COUNCIL OF THE CITY OF PHILADELPHIA

FISCAL STABILITY AND

INTERGOVERNMENTAL COOPERATION

Room 400, City Hall
Philadelphia, Pennsylvania 19106
Wednesday, February 26, 2025
11:49 a.m.

PRESENT:

COUNCIL PRESIDENT KENYATTA JOHNSON
COUNCILWOMAN NINA AHMAD
COUNCILMAN MICHAEL DRISCOLL
COUNCILWOMAN KATHERINE GILMORE RICHARDSON
COUNCILMAN JIM HARRITY
COUNCILMAN CURTIS J. JONES, JR.
COUNCILWOMAN RUE LANDAU
COUNCILWOMAN QUETCY M. LOZADA
COUNCILMAN BRIAN J. O'NEILL
COUNCILMAN NICOLAS O'ROURKE
COUNCILMAN ANTHONY PHILLIPS
COUNCILMAN JEFFREY YOUNG, JR.

RESOLUTION: 240886

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COUNCIL PRESIDENT JOHNSON: Good morning, everyone. This is the public hearing of the Committee of Fiscal Responsibility and Intergovernmental Cooperation. The purpose of this public hearing is to hear testimony regarding Resolution No. 240886.

Ms. Helen Loughead, can you please call the roll.

THE CLERK: Vice-Chair Councilmember O'Neill.

COUNCILMAN O'NEILL: Present.

THE CLERK: Councilmember Squilla.

(No present.)

THE CLERK: Councilmember Gauthier.

(No present.)

THE CLERK: Councilmember Jones.

COUNCILMAN JONES:

Present.

THE CLERK:
Councilmember Young.

COUNCILMAN YOUNG:
Present.

THE CLERK:
Councilmember Driscoll.

(No present.)

THE CLERK:
Councilmember Lozada.

COUNCILWOMAN LOZADA:
Present.

THE CLERK:
Councilmember Bass.

(No response.)

THE CLERK:
Councilmember Phillips.

(No response.)

THE CLERK:
Councilmember Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Present.

THE CLERK:
Councilmember Thomas.

(No response.)

THE CLERK: Councilmember Harrity.

COUNCILMAN HARRITY: Here.

THE CLERK: Councilmember Ahmad.

COUNCILWOMAN AHMAD: Here.

THE CLERK: Councilmember Landau.

COUNCILWOMAN LANDAU: Here.

THE CLERK: Councilmember Brooks.

(No response.)

THE CLERK: Councilmember O'Rourke.

COUNCILMAN O'ROURKE: Here.

THE CLERK: Council President Johnson.

COUNCIL PRESIDENT JOHNSON: Here. Thank you. A quorum of this Committee is present. This hearing is now called to order.

Will the Clerk please read the title of the revolution before the Committee today.

THE CLERK: Resolution 240886, authorizing the Committee on Fiscal Stability and Intergovernmental Cooperation to hold quarterly hearings that include monthly reporting requirements, to discuss the fiscal position and overarching social impact goals of the City, including and as related to the Five-Year Plan and reporting requirements set forth in the Quarterly City Manager's Report and as submitted to the Pennsylvania Intergovernmental Cooperation Authority.

COUNCIL PRESIDENT JOHNSON: Thank you very much.

Will the Clerk please call the first panel.

THE CLERK: Yes. Rob Dubow, Finance Director and Sabrina Maynard, Budget Director.

(Witnesses approached Witness table.)

COUNCIL PRESIDENT JOHNSON: Good morning.

MR. DUBOW: Good morning.

COUNCIL PRESIDENT JOHNSON: Just state your name just for the record. Please begin your testimony. But good morning, Rob. Good morning, Sabrina.

MR. DUBOW: Good morning, Council President Johnson and members of the Committee. I'm Rob Dubow. I'm the City's Finance Director. I am joined at the table by Sabrina Maynard, the City's Budget Director. Thanks for the opportunity to update you on the status of our finances.

