equity, and hedge fund space. And that can range, you know, to 1 to 2 percent for assets under management fee plus a 20 percent performance fee.

COUNCIL PRESIDENT VERNA: Can you provide us with a listing of your money managers, how they are performing, and the amount you expect to pay them for

Fiscal 2011 and 2012?

MR. WOOLWORTH: We certainly can.

COUNCIL PRESIDENT VERNA: Can I have that by Wednesday?

MR. WOOLWORTH: Yes, you can.

COUNCIL PRESIDENT VERNA: Thank you.

COUNCILMAN O'NEILL: Madam President, you may have it today. There's percentages of what they pay out listed in the testimony. All you have to do is reverse the numerator and denominator, and you'll get the -- I mean, it might take a few minutes of math, but they have pretty much have given us percentages of the fees they pay out.

COUNCIL PRESIDENT VERNA: But I think I was asking by manager.

Councilman O'Neill, it's your turn, too.

COUNCILMAN O'NEILL: Okay, thank you.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Who is the Chief Investment Officer?

MR. BIELLI: There's an active Chief Investment Officer, Rhonda McNavish, who is ill right now; she's unable to be here today.

COUNCILMAN O'NEILL: Okay. Is there an Assistant Chief Investment Officer?

MR. BIELLI: She was the previous Chief Deputy Investment Officer. The Investment Officer the previous number of years has left.

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: We currently are in search of a new CIO.

COUNCILMAN O'NEILL: Okay. But has there been anybody move up to the Deputy position acting while the --

MR. BIELLI: I think, for all intents and purposes, Mr. Woolworth has been acting in that capacity.

COUNCILMAN O'NEILL: Okay. Let's stick with your testimony first.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

The expenses for commissions, and we -- pretty much, that's the fees. I mean, it's what they get, whether it's a percentage or whatever you're -- a half a million or half a point, depending on all that.

And the total appears to be somewhere around 35 million that we spend on that based on what the minority participation is. If 10.9 percent was 3.37 million, it's going to be somewhere at 35 to 40 million that we're spending?

MR. BIELLI: That's correct.

COUNCILMAN O'NEILL: Okay. And that's not coming out of -- the Finance Director is here. There was a piece of information that the Council President mentioned; I'm not sure if the Finance Director answered it. And that is that the Charter requires it to be appropriated money.

And do we have a legal opinion that it doesn't have to be, that it can be soft money? We might as well take them one at a time.

(Rob Dubow returns to witness table.)

MR. DUBOW: That -- we can check with the Law Department on that.

COUNCILMAN O'NEILL: Okay. And you'll get back to us.

MR. DUBOW: Yeah.

COUNCILMAN O'NEILL: Okay. Thank you.

You mentioned, under "Staffing" that you reduced your overtime by 34,000 and your temporary staff by 20,000. What you don't tell us is, what is it reduced from? In other words, 34,000, if it used to be 48,000, is a real big improvement. But if it was 250,000, it's a small improvement.

MR. BIELLI: I can go -- Fiscal Year '10, the actual overtime was $45,051, and the temporary seasonal was $22,175.

Fiscal Year '09, for comparison, the overtime was $112,963, and the temporary seasonal was $66,814.

COUNCILMAN O'NEILL: So you've been bringing it is down dramatically.

MR. BIELLI: Well, in the last two years, yes, I did bring it down dramatically.

COUNCILMAN O'NEILL: Well, you got to get that in here. That's -- when you have something that's a good story like that -- that's a high -- a very high number. We wish we had more stories like that in our overtime --

MR. BIELLI: That's why I appreciate you asking me the question, Councilman.

COUNCILMAN O'NEILL: -- and in temporary.

You mentioned in the paragraph under "Requirements" on the first page the number of actual DROP enrollments. That's irrevocable once they pass the 90-day period?

MR. BIELLI: That's correct.

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: That's what I'm referring to when I mentioned --

COUNCILMAN O'NEILL: There's no going back.

MR. BIELLI: -- open enrollment. That's correct.

COUNCILMAN O'NEILL: Okay, that's what I assumed.

And what I wanted to know is, Council passed a resolution where -- and I believe it was unanimous, that whenever there is legislation on DROP that people will be protected and given a time period when they can go in to let the City employees know that they shouldn't worry if that's what's causing them to go in, that there will be a grace period of sorts to do that.

MR. BIELLI: Sure.

COUNCILMAN O'NEILL: Can you tell me -- and you don't have to have it today, 'cause I don't even remember the date of the resolution, but how many DROP enrollments became final after that as opposed to before?

MR. BIELLI: Yes, we can get those numbers.

COUNCILMAN O'NEILL: Okay. And I'd appreciate that 'cause it would give more clarity to the numbers.

When we talk about the 35 to $40 million of investment fees, the -- there's also money that's made in trades, huge amounts usually, because we're dealing with huge amounts of money.

Do we have a policy that deals that in terms of what we allow our money manager firms, if they're doing their own trading, to make off of those trades?

MR. BIELLI: I assume you're referring to brokerage --

COUNCILMAN O'NEILL: Yeah, brokerage.

MR. BIELLI: (Indiscernible.) ...commission recaps and brokerage commission?

COUNCILMAN O'NEILL: Yeah.

MR. WOOLWORTH: Sure. So we

have a commission recapture program that essentially is set up and has a 25 percent goal, where our money managers seek to execute trades through a list of brokers, where they receive up to 75 percent of the cost back that's basically check back to us. So it's almost like a rebate program.

COUNCILMAN O'NEILL: Okay. That offsets those fees that we would have paid them otherwise under the percentage?

MR. WOOLWORTH: Correct.

COUNCILMAN O'NEILL: And is it strictly followed, or do some of them not care? Do any of them trade themselves?

MR. BIELLI: No. They're --

COUNCILMAN O'NEILL: I mean trade themselves. In other words, within their own firm. Are those fees raised in their firm or just under the firms that you -- you said there's a list of firms that they can trade through.

MR. WOOLWORTH: Right.

MR. BIELLI: Right.

COUNCILMAN O'NEILL: Is there a prohibition against them trading in their own firm?

(Dan Falkowski comes forward.)

MR. WOOLWORTH: Dan Falkowski is an analyst that follows this closely.

COUNCILMAN O'NEILL: Okay.

MR. WOOLWORTH: I'd like to have him --

MR. FALKOWSKI: The goal's been a little bit --

COUNCILMAN O'NEILL: Dan, could you put your name on the record and spell your last name? 'cause I didn't hear it real well.

MR. FALKOWSKI: Sure. It's F-A-L-K-O-W-S-K-I.

COUNCILMAN O'NEILL: And your title is...?

MR. FALKOWSKI: I'm an investment associate.

COUNCILMAN O'NEILL: Okay.

MR. FALKOWSKI: The commission

recapture program has been a little bit under its target. I believe it's been in the ballpark of about 15 percent for Fiscal Year 2010.

COUNCILMAN O'NEILL: 15 versus its target of...?

MR. FALKOWSKI: Of 25 percent.

COUNCILMAN O'NEILL: Okay. In other words, our fees are being reduced by 15 percent rather than 25 percent? I'm not sure what --

MR. FALKOWSKI: No. Of the total commissions of all our trades that have been managed by our managers through our brokers, 15 percent of those trades have gone to the brokers on our commission recapture list.

COUNCILMAN O'NEILL: Okay. So instead of trading with the brokers on our commission recapture list, they're trading with someone else, which could be their own firm's trading desk.

MR. FALKOWSKI: Most -- I know most of --

COUNCILMAN O'NEILL: No, no. Could just answer the question first and then give me the explanation?

MR. FALKOWSKI: Yes.

COUNCILMAN O'NEILL: Okay. So it's a yes.

Now, if you've got more to add, that's fine more, but I wanted to get the yes or the no first. So yes.

Go ahead.

MR. FALKOWSKI: And most of our managers trade with external brokers as opposed to trading in-house.

COUNCILMAN O'NEILL: Okay. But they would still rather use the relationship and not benefit us, and are they graded on that, how much of that they do versus how much they don't do? Does anybody know? It doesn't have to be your answer.

MR. BIELLI: Yes, they are. In fact, we have an organization that reviews the brokerage transactions, and we get that review quarterly.

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: And we do look at that. And all of the firms are subject to best execution, pursuant to the contract --

COUNCILMAN O'NEILL: Of course. It's like an airplane pilot driving, but there are trends. When you see the same pilot always has to use the same runway no matter what, we know that that pilot just likes doing what they like doing because we can't force them to do otherwise.

Can you get us the list of your 121 brokers, what the fee value was, what it was offset by, and where they came in using that goal?

Because believe me, when you do it over a long period of time, it's not the exigent circumstance of that trade. It could be on any occasion, but you don't see it over a period of time.

What you do see is, our wish is being ignored. And if we're ignoring our own regulations and suggestions and not incorporating them into our evaluation, I want to know about it, and I think the Council should know about it, okay?

Can you get that to us?

MR. BIELLI: Yes.

COUNCILMAN O'NEILL: Okay, thank you.

While we're on fees, the alternate to managed investments, there's another name for this, and you can help me.

MR. BIELLI: Index.

COUNCILMAN O'NEILL: Actively manage. We're managed, and the opposite is index funds, which is passively managed, right?

MR. BIELLI: We are mostly actively managed. We do have a number of indexes investments --

COUNCILMAN O'NEILL: Right. So we're mostly managed.

As a percentage of what money is invested, how much is managed and how much is indexed or passive? How much is actively managed versus passively managed with index funds? Is it --

MR. WOOLWORTH: Sure. So all of the fund -- the (indiscernible) line and Northern Trust, they are both index funds. Let me see if I can give you an answer right now.

COUNCILMAN O'NEILL: If it's 50 percent versus 50 or 95 versus 5, I mean, it's -- ballpark is good enough right now.

MR. WOOLWORTH: Sure, sure. About 650 million of the total $3.6 billion in assets is active.

COUNCILMAN O'NEILL: Okay. So about 5 percent?

MR. WOOLWORTH: It is indexed.

COUNCILMAN O'NEILL: Okay. And do we study the end of a year when we're analyzing the performance of our fund, our managers and, you know, the fund itself? Do we do an -- any kind of an analysis, extended or otherwise, but an analysis of when we paid out our 35 or $40 million, what would the index funds have gotten versus what we've gotten, and what would the savings have been with an index fund?

MR. BIELLI: Let me answer first that in each of our flash reports on a monthly basis, which do appear on our Web page, we do the comparison for our equity investments against the index benchmark, so we do a con --

COUNCILMAN O'NEILL: I don't mean that --

MR. BIELLI: We do a constant capacity --

COUNCILMAN O'NEILL: That's not what I'm looking for.

MR. BIELLI: As far as fees, Mr. Woolworth would be able to answer that.

COUNCILMAN O'NEILL: But that's not what I'm looking for. I'm looking for the index funds that do the best.

In other words, we're trying to

find the best active managers out there. We don't want to rely on an average when we make these decisions. We want to know if X index fund in a certain area is performing at a high level for very low fees.

What are we doing actively managing with high fees, relatively high fees. It could be argued they're not high for active managed fees -- I don't want to get into that argument -- but certainly high compared to index fund costs.

Do we have any analysis, whether it's monthly, annually, to show how we compared to the top five funds, the top three fund, whatever we would want to have our money in if we decided to go.

We wouldn't look for the one that what was the average; we would look for the ones that were at the top. Do we do that analysis?

MR. WOOLWORTH: Yes. By

definition, when you say "an index fund," the performance is based on that index.

So yes, the fees are low. And so, what we do is, the index becomes the comparison versus the actively managed --

COUNCILMAN O'NEILL: Right, but I don't want you to use that comparison for my question, because I can understand averages. What I also understand is top five percent.

And if you were switching today, you turned a switch and got rid of all the actively managed funds and went to total index, we're not looking for index funds that met the average; we're looking for the ones that were above average, as high as possible above average.

So to do any real analysis, since we don't have to do anything with index funds except send them money -- they shoot back the returns, we have very low fees -- to get a comparison, we have to know that we're comparing to the ones we would pick if we were choosing, not what the average is, 'cause we don't want that average fund to be our --

And if neither of you follow this, we'll go slower.

MR. BIELLI: Councilman, I follow it, but an index fund mimics the index. An index fund is the index. There is no index fund that exceeds the index. An index fund is the index.

COUNCILMAN O'NEILL: So you think the index fund, it doesn't matter which one you pick.

MR. BIELLI: No. As long as they're mimicking the index, they are the index. That's what an index fund is.

COUNCILMAN O'NEILL: Okay. So they all get the exact same return.

MR. BIELLI: Within one 100th of a point of each other generally, yes.

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: It's the fees that are the key. An index fund that charges less fees will give you a better return than an index fund that charges a little bit more of a fee.

But an index fund, by definition, is mathematically calculated --

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: -- to meet index. It follows the index.

COUNCILMAN O'NEILL: Now, the charges for the fund, how much do they range in index fund? You said some were more than others.

MR. BIELLI: Sure. I mean, some are basement; they're tenths of a percentage point. Some are up to 1, 1.5 percentage points.

COUNCILMAN O'NEILL: Which is a huge amount --

MR. BIELLI: I would never advise investing one of those --

COUNCILMAN O'NEILL: So if the Pension Fund were doing it, we'd be -- so if we're doing comparisons, we're doing it with the index, which is within a hundredth --

MR. BIELLI: Correct.

COUNCILMAN O'NEILL: -- you know, whatever, a very decimal --

MR. BIELLI: Correct.

COUNCILMAN O'NEILL: -- of each other, but there's a disparity much greater than that between the very lowest and the very highest cost.

MR. BIELLI: In the universe of index fees, there is a variable in cost, yes.

COUNCILMAN O'NEILL: All right. And that's a lot of money. I mean, that could be ten times the fee if one's .10 and one's 1.1 or something.

MR. BIELLI: Certainly.

(Indiscernible; parties talking over each other.)

COUNCILMAN O'NEILL: Even though they're both small for a large fund, that's a huge differential.

Do we compare what it would caught us for the lowest, the higher, somewhere in the middle? Because there's two things to compare, you're telling me, and I'm learning here.

You're -- one, you're looking at the index, and that doesn't vary much. Two, you're looking at who's lower versus who's higher. Is that all factored into this equation where you compare how we did compared to the index funds?

MR. BIELLI: I think yes. I --

COUNCILMAN O'NEILL: We're paying fees. I mean, there's no --

MR. BIELLI: That's right. And the Board, on a regular basis, asks questions of any potential investment manager, whether it's an index fund manager or an active manager, what their fees are and whether or not they'd be willing to lower their fees.

That's part of the --

COUNCILMAN O'NEILL: Okay.

MR. BIELLI: -- completes analysis as well as returns.

COUNCILMAN O'NEILL: Okay. So

it's factored in. And you can give us -- how far back can you go and show us the difference? Can we get ten years since we're now doing ten years on smoothing so we can see what the difference would have been with passively-managed funds versus actively-managed fund?

MR. BIELLI: Well, I think if we go back and do that retroactively, we'd have to pick which funds we're talking about because, as we said, the fees are all different, so --

COUNCILMAN O'NEILL: Well, just pick the best. I assume we'd have the lowest ones.

MR. BIELLI: Okay.

COUNCILMAN O'NEILL: So just give me the lowest --

MR. BIELLI: We'll pick commercially recognizable index funds and --

COUNCILMAN O'NEILL: Yeah. Something like Vanguard has real low -- that's good enough.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. BIELLI: I didn't want to use a name, but yes.

COUNCILMAN O'NEILL: No, but they're known for their low fees, so -- low fees in just about everything, but certainly on index funds they've been low.

MR. WOOLWORTH: And that's a significant factor, is the size of the fee when choosing to invest.

COUNCILMAN O'NEILL: Now, when do our return-on-investment report, and in this case, I believe it was -- the most recent was -- I want to get the right page here -- 14 percent? The complete year was 14 percent, and then there's partial year.

So when you ended June 30, 2010, it was 14 percent, right?

MR. WOOLWORTH: Correct.

COUNCILMAN O'NEILL: Okay.

MR. WOOLWORTH: It was exactly 14.9 percent.

COUNCILMAN O'NEILL: Now, does

that -- before we have our percentage on all that money that was out there for investment, we've netted out all of the cost that we've paid all the fees? They're all -- it's all net of that?

MR. BIELLI: Mm-mm.

MR. WOOLWORTH: This is gross.

COUNCILMAN O'NEILL: Okay, this is gross.

Do you have a net number for us?

MR. WOOLWORTH: I can get it.

COUNCILMAN O'NEILL: Okay. Can you get it fairly quickly?

MR. WOOLWORTH: Within 24 hours, yeah.

COUNCILMAN O'NEILL: Okay. And that will be fine for that section.

And the deferred comp that you mentioned, does the Pension Board or ICMARC choose the 457 Fund, make the -- choose the -- make the choices that the employees have to choose from?

MR. BIELLI: The Board does

that in conjunction with AON, who's a consultant in that area.

COUNCILMAN O'NEILL: Okay. And does ICMARC get -- in any of their jurisdictions, do they make the choice, choices? I just notice that ours aren't -- still, even with ICMARC, aren't nearly as good as several 401(K)s that I'm familiar with, and I can't figure it out. I think they're better than they were under the previous.

But the -- I just -- I know it's a different question for you because it's a Board decision, but does ICMARC recommend certain funds than the Board chooses with their consultant -- AON, is it?

MR. BIELLI: AON.

COUNCILMAN O'NEILL: Let me finish.

To pick or choose? And then, at the end the year, is there an analysis done, whether the ICMARC choices would have been better than the Pension Board's and the consultant's choices combined when you combine those two entities, the consultant and the Pension Board?

MR. BIELLI: I'll take the first part of your question.

ICMARC does not make recommendations as to which funds should be included in the deferred compensation plan; they are simply a third-party administrator of the plan.

COUNCILMAN O'NEILL: Okay. But they are one of the largest investment companies around, right? I mean, they're huge.

MR. BIELLI: They are large.

COUNCILMAN O'NEILL: Yeah, okay. Do we even ask them for their comments? They manage funds all over the country. They manage them for professionals, they -- I mean, I'm very familiar with ICMARC.

They really play no role in this. They just are doing the management after the fact of the choice.

MR. BIELLI: They administer the plan for us.

COUNCILMAN O'NEILL: Okay. So if I have an ICMARC plan that is killing us in terms of what they get in "City X" or "County Y," I don't even -- when I make this decision at the Pension Board with my consultant, I don't even know what their top 1 is, their top 5, their top 10 compared to what we're doing.

MR. BIELLI: No, we don't know ICMARC -- what funds they offer in other jurisdictions.

COUNCILMAN O'NEILL: Okay. Or what their returns are in other jurisdictions.

MR. BIELLI: That's correct.

COUNCILMAN O'NEILL: Okay. Is Mr. Dubow still here?

(Rob Dubow returns to witness table.)