As we'll discuss, we are testifying before you at a time of heightened risk for the City's finances. In addition to that risk and to the end of our $1.4 billion in COVID relief funding, we face our legacy challenges of a fund balance that is lower relative to those at peer cities. A Pension Fund that, while improving in health, is a funding percent that's still in the 60s.

We also face high infrastructure costs, high level of fixed costs. We have a high poverty rate that both depresses our revenue base and increases the demand for services. We also face the usual risk of potential economic slowdown. That risk is heightened however by the uncertainty around the actions of the federal government, and that uncertainty creates multiple threats to the City's finances. Perhaps the largest are the threats to our grants and to our tax base.

To put that in context, in FY24 we received about $2.8 billion in federal grants. The new federal government's review of all grants raises doubts about the timing of receipt of those grants, and in the worst case could mean some grants might not even be received. And then we've seen in the recently passed budget by the Federal House about $880 million in Medicaid costs, actually obviously will have a really big impact on people's ability to get the medical care that they need.

Federal government may also make cuts that will affect what has been kind of the bulwark of our City's tax base, medical institutions, educational institutions and government. In FY24 education and medical institutions and government accounted for more than $1 billion in wage tax collections. That's almost 45 percent of our reductions.

The federal government has already cut the number of staff employed in Philadelphia, and potential cuts to research funding could lead to additional job cuts. Those job cuts would obviously be reflected in our wage tax collections.

Understanding that there are always potential threats to our budget, we've taken steps to guard our fiscal condition. We've built up a fund balance that the recently released quarterly report shows will end this fiscal year at about $580 million. That's about 9 percent of revenues, which is slightly higher than our internal goal of having a fund balance of between 6% and 8% of revenues, but it's much lower than the roughly 17% recommended by the Government Finance Officers Association.

We've also built up the Budget Stabilization Reserve Fund, which will add an extra layer of protection for the city. And in the quarterly report that was just released, we added an $80 million reserve against federal policy changes. As we monitor potential threats to our finances, we need to continue providing essential services, improving the City's competitiveness and making the investments that will make Philadelphia the safest, cleanest, greenest big city in the country with access to economic opportunity for all.

The quarterly report

shows changes driven by one of those investments as it reflects the increased spending to prepare for the 2026 events that was included in the Mid-year Transfer ordinance that was voted out of committee last week.

The Mayor's second budget which will release this month -- next month, sorry, will show additional crucial investments and we'll continue to balance those investments with the City's long-term fiscal health. That concludes my testimony. We're happy to answer any questions you have.

COUNCIL PRESIDENT JOHNSON: Thank you very much. Thank you for your testimony. Just a question: So we're seeing a projected fund balance you just talked about in the amount of 584.3 million for FY25. That's 16 million higher than the approved

Five-Year Plan and 58 million less than the projected fund balance last quarter.

MR. DUBOW: Correct.

COUNCIL PRESIDENT JOHNSON: So talk to us about how the projected fund balance aligns with our goal of being fiscally stable.

MR. DUBOW: Yeah. So we have an internal goal of having a fund balance that's between 6% and 8% of revenues. The fund balance we're projecting is around 9% of revenues, so it's higher than our internal goal. The Government Finance Officers Association, kind of our trade group, recommends you have a fund balance that's equal to two months' worth of revenues which is about 17%, and that actually is not inconsistent with what other large cities have.

For us we always have to

balance that against the need for investments, against our ability given the high poverty rate here, so we balance where we know we should be according to what the Government Finance Officers Association says versus what we think is reasonable given our needs.

COUNCIL PRESIDENT JOHNSON: And I remember doing a reading over the Five-Year Plan. And just correct me if I'm wrong, there's a projection of negative job growth that's a part of that particular plan. Are you familiar with that in the Five-Year Plan that we really originally --

MR. DUBOW: Yeah. So we base our projections on work with an outside econometric firm and then they give us recommendations. We test that at a meeting that PICA hosts for us down at the Fed. So we use projections based on that back-and-forth. And our wage tax is a combination of what we see in job growth and what we see in wages. And there's kind of an interplay. So our econometric firm thought that nationally the job markets get very tight and that's why you're seeing some job loss.