COUNCILMAN O'NEILL: Rob, could you answer that? I'm curious because these are the extraordinarily complicated matters when we start talking about all of the jurisdictions that ICMA Retirement Corporation is in, and they also do their own funds, so we know that there's a lot of City managers and the like that just put all of their pension money in ICMARC, and they've been doing it for years; it has nothing to do with the 457 that their city has with a list.

Why are they not a part of the mix in terms of this decision as to what funds our employees get to choose from and what returns they might be able to otherwise get, which would be higher possibly?

MR. DUBOW: Yeah. And I think it's just that we've gone with another advisor through our --

COUNCILMAN O'NEILL: Okay. I'm not asking you for an advisor. This is something they would gladly furnish you. And, you know, usually, you know, there's best practices out there, and it's free information.

So I would at least ask you if you could have your staff -- how long has ICMARC been our management company?

MR. DUBOW: I think maybe two years?

MR. BIELLI: Since 2008.

COUNCILMAN O'NEILL: Okay, 2008, I'll go for that.

If could you just go back, since they've been working for us and the one prior year, 'cause that's always a safe bet, what their top fund choices were compared to ours. I'd really like to see it. And to the extent that it helps you, I --

MR. DUBOW: Okay, yeah.

COUNCILMAN O'NEILL: Thank you.

You mentioned the fund returns under the smoothing, that it was 12.9 percent. That's under the ten-year smoothing?

MR. WOOLWORTH: (Nods head.)

COUNCILMAN O'NEILL: What would it have been if the State did not agree from the 5-year to the 10-year smoothing?

MR. DUBOW: I think we'd have to get the actuary to get that.

COUNCILMAN O'NEILL: You'll get that?

MR. DUBOW: Yep.

COUNCILMAN O'NEILL: I mean, one of the tough situations here, and it's going to come up in other discussions, is that every time we make that decision, like a ten-year smoothing that's good for the City General Fund, it isn't so good for the Pension Fund.

They're often opposite benefits. The City gets a benefit and then the Pension Fund gets the short end of the stick, and that has an ultimate result.

MR. DUBOW: Right. And that one cuts both ways. I mean, obviously, initially, it was very beneficial to the General Fund. For a year like last year when the return was 14 percent, that smoothing actually helps the Pension Fund more than it helps the General Fund 'cause the impact of beating the earnings assumption by 5 percent is smoothed over ten years rather than five.

COUNCILMAN O'NEILL: You say that's better for the...?

MR. DUBOW: The Pension Fund because the --

COUNCILMAN O'NEILL: Oh, it was better for the Pension Fund to have a ten-year smoothing last year?

MR. DUBOW: Yeah. When you exceed the earnings, the amount by which you exceed the earnings is smoothed over a longer period, so it has less of an impact on reducing the unfunded liability.

COUNCILMAN O'NEILL: Okay. So last year, it worked for --

MR. DUBOW: It worked in favor of the Pension Fund.

COUNCILMAN O'NEILL: The Pension Fund, okay.

MR. DUBOW: Yes.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN O'NEILL: So I could see that over a different period to see that it would be helpful, but thanks for that --

MR. DUBOW: But you'd also have the impact of the big loss in '09, so that's still counting against it. So, I mean, that obviously was a big --

COUNCILMAN O'NEILL: Right, okay. And Rob, you might just stay here for a minute.

MR. DUBOW: I think I'll just stay here.

COUNCILMAN O'NEILL: The funding ratio went up from 45 to 47.

MR. DUBOW: Right.

COUNCILMAN O'NEILL: And I don't want to get into all of the, you know, whys and wherefores of 47, 45, 80, and all of that, with this question at least.

But we know that we hit the top quartile in the 14 percent at the end of June 30 of 2010.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. DUBOW: Correct.

COUNCILMAN O'NEILL: In fact, does that funding -- I mean, that return comparison, where we're trying to get into that top quartile, do all of the other funds, are they gross numbers as well, and we don't know if --

MR. DUBOW: Mr. Woolworth said yes.

COUNCILMAN O'NEILL: Okay. But if somebody -- just to stay with the previous thought, while I have Mr. Dubow up the front, if we were able to -- and this is a hypothetical. If we were able to get the same return, 14 percent, using index funds, it wouldn't show the fact that we might have saved 30-some million dollars in fees, because we're using -- we'd still be using gross numbers, 'cause we're not netting out any of our fees in this --

MR. WOOLWORTH: Correct. And the -- when we're doing kind of a public universe comparison, they want to show gross of fee returns.

COUNCILMAN O'NEILL: Right.

MR. WOOLWORTH: And so, that's how they rank --

COUNCILMAN O'NEILL: Does anybody do a net of fee returns?

MR. WOOLWORTH: I do not know.

COUNCILMAN O'NEILL: Okay. Can you find out?

MR. WOOLWORTH: I'll look into it, absolutely.

COUNCILMAN O'NEILL: Okay. And can you also tell me if any in the top two quartiles were indexed only or primarily -- when I say we're 95 or so managed actively, if there's ones that are 95 or so active -- I mean passive, that would still meet my test in terms of what I'm looking for?

MR. DUBOW: So what you want is predominantly passive.

COUNCILMAN O'NEILL: Yeah, okay.

(Councilman Clarke now chairing

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

hearing.)

COUNCILMAN O'NEILL: Councilman, I have more, but I -- anybody else?

COUNCILMAN CLARKE: Thank you, Councilman.

Councilwoman Reynolds-Brown.

COUNCILWOMAN BROWN: Thank you.

Let me thank Councilman Brian O'Neill for walking me through that "Pensions 101." I thank you.

I have a couple of follow-ups and a point of information to my colleagues first. You asked for a list. Can you restate what that list was, Councilman Brian O'Neill? You asked for a particular list of the Pension Board; do you recall what that list was? It was a list of all of the...

COUNCILMAN O'NEILL: I asked for several lists.

COUNCILWOMAN BROWN: Oh, boy.

COUNCILMAN O'NEILL: Which one?

COUNCILWOMAN BROWN: Okay, I

don't know because I didn't write that down, which list it was.

COUNCILMAN O'NEILL: I requested a list of all our fund managers --

COUNCILWOMAN BROWN: That's what that was.

COUNCILMAN O'NEILL: -- and whether they used the system we're suggesting, where we get to count 75 percent of their trading commissions against our fees.

COUNCILWOMAN BROWN: Okay.

COUNCILMAN O'NEILL: So it reduces our fees essentially. And we're not getting such a great response.

COUNCILWOMAN BROWN: All right. So on the fund managers, how do they end up getting on that, some might call it, "lucky list"? How does that happen? Briefly. Do they -- is it a RFP process? Do they apply? Just give me a sense of how that happens.

MR. BIELLI: Fund managers or

transition brokers?

COUNCILWOMAN BROWN: Both.

MR. BIELLI: Both? The fund managers, the equity fund managers -- and to define that, that would be non-private-equity, non-hedge-fund, and non-real-estate matters are chosen via RFP.

COUNCILWOMAN BROWN: RFP, okay. And the transition brokers?

MR. BIELLI: Transitional brokers must fill out an application with the Board of Pensions and meet the qualifications of the application, and they are put on the list, and the list is provided to the investment managers to utilize for making their transactions.

COUNCILWOMAN BROWN: How is the world alerted that that opportunity is coming, the opportunity to be a transitional broker? How do you inform the public that -- 'cause you say they apply.

MR. BIELLI: Right.

COUNCILWOMAN BROWN: So how do you get your applicants?

MR. BIELLI: We'll check into that.

What I will say is that we have recently had a discussion with Board members and with investment staff to address how that list was created and look into that. So I don't really have a good answer for you to that question right now.

That list has been in existence for some time, but we are looking at that, and we will address that and get back to you on that once we get to --

COUNCILWOMAN BROWN: Well, I appreciate you being so forthcoming, because the continuing interest for many of us in this body is that lists look like Philadelphia in terms of gender and ethnicity.

And so, we'll look forward to a response to that by when?

MR. BIELLI: I would say in the

next couple of months. We started to discuss that at the last board meeting, and that's one of the issues that we specifically addressed, is WMBE inclusion.

And we've been working with Councilman Green's office on local broker initiatives, so we are working on both of those things.

COUNCILWOMAN BROWN: Okay, all right. So then let's get a measurement or a temperature of where you are right now. If you will forward the existing list to Madam Chair -- Mr. Chairman, that would be informative.

You stated in your testimony response to Councilman O'Neill that you constantly monitor performance of managers. Define what that means. Is it every quarter, or is it every year annually, or is it every board meeting?

MR. BIELLI: Yeah, I think -- and if I can address this also, Mr. Woolworth mentioned something in response to Councilwoman Verna that a manager is usually there until three years. That's not a rule.

I mean, I think what Mr. Woolworth was referring to was that in the investment world, people say that an investment manager generally needs time -- three to five years -- to see how they're doing, because different managers perform different in different type of markets.

However, every single month at the board meeting, at the Investment Board meeting, a report is given out to the Board; it's called a Flash Report, and that shows the one-, three-, five-year, month-to-date returns of every single manager we have versus their respective index, which would be, as Councilman O'Neill pointed out, an index fund.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: Most are measured against the S&P 500, others are measured against various indexes that are equal to the type of investment that they have. So that is done on a monthly basis.

The board members constantly ask questions of the investment staff such as, why is this manager underperforming?

So you will see in the Flash Report that for the last month, the last three months, "Manager A" has been underperforming the index. The Board asks inquisitive questions every single month.

So managers have been relieved of their duties, so to speak, much quicker than three years.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: Managers have been relieved if they show -- I think this is fair to say -- a constant pattern of underperformance that is not acceptable to the Board, especially in a fund that's 47 percent funded. We cannot have that, and we will not have that.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILWOMAN BROWN: And who makes that determination or those judgments?

MR. BIELLI: The Board makes that determination. That is their decision.

COUNCILWOMAN BROWN: Very well. In your testimony, you indicated that the number of DROP applications has quadrupled in the past year from 461 to 1820.

Can you explain the increase in DROP participation? And how do these fluctuations impact planning for your agency?

MR. BIELLI: Well, I don't know if I can explain it except to say that there was an article that appeared in the Inquirer on July 28th concerning a possibility of DROP no longer being available, and then that appeared in the Inquirer on July 28th.

Ever since that date -- and I have the statistics -- of those 1,820 applications from July 1st, from July 28th through April 7th, we received 1,806 of those 1,820 applications.

So that -- again, I measured it from the appearance the article in the Inquirer on July 28th.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: I can only assume that people were concerned about that.

COUNCILWOMAN BROWN: Sure.

MR. BIELLI: Now, I will also tell you that as of August 2nd or August 3rd or a couple of days after that, there were approximately 3200 people who were eligible to enter DROP. So, again, if that will help you, there were 3200 eligible to enter DROP; 1800 actually filed an application.

COUNCILWOMAN BROWN: I see.

MR. BIELLI: So if that gives you a better ratio to look at, they're the numbers.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: And as to how it

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

will affect us, people can enroll in DROP, but their enrollment date can be some date in the future. So I don't think we're necessarily getting all of these people that will be leaving City employment necessarily at the same time.

So if I were to enroll in DROP today, for example, I may -- maybe I'll put my start date a year down the road or a year-and-a-half down the road. So it's not necessarily true that all of these people will be leaving at the same exact month or the same exact six-month period.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: We can do an analysis of that going forward, but right now, we do know that people are putting dates further out in the future, which, spreading it out is always a good thing.

COUNCILWOMAN BROWN: Very well. Let's talk a little about the Special Commission to Study Benefits.

MR. BIELLI: Yes.

COUNCILWOMAN BROWN: Give us

more detail on the components of the Commission. What is precisely being studied?

Just additional background, if you will. Who has participated in the Commission thus far?

MR. BIELLI: Well, thus far, we've had several meetings starting late last summer or early fall of the Special Pension Commission. And the chairman is whoever the chairman of PICA at that time.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: Previous to Mr. Katz being named Chairman of the Commission, it was Mr. Eisenhower.

We've had several meetings.

COUNCILWOMAN BROWN: Mm-hmm.

MR. BIELLI: At this point, the actuary that we hired pursuant to the mandate by the State act -- and, by the way, the State act required that we pay for all fees associated with the Special Pension Commission.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILWOMAN BROWN: Is that right?

MR. BIELLI: Yeah, which is interesting, given our funding level, but that's a different discussion.

The actuary has given us a preliminary report of the comparable jurisdictions around the country to our pension fund. So that will be the starting point for the actuarial evaluation.

COUNCILWOMAN BROWN: Is that public information yet?

MR. BIELLI: It's still a draft at this point, but when it becomes final, we will certainly provide that.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: Our written report is due in the fall to the Special Pension Commission.

So the Chairman of PICA is the head of that commission. Jim MacAnneny (sp?) from PERC, the Pennsylvania Employees Retirement Commission, is also on that group, as are the members of the Board, including the City Controller. So that is the composition of the Special Commission. And we have been meeting regularly since late last summer or early fall. So --

COUNCILWOMAN BROWN: How many members? Excuse me for cutting you off. How many members?

MR. BIELLI: I think it's approximately 13 or 14 members.

COUNCILWOMAN BROWN: Any women?

MR. BIELLI: Yes, yes. The City Solicitor, for example; trustees of the Board of Pensions, which now include three female members.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: The City Solicitor; Carol Stukes (sp?), the trustee; and Veronica Panke (sp?), our newest trustee, replacing Mr. Rubin.

COUNCILWOMAN BROWN: Very good, okay.

According to your prepared

testimony, the Pension Fund ranks among the top quartile among all public funds. Can you speak to which funds might do better or worse than ours?

MR. BIELLI: I'll let Mr. Woolworth address that, but before I do, I also neglected to state that your own Anne Kelly is also on the Special Pension Commission.

COUNCILWOMAN BROWN: Okay, very well. Thank you.

MR. WOOLWORTH: Sure. Our actual rank was 22 out of 100.

COUNCILWOMAN BROWN: Okay.

MR. WOOLWORTH: And I would need to get the list with the actual names of the pension plans that were on that list. I will get that information to you.

COUNCILWOMAN BROWN: Okay. You said we're number 22?

MR. WOOLWORTH: Correct.

COUNCILWOMAN BROWN: Okay. And just to recap, on this Commission report, you anticipate that we will get that after August 31, which is when the State is supposed to produce their report, correct? Isn't that not so?

MR. BIELLI: That's correct. Ours is due in September, I believe, to the State.

COUNCILWOMAN BROWN: Oh, to the State.

MR. BIELLI: That's correct.

COUNCILWOMAN BROWN: After they release their report on August 31? I don't get it.

MR. DUBOW: I think we're talking about the same report. The State -- this commission was set up by the State, and they're requiring us to report to them. I think we're talking about the same thing.

COUNCILWOMAN BROWN: Yes, we are. Yes, we are.

So the date is not August 31; that's what I read someplace.

MR. BIELLI: Well, September is

the date I have. It could very well be August 30th.

COUNCILWOMAN BROWN: Okay. And it is at that point that it becomes public information for Councilmembers to preview as well?

MR. DUBOW: I think that's probably right. But to the extent that, for example, the comparative information is finalized, we could get that to you before.

MR. BIELLI: Right. And what the actuary did was an actual comparison of our pension fund to similarly-situated pension funds around the country, and that's in draft form.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: But that will be final much before the report is final.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: And we certainly will provide that to Council.

COUNCILWOMAN BROWN: Okay, then.

Lastly, give me the composition of the professional team in the Pension Office.

MR. BIELLI: Our staff is the demographics --

COUNCILWOMAN BROWN: Is it your testimony --

(Indiscernible; parties talking over each other.)

MR. BIELLI: The demographic statistics? We are female -- 73 percent female is our staff, and 64 percent minority is our staff.

COUNCILWOMAN BROWN: And what percentages are professional staff, not line staff, but managers, people in position of responsibility and leadership?

MR. BIELLI: Right. Myself, I'm the Executive Director. Mr. Mark Murphy is our Deputy Director. Right now, we only have an acting CIO, and that's Rhonda McNabbish, a female.

COUNCILWOMAN BROWN: Okay.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. BIELLI: We have four pension program administrators who are non-reps. I consider them professionals.

COUNCILWOMAN BROWN: Are they civil service, the pension program administrators?

MR. BIELLI: They are non-rep employees.

COUNCILWOMAN BROWN: Non-rep.

MR. BIELLI: Yes.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: I consider --

COUNCILWOMAN BROWN: So what does that mean? Help me understand.

MR. BIELLI: That means that they used to be in either DC 33 or DC 47, but have advanced to the point where they are no longer civil service employees.

COUNCILWOMAN BROWN: I see. I think I understand.

MR. BIELLI: Not union; they are non-reps, part of the civil service system.

COUNCILWOMAN BROWN: Okay. Is

there four of them?

MR. BIELLI: They are all female, African-American women. And I do consider them professional staff.

COUNCILWOMAN BROWN: Okay.

MR. BIELLI: I rely them on a regular basis. And two of them are here, Shamika Taliaferro and Teresa Gray.

COUNCILWOMAN BROWN: Okay. Thank you very much for your testimony.

MR. BIELLI: Anytime, Councilwoman.

COUNCILWOMAN BROWN: Thank you, Mr. Chairman.

COUNCILMAN CLARKE: Thank you, Councilwoman.

Councilman O'Neill.

COUNCILMAN O'NEILL: Thank you, Councilman Clarke.

The top quartile, the 22nd rank, in that same ranking, where are we in terms of our funded or unfunded, depending on how you look at the coin -- we're getting closer to half, so it won't make much difference soon, hopefully.

But where do we come out when compared to other similar funds that you were talking about in this comparison?

MR. DUBOW: Yeah, our funding percent is very low. I mean, I think there may be --

COUNCILMAN O'NEILL: Rob, I know that.

MR. DUBOW: Yeah.

COUNCILMAN O'NEILL: I'm trying to get a --

MR. DUBOW: I don't think we have it for the same hundred but we've seen other analyses.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: So I think Pittsburgh's weaker than we are. And Chicago has a few funds, and I think a couple of them are weaker.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: But other than them, I think most funds are --

COUNCILMAN O'NEILL: Is nobody

doing a comparison of this?

MR. DUBOW: Hmm?

COUNCILMAN O'NEILL: Nobody puts out a comparison like they do in --

MR. DUBOW: Yeah. I've seen the comparison and I'm trying to kind of remember it.

COUNCILMAN O'NEILL: Can you get it for us?

MR. DUBOW: Yep.

COUNCILMAN O'NEILL: It would be interesting. Then we could have some more discussion on it. Okay, thank you.

But you don't think it's in the top -- we're in the top quartile funded?

MR. DUBOW: I think we're in the bottom quartile.

COUNCILMAN O'NEILL: Okay, okay. But you'll get it, you'll try to get it?

MR. DUBOW: Or maybe, you know, in the bottom 10 percent or 5.