The flip side of that is then you see larger wage growth than you would if the job growth was stronger. And I should also add that we have the new plan coming out in just two weeks and that will have a new set of projections.

COUNCIL PRESIDENT JOHNSON: Okay. I just want to get clarity. So the firm that we use projected negative job growth throughout the Five-Year Plan --

MR. DUBOW: A couple of years in the last plan, but that may look different in what's coming up in a couple of weeks.

COUNCIL PRESIDENT JOHNSON: Okay. So the one that's coming out will probably have a whole different outlook differently?

MR. DUBOW: Updated outlook, yes.

COUNCIL PRESIDENT JOHNSON: Because things are changing as we move forward.

MR. DUBOW: Exactly.

COUNCIL PRESIDENT JOHNSON: I only asked that question because I remember going over the Five-Year Plan and then also looking at the negative job growth assumption. And then how are we figuring out to create job growth if we know going down the next few years it's going to be negative, our strategy actually to grow as a means to address poverty.

MR. DUBOW: Yep. And that's always our goal too, is to see jobs grow.

COUNCIL PRESIDENT JOHNSON: Do we anticipate -- I know we just did a transfer ordinance, $45 million to the various groups that are going to be supporting on the celebration of the 250th year of our country.

Do we take in consideration doing that celebration any job growth during that period because we're investing so much City dollars and promotion?

MR. DUBOW: So our econometric firm kind of looks at all of that as they do their projections. They'll look at something like that and say, okay, that might have a positive impact --

COUNCIL PRESIDENT JOHNSON: I mean us as city. I'm sorry. Not the outside firm.

MR. DUBOW: Well, we base our projections on what the outside firm gives us.

COUNCIL PRESIDENT JOHNSON: Okay.

MR. DUBOW: So they will take that information into account when they come up with their suggestions that they then show to us and we then value test down at the Fed.

COUNCIL PRESIDENT JOHNSON: Okay. All right. The City's FY24 fund balance was 942.9 million, which was 414.2 million higher than the adopted budget. The fiscal year prior to the City's FY23 fund balance was 981.6 million which was over 600 million higher than the adopted budget. What were the major drivers behind the higher-than-expected fund balances and have those trends continued this year?

MR. DUBOW: Yeah. So one of the biggest things that's been driving our fund balance has been our challenge with hiring people so we have usually big underspends in our Class 100. We've put a large emphasis on trying to increase the number of positions that are filled. So we're starting to see some of that turn around.

There are some departments like L&I, for example, they've been able to hire more inspectors or the Law Department has been able to hire more lawyers, HR's (inaudible) work. So we're starting to see some improvement there which we're hoping will then cut into that underspend because while that underspend winds up helping our fund balance, we actually want to fill those positions and want to provide the services.

So that's been the biggest single driver of the increase in our fund balance. We also have a business tax that's particularly hard to project because it doesn't come in until the end of April, so it usually comes in after we've finished our budget. And for the last couple years, it's come in higher than we anticipated. So that's been a help too.

COUNCIL PRESIDENT JOHNSON: So you say the business tax has been coming in more?

MR. DUBOW: The last couple years it came in higher.

COUNCIL PRESIDENT JOHNSON: Higher than normal?

MR. DUBOW: Yeah.

COUNCIL PRESIDENT JOHNSON: The report also shows a projected increase of 12 million in revenue from last quarter. Can you provide more context for why these revenues perform better than expected, particularly when we just talked about real estate transfer tax?

MR. DUBOW: Yeah. So the transfer tax had really rapid growth before the pandemic. And then for a couple of reasons including changes in the market, like increases in interest rates and the changes that we all made in the abatement, there was a kind of downturn in the number of transactions. That has started to moderate a little so that's meant that there have been more transactions. Real estate transfer tax has been a little better than we thought it would, which is a good indication that there's been activity in the real estate market.