COUNCILMAN O'NEILL: All right. The question of the different plans --

and I'm really thinking of the 1967 plans that are still killing and are really, really underfunded.

MR. DUBOW: Right. If you look at the funding --

COUNCILMAN O'NEILL: And then the '87 plans that are pretty healthy in terms of the funding of those plans.

MR. DUBOW: Right.

COUNCILMAN O'NEILL: 80 -- just using 80 as the goal that everybody kind of says, you know, we could strive for, the '67 plans are in -- are real low, and the others are fairly high.

They have some period where -- I mean, people have to stop collecting pensions, which usually means dying, before they are -- that system is out of our hands and out of our responsibility. These are the '67 very much unfunded plans and very costly plans that changed in '87 for new employees.

At what point, if we didn't anything else, do we reach 75 or even 80 percent funded because of fewer people in those 1967 plans as opposed to the '87 plans?

MR. DUBOW: Well, we have kind of a series of projections from our actuary. So part of it depends on kind of what the investment returns do.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: But I think we're really talking, you know, out close to 2030 before we get up to what we would consider to be a healthy funding ratio.

COUNCILMAN O'NEILL: Of -- what's your healthy --

MR. DUBOW: It would be in the mid-70s by then.

COUNCILMAN O'NEILL: Okay. If we don't touch anything.

MR. DUBOW: That's right.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: If we keep the same earnings assumption, we make that earnings assumption, and we make our amortization payments under the MMO.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN O'NEILL: Under the MMO.

MR. DUBOW: Yeah.

COUNCILMAN O'NEILL: Okay. That was -- you just triggered my follow-up question.

If we had not moved away from the City plan about eight years ago, is that a fair -- eight or nine years ago?

MR. DUBOW: I think that's about right.

COUNCILMAN O'NEILL: And went to the MMO, which -- it's one of the things that's better for the City but not as good for the Pension Fund.

MR. DUBOW: Right. We'd be paying about 160 million more this year under the (inaudible).

COUNCILMAN O'NEILL: Right. We would be somewhere in the mid-50s, or close to the mid-50s, if we had stayed with the City funding plan?

MR. DUBOW: I think that's...

COUNCILMAN O'NEILL: I think I

saw it as 53 or 54, but it could be as high as 55.

MR. DUBOW: I'm not sure. I'd have to get back to you.

COUNCILMAN O'NEILL: Okay, but it would be significantly higher than the 47.

MR. DUBOW: Yeah. We have projections that show if we did the funding policy going forward but not if we had done it historically. So we'd have to get back to you on that.

COUNCILMAN O'NEILL: You don't have it going back to when we started with the MMO?

MR. DUBOW: No. The projections that we have from the actuary show if we started doing the funding policy now --

COUNCILMAN O'NEILL: Now, okay.

MR. DUBOW: -- what our funding percents would look like, not what they would look like if we had been doing them --

COUNCILMAN O'NEILL: Okay. And so, you have that if we start with the City plan today -- I would like to have that, by the way.

MR. DUBOW: Right.

COUNCILMAN O'NEILL: Going back to when we started doing the MMO.

MR. DUBOW: Right. I mean, the other thing we've changed is the earnings assumption.

COUNCILMAN O'NEILL: Right.

MR. DUBOW: We've taken that down -- the funding policy was at 9 percent.

COUNCILMAN O'NEILL: Right.

MR. DUBOW: Now we're at 8.15.

COUNCILMAN O'NEILL: Right.

MR. DUBOW: So that kind of accounted that we'd be paying about 65 million more a year if we left the earnings assumption higher.

So there have been a series of changes.

So in terms of asking the

actuary to go to the funding policy, we also kind of have to do other series of assumptions.

COUNCILMAN O'NEILL: Right. What I'm trying to get at, Rob, and maybe I can get there more quickly. What I'm trying to see if is we -- you mentioned approximately 2030 when we would start being at sort of that arguably healthy level, mid 70s.

MR. DUBOW: Right.

COUNCILMAN O'NEILL: If we used the City plan instead of the MMO, does it get us there faster?

MR. DUBOW: Okay. So with all the other assumptions we have now --

COUNCILMAN O'NEILL: And when?

MR. DUBOW: Yeah.

(Indiscernible; parties talking over each other.)

COUNCILMAN O'NEILL: -- the investment return assumption being the same.

MR. DUBOW: Right. That is

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

done -- this is the top one, right?

MR. WOOLWORTH: Yes.

MR. DUBOW: We would get into the 75 percent at about 2022, so it would push it up by about eight years.

COUNCILMAN O'NEILL: Okay. And if we did --

MR. DUBOW: And that assumes the 8.1 -- that's all the other assumptions we have right now.

COUNCILMAN O'NEILL: And let's assume that right now, we're -- with the City plan, we'd be around 53. I'm not sure when I've read we'd be at 53. We were then at 45 or we already moved up to the 47. So it's somewhere 53 plus, I believe, where we would be right now under the City funding plan. Now follow me on this.

MR. DUBOW: I'll take your word.

COUNCILMAN O'NEILL: So that is somewhere around 6 to 8 points difference --

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

MR. DUBOW: Right.

COUNCILMAN O'NEILL: -- right now as to where we are.

What I would like to see, instead of 2022, if we're playing catch-up -- in other words, we had been doing the City plan all along so we have to find a way to, over a period of years, get back to the City plan both currently and retroactively by taking pieces of it each year.

MR. DUBOW: Right.

COUNCILMAN O'NEILL: Where does the 2022 bring us? In other words, where does that bring us below the 2022?

MR. DUBOW: If we had stayed with the funding policy back in 2003 or '4 --

COUNCILMAN O'NEILL: Right, yeah. So it's a third level of analysis.

MR. DUBOW: Right. And I assume that when do that for each year, we would use whatever assumptions had been in place in that year.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN O'NEILL: Absolutely. I want the same assumptions for the --

(Indiscernible; parties talking over each other.)

MR. DUBOW: So the earning assumption would have been, if we were assuming in three quarters for some of those years, that's what we would ask the actuary to use for the --

COUNCILMAN O'NEILL: Right. Whatever makes it apples and apples.

MR. DUBOW: Got it.

COUNCILMAN O'NEILL: 2030, 2022, and some number that's probably at least a little bit lower than 2022.

MR. DUBOW: Yeah.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: It makes sense.

COUNCILMAN O'NEILL: That's all I have right now. Thank you.

COUNCILMAN CLARKE: Thank you, Councilman.

Any other questions of these

witnesses from members of the committee?

(No further questions.)

COUNCILMAN CLARKE: There being none, thank you very much.

MR. BIELLI: Thank you.

COUNCILMAN CLARKE: Next up, we have the City Treasurer.

(Witness comes forward.)

CITY TREASURER WINKLER: Good afternoon --

COUNCILMAN CLARKE: Good afternoon.

CITY TREASURER WINKLER: -- Councilmember Clarke and members of City Council. I'm Nancy Winkler, City Treasurer of the City of Philadelphia. I am pleased to provide testimony on the proposed Fiscal 2012 Operating Budget for the Office of the City Treasurer.

The City Treasurer is responsible for the distribution of checks and electronic payments and the investment of bond funds and operating funds not needed for daily requirements.

In addition, the Office is responsible for new bond issuances and the management of over $8.59 billion of outstanding debt, including the debt issued for the General Fund, the Water Department, Aviation Department, and Philadelphia Gas Works.

The Fiscal 2012 Budget, as proposed, provides funding for the City Treasurer to accomplish these correspondence.

The Office of the City Treasurer assumed complete budgetary responsibility for debt management starting in Fiscal 2011, with the transfer of debt contracts from Finance to the City Treasurer and the transfer of the one remaining debt-related position to the Finance Budget, to City Treasurer

The highlights of the Fiscal '12 budget request are as follows -- proposed expenditures are as follows:

$745,937 in Class 100 funds, representing 82 percent of the Office's proposed budget, funding 14 positions, which is unchanged from Fiscal 2011

$136,538 in Class 200 funds, which represents no change from the Fiscal 2011 adopted budget

The combined Class 300/400 amount is $22,224 for supplies and equipment, which represents no change from that budgeted in Fiscal 2011.

The City's Treasurer's Office is focused on efficiencies and the distribution of payments as well as efficiencies in the deposit of revenues into City bank accounts. Direct deposit for City workers and pensioners is encouraged, and we have seen a steady increase in participation, from 70 percent in Fiscal 2004 to 81 percent as of March 2011. There is an even higher participation among pensioners, as 85 percent of pensioners receive payments through direct deposit.

In its fiscal year, the Treasurer's Office supervised the

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

issuance of $285 million of tax revenue anticipation notes as TRANs: $624.665 million of Airport Revenue Bonds, $150 million of Gas Works Revenue Bonds, and $185 million of Water and Wastewater Revenue bonds for new construction

In addition, we have supervised the issuance of $139 million of General Obligation Bonds in April of 2011 to fund capital projects throughout the City and to simultaneously refund $114.57 million of GO bonds for savings

The City currently has $999.45 million of outstanding variable-rate debt, including General Fund, Water, Aviation, and the Philadelphia Gas Works.

We anticipate renewing and replacing all of those letters of credit in Fiscal 2011 in the amount of $289.675 million; and in Fiscal '12, $709.775 million.

In addition, we'll be managing the issuance of the annual TRAN,

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

supporting the issuance of new-money bonds to the Airport and the Water Department and monitoring the market and executing opportunities for refunding of outstanding bond issues for savings when and if available

The City Treasurer's Office also commissions an annual study that analyzes the lending practices of the authorized depositories for the City. The most recent study for Calendar Year 2009 was delivered to members of Council in mid-March of 2011.