COUNCIL PRESIDENT JOHNSON: Do you think based upon those changes, the changes in the abatement had a chilling effect on the market?

MR. DUBOW: No. I think what happened is there was a rush to market before the change in the abatement. And so, because there was that rush a lot of activity that would have happened over the next year or two --

COUNCIL PRESIDENT JOHNSON: Happened early on?

MR. DUBOW: -- moved up. Yes.

COUNCIL PRESIDENT JOHNSON: Because I do know everybody did a rush to pull those permits and kind of crashed the system early on.

MR. DUBOW: Yes. I think the thing that had the bigger impact on the market was the jump in interest rates.

COUNCIL PRESIDENT JOHNSON: Give us an idea in terms of the economic climate how are we doing compared to other major cities right now. I mean, we got the title of being the largest, poorest city in America. However, we're doing some things to move the City of Philadelphia forward. How do we fare, so economically?

MR. DUBOW: Yeah. So I think we still -- if you're talking about the poverty rate, we're still high compared to the other top 10 cities. On the other hand, our poverty has been coming down steadily and is the lowest it's been in a while. And obviously, we all agree there's a lot more we want to do. We have started to see some movement in the right direction there.

COUNCIL PRESIDENT

JOHNSON: Okay.

The Chair recognizes Councilmember Kathy Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Thank you, Mr. President.

And thank you very much both to Rob and Sabrina for all of your work over the last several weeks. I wanted to start here and I can circle back obviously, but I wanted to talk about some of the sort of overarching things that were notated in the QCMR.

And I wanted to go back to the question specifically that Mr. President asked around the higher-than-anticipated fund balance. And you know that this typically happens each year. And we know that staffing assumptions are a big part of this, right --

MR. DUBOW: Yep.

COUNCILWOMAN GILMORE RICHARDSON: -- particularly in the Public Safety portfolio. So I wanted to ask the question in advance of budget around the staffing assumptions and if you are realistically placing the vacancy rate and the budget in advance so that we have a more realistic picture of where we'll be at the end of the fiscal year and then for each fiscal year moving forward?

MR. DUBOW: Yes. So we are and have been and will continue, but we're increasing the vacancy rate to kind of acknowledge that positions won't be filled. So, yes, we're doing that.

In the longer term what we really want to do is peel back on the number of positions that we're showing, acknowledging that they won't be filled and then you'll see the vacancy rate come down and the budget will reflect more like what's likely to happen.

COUNCILWOMAN GILMORE RICHARDSON: Can you speak to specifically the Public Safety portfolio? Because obviously we know that we have a lot of overtime. There has been a number of things happening. As the Mayor stated our Black Swan event in the Northeast, which our public safety professionals were just stellar in responding to but because we know we're so short-staffed, a lot of overtime, same thing thankfully for the Eagles parade and a few other things that have happened over the last several months.

And so, I asked specifically about the Public Safety portfolio because even if you look at PPD, we know that we're off by at least from filled positions to budgeted positions about 1400 vacancies. We know we can't fill 1400 positions in a year.

So the question remains is how are we looking at vacancies with a real lens so that we understand what our fund balance will truly be? We don't have the wiggle room of the federal money anymore. So I know you all typically go to departments and ask about the vacancy rates and sort of what they believe they are able to do for the year.

But what are you all doing specifically in that Public Safety portfolio so that we know we're accounting for what we could actually do? Because I don't know that, you know, we don't know what we don't know right now about what will happen moving forward.

MR. DUBOW: So a few things to say on that. One, the hiring challenge in public safety is a national issue, not specific to here. We have been trying to take actions to address it with things like hiring and retention bonuses and kind of looking at things, prisons for example, that would help attract people.

But with that said, there are still a number of vacancies. We've gotten to the point, at least with police, where we're not losing ground anymore. We're at least kind of staying steady. But you'll see in the budget that there is a healthy -- upcoming budget, that there is a healthy vacancy allowance --

COUNCILWOMAN GILMORE RICHARDSON: Right.

MR. DUBOW: There's not enough funding in the budget to actually fund the positions that we show because we're assuming that they would be vacant for portions of the year, and that's really the way we handle it now.

COUNCILWOMAN GILMORE RICHARDSON: So I guess my request and my ask would be if we could have an actual real picture for the upcoming budget this year so that we know what to anticipate. Okay. Because I think that'll help us be able to look at the budget differently and understand what we really need to do. Okay.

MR. DUBOW: Yep.

COUNCILWOMAN GILMORE RICHARDSON: I read the QCMR when we first received the information. And I wanted to talk about -- and are you prepared to talk about the next Mid-year?

MR. DUBOW: The next Mid-year --

COUNCILWOMAN GILMORE RICHARDSON: I think I saw around

220 million in new spending?

MR. DUBOW: Yep. So the big portions of that are that federal reserve that we talked about and increasing that as kind of a safety measure against what we're seeing.

MS. MAYNARD: So --

MR. DUBOW: Identify yourself.

MS. MAYNARD: Hi. Sabrina Maynard, Budget Director. So there are other items in there. So that includes --

COUNCILWOMAN GILMORE RICHARDSON: So that was only about a third of the money, right?

MS. MAYNARD: Yep. So there are a couple of other items in there as well. There are off the top of my head -- I can go back and pull some Wellness investments. We had put in some -- thinking about doing PAYGO for the remainder of the phase of the Wellness project that had been unveiled in January. And we took care of the law piece and the 2026 piece in the Mid-year from last week. Let me go back. Sorry.

COUNCILWOMAN GILMORE RICHARDSON: And while you're looking so I don't use up all of my time, my last question will be specifically on Page 23 of the QCMR around purchase of services analysis for selected departments in the General Fund under Managing Director.

So you've listed CPOC, Defender, Public Safety, and then that's all other departments from the Managing Director's Office, is that correct, with the 41 million?

MR. DUBOW: 41 million versus the budget, yes.

COUNCILWOMAN GILMORE RICHARDSON: And that's all under just Managing Director. And that's not including Public Safety, correct?

MR. DUBOW: That's not including the new Public Safety office, that's right.

COUNCILWOMAN GILMORE RICHARDSON: Right. And could you just talk about that a bit while Sabrina will do the last answer.

MS. MAYNARD: So -- yep. So the Managing Director's piece is largely, predominantly Wellness-related costs. So I think there's an operating component about 35 million and a PAYGO component of about 30 million.

COUNCILWOMAN GILMORE RICHARDSON: I'm sorry. I didn't hear the last --

MS. MAYNARD: Sorry. PAYGO, Pay As You Go capital for the Riverview facility.

COUNCILWOMAN GILMORE

RICHARDSON: Oh, PAYGO.

MS. MAYNARD: Yep.

COUNCILWOMAN GILMORE RICHARDSON: Okay.

COUNCIL PRESIDENT JOHNSON: Just a point of information, can you just clarify. It's Pay As You Go you said, correct?

MS. MAYNARD: Yep. So that means we're not borrowing for those costs. That's just transferring from operating over to capital.

COUNCIL PRESIDENT JOHNSON: I know what Pay As You Go means. I just want to get an idea in terms of the operation, funding for the Wellness Center, are they contracts that we're going to be using or is this inhouse?

MS. MAYNARD: It's a number of contracts.

COUNCIL PRESIDENT

JOHNSON: Thank you very much.

COUNCILWOMAN GILMORE RICHARDSON: Thank you, Mr. President.

And --

MS. MAYNARD: Yes, sorry. So there are a number of items in there. We took care -- so there are a couple of departments where -- in reference to what Rob was speaking about earlier, we are seeing higher -- we're actually seeing people be retained and positions be filled. And so, that's concentrated in a couple of places.

We are seeing higher overtime in Fire. So that's a piece of that. Sustainability, the Law Department, the District Attorney's Office, a couple of places where we are making adjustments there. The other adjustment in the transfer ordinance is moving the funding from the Labor Reserve out to the departments that had collective bargaining agreements, so making sure that those go out to the departments that will need them.