The Treasurer's Office issues an annual request for information to be reviewed each year by the authorized depositories on June 30th, in which they must state their community reinvestment goals, respond to the annual lending study, and address any disparities in lending

The Fiscal 2011 appropriations supports five Treasurer's Office contracts. The largest contract is with eConsult Corporation and MFR Consultants, MFR is its minority -- actually MBE/WBE-certified subconsultant. That contract is in the amount of $41,000.

In Fiscal 2011, the Office had a total of 21 percent MBE and WBE participation. We expect at least 21 percent MBE/WBE participation in 2012. Our goal will be to get to the 25 percent level.

The Office also has a longstanding practice of hiring cofinancial advisors and cobond counsels on bond transactions. Thus there have been minority- or women-owned financial firms as well as minority- or women-owned law firms on virtually every City bond transaction for the past five years

I appreciate this opportunity to provide testimony regarding the proposed Fiscal 2012 budget for the Office of the City Treasurer, and I'm happy to answer any questions that Council may have.

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

(Loud chanting in hallway outside of Council chambers.)

COUNCILMAN CLARKE: Okay. Are you finished?

CITY TREASURER WINKLER: No questions?

COUNCILMAN CLARKE: Finished?

CITY TREASURER WINKLER: Yeah.

COUNCILMAN CLARKE: All right. Thanks. I understand you were distracted somewhat by the -- whatever is going on in the hallway; I was too.

So thank you very much for your testimony.

Any questions of this witness by members of the committee?

I have one quick question, not that I have a concern about it. Why exactly was the transfer of this responsibility as it relates to debt from Finance to the Treasurer's Office?

CITY TREASURER WINKLER: I believe --

COUNCILMAN CLARKE: I'm sorry.

The debt management portion of it.

CITY TREASURER WINKLER: I believe --

COUNCILMAN CLARKE: Any particular reason or --

CITY TREASURER WINKLER: I believe a few years ago, there had been a decision to move all of the activities out of the Treasurer's Office, all of the activities related to debt.

And then, over the past several years, all of these activities have been moved back into the Treasurer's Office.

COUNCILMAN CLARKE: So that something that was done in prior years, and now we're going back to the --

MR. DUBOW: At the beginning of the Administration, actually, we hired Rebecca Rhynhart to be the debt manager, and she was in Finance. About a year in, she became the City Treasurer, and we merged both functions -- cash management and debt management.

And so, this is just following

what we did functionally.

COUNCILMAN CLARKE: Oh, okay. One quick question. If you can provide for us a list of categories of debt. I may have asked this question earlier in some other capacity or to some other member of the Administration.

Debt that is, I guess, not recurring debt such as a GO bond, which we pretty much borrow every year for capital projects, but like a one-time sort of an NTI debt, I guess debt for the Municipal Services Building, things of that nature, one time, can you provide a list of those categories of debt?

CITY TREASURER WINKLER: Yes.

COUNCILMAN CLARKE: And if you can, obviously list the amount of the debt and the interest rate and the term of that debt as it relates to the repayment of the bond, that would be helpful to me for another issue.

CITY TREASURER WINKLER: (Nods head.)

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

COUNCILMAN CLARKE: All right? Thank you.

CITY TREASURER WINKLER: So you want to know the nonrecurring-type debt, special project debt, and the interest rates associated with that debt.

COUNCILMAN CLARKE: And the term of the debt.

CITY TREASURER WINKLER: And the final maturity of the bonds?

COUNCILMAN CLARKE: Right, and in addition to whether or not there's a penalty on the early payments as it relates to that debt.

CITY TREASURER WINKLER: Okay.

COUNCILMAN CLARKE: My understanding is some of those may have a penalty of payment upon the debt, all right?

CITY TREASURER WINKLER: Okay, thank you.

COUNCILMAN CLARKE: Okay, thank you.

If there are no other

questions, thank you so much for your testimony.

CITY TREASURER WINKLER: You're welcome.

COUNCILMAN CLARKE: Thank you very much. We will now have theArt Museum.

(Witnesses come forward.)

COUNCILMAN CLARKE: Good afternoon.

MR. RUB: Good afternoon, Councilman.

COUNCILMAN CLARKE: Please proceed.

MR. RUB: Thank you and good afternoon. My name is Timothy Rub, Director and Chief Executive officer of the Philadelphia Museum of Art Philadelphia Museum of Art. And I am joined this afternoon by Gail Harrity, our President and Chief Operating Officer.

Today, the Museum is bustling with activity. It is home to 230,000 works of art representing the greatest achievements of human creativity from around the world and across millennia.

It welcomes many hundreds of thousands visitors each year. These are people from every Councilmatic District, from our schools, and from around the world.

Many of our visitors tell us they think of the Museum as their home, and they have a right to claim it because Philadelphia is the community that the Museum was founded to serve.

Today, as we meet here in Council chambers, the work of 240 5th, 6th, 7th, and 8th-graders from six Philadelphia schools is being mounted for all to see at the Fairmount Park Welcome Center and will be displayed there until July 31st.

The project culminates 19 weeks of learning at the Museum, where the kids engaged with the professional artists in a program that offers each and every one of them a rare opportunity to take a major creative leap forward.

That's happening under the auspices of the Museum and the Delphi Art Foundation, and it's just one of countless projects in which the Museum partners with other institutions to make a difference in the life of our community.

So just as the Museum is bustling with activity, the Museum today is increasingly engaged with its community.

The Museum produces an ambitious roster of exhibitions and educational programs to serve as broad a public as possible, including individuals of all backgrounds, abilities, ages, and interests.

Our current exhibitions -- "Roberto Capucci, Art Into Fashion" and "Paris Through the Window, Marc Chagall" -- are putting Philadelphia in the news locally, regionally, and nationally. Roberto Capucci is a legendary fashion designer, and his much anticipated exhibition will inspire new generations of working and aspiring designers, many of whom are emerging from Philadelphia schools and colleges as fresh contributors to the creative class that helps drive our economy.

"Paris Through the Window, Marc Chagall and the Circle" shows the excitement that can be generated from a collection of masterpieces and demonstrates the potential as a destination of the Perelman Building, which opened in 2007, and has now become an important place on Philadelphia's cultural map.

In our age of ever-evolving and increasingly important information and communication technologies, Philadelphia's vibrant, growing community of artists, bloggers, and other creative people has nurtured and supported these exhibitions. The Museum's Facebook and

Twitter followings have multiplied dramatically to enable far greater connections to the community and generate more excitement in Philadelphia for arts and culture.

So popular is "Paris Through the Window" that the Museum has extended its weekend hours to accommodate the demand.

I look forward to seeing all of you later this year, when the Museum presents "Rembrandt in the Face of Jesus." It's an unprecedented exhibition organized by the Philadelphia Museum of Art, the Musée du Louvre in Paris, and the Detroit Institute of Arts, and it will make its U.S. debut right here, in Philadelphia.

It will be the first exhibition ever to bring major works by Rembrandt to Philadelphia, including masterpieces from many of the great museums of Europe, and, for the first time since 1656, reunites seven tender and moving oil portraits depicting the face of Jesus, three of which have never been seen here, in the United States

All of this speaks to Philadelphia's international standing as a city of great institutions and of the commitment of the Museum's curators to present exhibitions of high importance for Philadelphians and the hundreds of thousands of people who travel to Philadelphia each year to visit the Museum and see its exhibitions.

The Museum's collection is indeed an inexhaustible resource and one of the City's most significant cultural assets. Caring for it, creatively tapping its potential for education and enjoyment, and strengthening it over time is our shared obligation, and a wise and economic investment in the future of our city

I would impress upon you once again that the Philadelphia Museum of Art is an institution that is international in its reach and profile and an anchor organization that is devoted to its mission to serve the community, offering educational opportunities and to serve the intrinsic human need for inspiration and uplift

The Museum does its part in bringing the world to Philadelphia and Philadelphia to the world. In 2009 and in 2010, masterpieces from the Museum's world-renowned collections in impressionist and modern art to Seoul and Busan, in South Korea, as well to Taipei, where they attracted blockbuster crowd and hundreds of thousands in international recognition of Philadelphia's cultural vitality

Philadelphia has been a creative center since before the founding of this nation and in current events -- as recorded in newspapers, magazines, television programming, websites, and media-based social networks that span the globe -- focus on culture as the essential key to Philadelphia's renaissance -- a renaissance slowed, but certainly not stopped, by recent setbacks in national and international markets

The Philadelphia Museum of Art has nurtured creativity, self-expression, and the quest for knowledge among generations of Philadelphians and Pennsylvanians. With appropriate support, it will continue to do so for generations to come.

I would now like to introduce my esteemed colleague Gail Harrity to the present the economic impact the Museum.

Gail?

MS. HARRITY: Thank you, Timothy. And hello, Councilman Clarke and Council President Verna and members of City Council.

In today's economy in which companies and employees have more flexibility than ever before as to where they choose to do business, we know that a great art museum creates both a sense of identity for a city and boosts its economic growth by attracting businesses and the tech-savvy, educated, and skilled workers that are most desired in this era of international technology-driven business.

It is at times difficult to quantify certain aspects of the economic and educational contributions of arts and culture in general, and the Philadelphia Museum of Art in particular, to qualify -- the quality of life -- to quantify the quality of life in Philadelphia to our fiscal, educational, and cultural capital.

In reporting on the Museum's economic impact on Fiscal '10, I will start by noting a lower-than-normal economic impact in the region, primarily due to a pause in the Museum's construct-related expenditures and a reduced visitor attendance in comparison to prior years Museums around the country are experiencing similar trends during this economic downturn.

The fiscal years prior to 2010 included significant capital projects related to the main building exterior envelope restoration and roof repair project, the landscape, sculpture garden, and parking garage, and the completion of the Perelman Building.

On a positive note, the Museum's first ticketed permanent collection-based exhibition, "Picasso and the Avante-Garde in Paris," generated approximately $12.3 million in economic activity in just less than a ten-week period, attracting both local residents and tourists from around the world.

In economic-impact studies the Museum prepares in collaboration with Urban Partners, an independent financial consulting firm, it is clear that on average, every $1 spent by the Museum produces nearly $4 in economic activity.

On average, over the past eight years, the Museum has generated over

$200 million in total economic activity annually, created over 3,000 full-time job equivalents from Museum- and visitor-related spending, as well as produced significant increased tax benefits to the City and Commonwealth.

In Fiscal 2010, the Museum generated over $170 million in economic activity in the region, created nearly 2600 full-time job equivalents, and directly provided tax benefits to the City and Commonwealth, totaling $12.1 million, of which $6 million went to the Commonwealth, 6.1 to the City. The cumulative economic impact over the last five fiscal years has totaled more than 1 billion.

We applaud City Council, Mayor Nutter, and Chief Cultural Officer Gary Steuer in recognizing that the arts are an economic engine and an investment in our City's future, attracting businesses to Philadelphia, driving cultural tourism, and creating the high quality of life that Philadelphians all neighborhoods enjoy. The Museum is honored to have such leadership and support in growing the vibrancy of the City's arts and culture sector.

During last year's hearing, an update was given based on the completion of a thorough renovation of our exterior of our main building, which is owned and maintained by the City, including the repointing, cleaning, the repair of its limestone-clad exterior, polychrome terracotta ornamentation, and bronze window grills designed by Tiffany studios, as well as the repair of its four-acre roof

This important, long overdue work has enabled us to address a number of issues that threaten the safety of the public and represented an essential step in the preservation of this great civic landmark.

Presently, the Museum is on schedule to complete the exterior

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

renovations of the Rodin Museum by June of this year. The restoration of the courtyard will make the facility accessible to handicapped visitors and rejuvenating the entire site with new plantings and much needed practical improvements.

The next step in the process, once the exterior has been restored, will be the renovation and reinstallation of the interior of the Rodin Museum.

With the Barnes Foundation scheduled to reopen on the Benjamin Franklin Parkway in spring 2012, tourists from the around the world will have the opportunity to see the Rodin Museum as never before. Both interior and exterior renovations are timed to coincide with the opening of the Barnes Foundations collection.

We have also begun to work on the next phases of our master plan, a $76 million project to create a new art-handling facility, moving it from the north side of the Museum on Kelly Drive to the south side of the building at the Spring Garden Street Bridge and thereby creating easy access from the expressway for over 6,000 trucks that make deliveries to the Museum each year

This project will not only replace the old and substandard loading dock with which we have been burdened for years, but it will be green, having the ability to dramatically improve circulation of all types -- pedestrians, vehicular traffic, bicycles, tour buses, and school buses around our main building and greatly improve public safety.

This project will enable the Museum to continue to mount large art exhibitions that draw visitors to Philadelphia from around the world.

The Museum is committed to making this project sustainable in the same regard for the below-grade parking facility erected in 2009, for which we received an Official Commendation for

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

Ecological Sensitivity from the Environmental Protection Agency, a Citation of Merit from the Pennsylvania Chapter of the American Institute Architects, and the 10,000 Friends of Pennsylvania's Silver Award from the Commonwealth for Design and Smart Urban Growth.

The Museum is proud to state that the percentage of contracts awarded to minority- and women-owned firms was 42 percent in Fiscal 2007, exceeding the City's 25 percent goal. We are committed to leveling the playing field. In this regard, we continue to work with the Urban Affairs Coalition of Philadelphia, who is providing oversight for the Museum's economic opportunity plan. The art-handling facility EOP includes procedures for implementation, including participation ranges for contracts and employment.

A committee meets monthly to monitor the ranges and goals. And subsequently, a report is derived and shared with City Council and the Administration.

Among the principal goals of our master plan is the need to expand and develop additional capacity to serve the educational needs of our community

And I would now, like, to return microphone to Timothy to conclude our testimony and describe the Museum's accomplishments in the area of education.

MR. RUB: Thank you, Gail.

Education and lifelong learning has always been incidental to the Museum's mission. We believe in the power of art to inspire the imagination and curiosity of people from all walks of life and to help us better understand and appreciate cultural achievements and aspirations of others who are different from ourselves.

Last year, approximately 200,000 individuals -- preschool and school-aged children, college students and people with disabilities, adults and seniors -- took part in our education programs both at the Museum and at many sites in the various communities throughout the City.

Some 75,000 of these were K-through-12 school children whose interactive Museum visits were coordinated with what they were learning in their classrooms

Thanks to generous grants provided by many private foundations, admission to the Museum and all programs for school groups from Philadelphia's public schools continues to be free of charge.

And our new and widely-admired Art Speaks program, which offers a Museum trip for every 4th grade classroom in the City, also offers free transportation.

During critical after-school hours and on weekends, we also offer programs for older students through our Teen Sketch Club and Teen Docents throughout the year, and we welcome teen volunteer

Six City public middle schools send students to the Museum for weekly after-school arts clubs. This also is funded by private and foundation grants to the Museum.

In the summer, 20 teens from North Philadelphia participate in our Summer Teen Film Program, and several thousand children participating in the Department of Parks and Recreation summer programs visit the Museum, where they study the collections and make art to take home.

Our programs for college students include College Day on the Parkway, which, in collaboration with the Mayor's Office of Education, we welcome 2300 of the region's college students to the Museum for a free admission day of informal learning and cultural exchange

In the summer, we hosted 40 undergraduate college interns, most of them from this region, who spent their summer working in various departments and being introduced to all aspects of Museum work through a Museum studies seminar

For seniors who cannot visit the Museum due to age-related disabilities, we offer art courses over the phone, using simple conference-call technology and booklets of pictures that we mail to them.

Through partnerships with adult-care facilities, we bring adults with developmental disabilities to the Museum for art workshops

Finally, we take a special interest in the training of teachers and in helping them to incorporate art into their general classroom studies. Towards this goal, we inaugurated several new teaching resources that are free to public-school teachers, including "Looking to Write, Writing to Look," which links looking at art with critical thinking and writing skill

Our Wachovia Education Resource Center served several thousand teachers from throughout the region, hosting in-service training sessions on everything from how to integrate art and math to how to use technology to bring more art into their classrooms Retired teacher mentors are on hand to help individual teachers create lesson plans that link works of art to a wide variety of subject areas

None of this work -- the presentation of great exhibitions and the provision of a broad range of educational programs -- would be possible if the City did not make an ongoing and substantial investment in the maintenance and improvement of our City-owned Museum buildings.

The Museum, as you well know, has depended on annual operating support from the City to pay for the fundamental operating costs of security and building maintenance since it opened our magnificent museum in 1928.

Until the mid 1990s, the City funded one hundred percent of security and maintenance costs on an annual basis. This public-private partnership has been critical to the Museum's success then and now and, we hope, in the future.

Given today's economic climate and the City's fiscal challenges, we are grateful for the steady support of $2.3 million in operating support we have been provided or proposed to receive in Fiscal Year 2012.

This is a relatively modest contribution to our operating budget -- far smaller, actually, in percentage terms of the support we enjoyed from the City in the past, but it is nonetheless very important.

Today, the Museum's collections and world-famous exhibitions, educational programs and publications set national standards for excellence, attracting close to one million local, national, and international visitors annually.

With your help, the Museum and all of Philadelphia's organizations of art and culture will continue to thrive and contribute to the vitality of this great city, enriching the lives of its citizens and attracting visitors and businesses from beyond its borders.

Thank you.

(Applause.)

COUNCILMAN CLARKE: Thank you for your testimony.

I'm going to go straight to Councilman Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

Good afternoon.

Mr. Rub, at the end of your testimony, you say, "The Museum has depended on annual operating support from the City to pay for the fundamental operating cost of security and building maintenance since it opened the doors of our magnificent museum in 1928. Until the mid-1990s, the City funded a hundred percent of security and maintenance costs on an annual basis. This public-private partnership has been critical to the Museum's success."

Can you explain what you mean by "public-private partnership"?

MR. RUB: In the past -- and this continues to be true today -- the City has received contributions from many different sources, both public and private. The City has certainly made a contribution and continues to make contributions to the Museum's operations and its capital maintenance.

So too has the State in the past. And from time to time, particularly for programs, we receive funding from programs from federal government -- the National Endowment for the Art and the National Endowment for the Humanities.

Now, all of these sources of income are very important for the

Museum's operations, programs, and capital improvement, but they are overshadowed in real dollar terms by the amount of funding that we have received in the past and we continued to receive from other sources, particularly foundations and private individuals.

I cannot cite to you now, but I can get you this figure in terms of the ratio between the two.

But in the past -- and this continues to be true today -- the fact is that most of our operating support and support for acquisitions and the likes comes from -- contributed support, I should say, comes from contributions from individuals and foundations.

COUNCILMAN GOODE: Well, my question, I guess, was really meant to question what you believe the relationship actually is.

Is it just a financial relationship? Or what is the nature of the relationship between the City and the

Museum?

MR. RUB: Well, I could answer that in a lot of different ways.

I think the best way to start would be to say, we are the Philadelphia Museum of Art founded in the City, founded by citizens in Philadelphia in 1876, for the benefit of the citizens of Philadelphia and the education of people here. And that continues to be central to our mission.

COUNCILMAN GOODE: The question is: What is the relationship between the Museum of Art and the City government itself beyond financial?

MR. RUB: We operate -- or the City built the building; we operate in a City-owned facility. So that's an important part of that relationship.

COUNCILMAN GOODE: So the City government owns the building.

MR. RUB: Yes.

COUNCILMAN GOODE: And up until the mid-'90s, covered a hundred percent of the cost of security and maintenance.

At the point that those costs were covered at the level of a hundred percent, were the security and/or maintenance workers City employees?

MR. RUB: Yes.

COUNCILMAN GOODE: And do you know what their wage rate was at that point?

MR. RUB: I do not know.

COUNCILMAN GOODE: Miss Harrity, do you know what the wage rate was at that point?

MS. HARRITY: I do not know.

COUNCILMAN GOODE: Were they salaried employees?

MS. HARRITY: They were City employees, and I'd have to get back to you because it predates my tenure at the Museum.

COUNCILMAN GOODE: Do we know why the work was ever contracted out?

MS. HARRITY: Why the work was --

MR. RUB: Why the work was contracted out.

MS. HARRITY: I think it was the City's initiative, is my understanding, in '93 and '94 to privatize the --

COUNCILMAN GOODE: The security and maintenance.

MS. HARRITY: -- the security and maintenance services of the Museum.

COUNCILMAN GOODE: So if it was the City's decision to privatize, to contract it out, and decide what it could or will cover, could the City decide not to privatize and/or decide how it wants to contract out those services now?

MS. HARRITY: I think that's a City decision. I'm not familiar with --

COUNCILMAN GOODE: So the City can choose to cover the cost of security and maintenance however we see fit.

MS. HARRITY: The City -- there is a contract between the Museum and the City which calls for the City to fund a hundred percent of the maintenance and security costs of the City-owned building.

But this -- the City, like many cities across the country, first in the mid-'90s and now more recently, have come into, you know, difficult financial straits. And as a result, I think roughly -- you know, it's a much smaller percentage at this point of covering the cost.

COUNCILMAN GOODE: So it's less money, but the extent to which there is a contract between the City and the Museum of Art and to the extent to which you want the City to cover as much of the security and maintenance costs as possible, to some extent, shouldn't it be the City's decision in terms of how much it can fund and what it will fund?

MS. HARRITY: I don't know. I have nothing more to add to that.

MR. RUB: It calls for speculation. I guess it would be. If

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137

the City providing funding, it could stipulate that it wanted security employees at the Museum to be City employees rather than employees of the contractor.

COUNCILMAN GOODE: And/or that the City may want to set certain contract requirements.

MR. RUB: Again, it calls for speculation. Yes, if the City stipulated that security officers should be City employees, then it could set the terms.

COUNCILMAN GOODE: Okay. Just lastly, and I'll leave it here for now.

So the if the City decided to fund security and maintenance costs differently, there would be room for a new conversation.

(No verbal response.)

COUNCILMAN GOODE: Okay. Thank you.

COUNCILMAN CLARKE: Thank you, Councilman.

Can I ask the City to come

forward just a moment. I just want a quick follow-up on that line of questioning.

(Rebecca Rhynhart comes forward.)

COUNCILMAN CLARKE: Good afternoon.

MS. RHYNHART: Good afternoon.

COUNCILMAN CLARKE: Were you listening to the Councilman's line of questioning with respects to the contractual relationship between the City and the Art Museum?

MS. RHYNHART: Yes. It was about, could the City change the rules regarding the security -- conditions around the security guards.

COUNCILMAN CLARKE: All right. And since you're the only one here from the City that I can see, do you have a perspective on that, to what degree the City can influence or mandate with respects to a contract from a quasi-private agency with another private agency?

MS. RHYNHART: I'm not specifically familiar with this contract, so I could just comment on the level of funding that we have to the Art Museum. But it would seem to me that if it's a signed contract, that that would be binding the way it is.

But, again, I don't -- I'm not familiar with it, so I would need to probably have Law look into it.

COUNCILMAN CLARKE: All right. I mean, this issue has been going on for a little while, and I'm not laying blame on one side or the other. But at some point, the issue needs to go away with some sort of a solution.

I understand that earlier on, it was an issue with respects to the rights to bargain and the right to unionize. And now there's an issue centering around payment.

MS. RHYNHART: Mm-hmm.

COUNCILMAN CLARKE: And I don't

know Mr. Rub. Who's Mr. Rub? That's you. Okay, then. I didn't know you as Mr. Rub.

There's this issue about payment and the whole nine yards. And I just think that, you know, we as a city and, I think, everybody in here will concur that the Art Museum is a significant asset to the City of Philadelphia, both for the people come to visit and those of us who are citizens and the people that work there.

And I don't know the specifics of the issue, but at some point, we really need to make this issue go away in terms of getting a resolution.

(Applause.)

COUNCILMAN CLARKE: So, you know, I don't know -- I know Councilman Goode and Councilman Greenlee and Councilwoman Sanchez in particular have been very, very involved in this issue. I happen to represent the Art Museum.

I really want to see this issue

go away. So at the appropriate time, with the permission of the Council President, 'cause I'm only occupying this seat for a moment, you know, we really need figure out how to make this issue go away 'cause I don't know what the math is. I see certain signs up --

(Applause.)

COUNCILMAN CLARKE: And I understand there has been some sort of movement on the issue with some of the members involved and conversations, and I would like to see us, at the appropriate time, sit down and talk about this issue, you know, 'cause it -- every year, you know, we'll be here next year, and I really don't want us to have this kind of conversation about -- it might be issues as it relates to the City's fiscal situation, but can we --

MR. RUB: Councilman Clarke, since the last time we testified in front of Council and today, there's been very, very significant progress made on the issues that we covered last year.

COUNCILMAN CLARKE: Okay.

MR. RUB: The Museum has been, as you know, a third party to this, because the negotiations took place between the security contractor and the newly-formed union.

COUNCILMAN CLARKE: Right.

MR. RUB: Now, I will say that all of us had hoped that the discussions had progressed more quickly than they did. But as of just a few weeks ago, there is a collective-bargaining agreement that has been signed. And that represent, again, major step forward and an agreement to which both parties -- which both parties signed and agreed to, obviously.

It is my understanding that it meets the obligations or the commitments that we made to City Council last year, and we look forward to continuing the conversation if need be, but I think the impression that things have not moved forward and progress has not been made is incorrect.

COUNCILMAN CLARKE: All right, okay. That was my understanding that there had been some movement, and I haven't been as closely involved as some of the other members, so I don't know if that requires a follow-up conversation with the pertinent parties to, one, find out where we are; and two, what direction we will take to ultimately resolve this sayings. So the sooner the better that we can have such a conversation of the people that need to be in the room, that will be very helpful.

MR. RUB: Okay.

MS. RHYNHART: Sure. We'd be happy to.

COUNCILMAN CLARKE: Thank you. Councilman Goode?

COUNCILMAN GOODE: I gave no indication where I thought we were in terms of the situation from last year or not. I simply asked the question of, if it is the City's responsibility, meaning the executive branch and the legislative branch, to fund these costs and the extent to which it's a contractual requirement for us, to what extent we should be involved in it beyond just financial terms, in terms of generally funding costs.

And beyond that, regardless of whether you have lived up to the letter of what you agreed to last year in terms of any new collective-bargaining agreement or contract, we were not under the impression that it was going to take this long.

And there's a cost to that as well. And it's not a cost to the City per se, although it could be a cost to the City in terms of what we decide to do if we believe the situation was not still rectified in a way that it should have been last year and in a timely fashion.

So the question is not just whether you lived up to the letter of what you promised to do; that's part of it. The other part of it is whether --

(Applause.)

COUNCILMAN GOODE: Beyond that, we can have a different type of conversation about how we fund this, where we're at in terms of funding this, and what involvement we will have in that process, and having a different type of discussion than we had last year and along the way, leading up to this year.

This situation to the extent that it has been further resolved is not completely resolved. To the extent that it has been.further resolved, it has taken a dramatic turn in terms of the type of dialogue that we've had.

And so, I'm looking for a better dialogue and saying, in our living up to our contractual requirement in terms of funding those costs, to what extent the Museum is ready to have a dialogue about how Council wants to participate in that dialogue to finally resolve this.

MR. RUB: Thank you.

COUNCILMAN GOODE: Thank you, Mr. Chair.

COUNCILMAN CLARKE: Thank you, Councilman.

Any other -- and I assume we'll be talking very shortly 'cause we really -- I really like -- you know, this like needs to get resolved. And I understand there's limitations on all of our behalfs, but we need to go to the farthest end of this, whatever that limitation is, all right?

All right. Any other questions by Councilmembers of these witnesses?

(No further questions.)

COUNCILMAN CLARKE: There being none, thank you for your testimony.

MS. HARRITY: Thank you very much.

(Applause.)

COUNCILMAN CLARKE: At this time, Council will recess until

4.18.11 COMMITTEE OF THE WHOLE - Bill 110137
Wednesday, April 20, 2011, 10 a.m.

Thank you very much.

(Proceedings end at 4:03 p.m.)

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C E R T I F IC A T E

I HEREBY CERTIFY that the proceedings of the City of Philadelphia Council Committee of the Whole are contained fully and accurately in the stenographic notes taken by me on Monday, April 18, 2011, and that this is a true and correct statement of same.

JOSEPHINE CARDILLO
Registered Professional Reporter

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