We also are proposing making a contri -- not a contribution, making an investment in the prisons for a number of items that we know we need for the litigation. So building maintenance, body cameras, continuing the lock project to replace locks, air-conditioning, training and some other programming and investments. Those are some of the items.

COUNCILWOMAN GILMORE RICHARDSON: Okay. Great.

Thank you, Mr. President.

COUNCIL PRESIDENT JOHNSON: You're welcome.

I just want to ask a question before I call the next member regarding the projected increase in the General Fund balance obligations is 295 million more than budgeted, roughly $300 million more than what's budgeted. And so, I just want to get an idea of what's driving that increase?

MR. DUBOW: So the biggest single thing is the reserve we put in against federal funding, $80 million. But there's also the money that we put in for 2026, the increase in indemnities cost that was also --

COUNCIL PRESIDENT JOHNSON: Separate from the Mid-year or the Mid-year is a part of that number?

MR. DUBOW: That was in the Mid-year. So both of those things from the Mid-year also added to our cost. The things that

Sabrina was talking about with prisons, some of the wellness investment and then the smaller things in other departments that are actually hiring people.

MS. MAYNARD: And 2026.

COUNCIL PRESIDENT JOHNSON: And 2026. Okay. And then the last thing before I call on my next member, do you have an update on the following in terms of spending: I know we did 100 million investment to build a wellness ecosystem. And so, we saw the results of that. 10 million to support workforce development, employer partnerships that include commitments to employment, another 130 million to expand PHL Taking Care of Business, 500 million for the street repaving, 18 million for citywide residential cleaning program, and 12.3 million, which I'm a beneficiary of, twice weekly trash collection. Do you have an idea of how much you spent totally in each of those categories?

MR. DUBOW: Yeah, we can get you that. Some of that is for multi-year numbers, but we'll get you that and get you a breakout on those items.

COUNCIL PRESIDENT JOHNSON: Thank you very much.

The Chair recognizes Councilman Curtis Jones.

COUNCILMAN JONES: Thank you, Mr. President.

COUNCIL PRESIDENT JOHNSON: You're welcome.

COUNCILMAN JONES: Couple of quick questions and good afternoon.

MR. DUBOW: Afternoon.

COUNCILMAN JONES: Does this surplus -- how does this surplus rank over the past eight years by way of amount? Is it the largest?

MR. DUBOW: So two years ago was the largest. We were up in the high nines. What we're projecting now is about 580, so it's lower than it's been the last couple years but still higher than our internal goal.

COUNCILMAN JONES: Out of the taxes that we receive, there are seven taxes, correct, major taxes?

MR. DUBOW: Yeah, there are a lot --

COUNCILMAN JONES: Say it again.

MS. MAYNARD: Roughly.

COUNCILMAN JONES: Roughly. Okay. Of which the business tax represents about 70% of our City's revenue; is that correct?

MR. DUBOW: If you count the wage taxes, business tax, yes.

COUNCILMAN JONES: What percentage does real estate taxes?

MR. DUBOW: So real estate tax -- I'll actually do that. So our total taxes are about 5 billion I think, and -- let me find the real estate tax number. So total taxes we're projecting actually at 4.3 million.

COUNCILMAN JONES: 4.3 million?

MR. DUBOW: Billion, sorry. If it was million, then we'd have a lot bigger problems than we're talking about today. And then the property tax is about 900 million, so about 20%-ish. It's a bigger percent for the School District. But for us it's a little below 20%.

COUNCILMAN JONES: What is our taxable total properties for the City of Philadelphia, what is the amount?

MR. DUBOW: Now, I have to get back to you on that exact number.

COUNCILMAN JONES: Real estate that we can levy at --

MR. DUBOW: Yeah, the taxable real estate. I don't have it off the top of my head, but I can get it.

COUNCILMAN JONES: What was it from your last recollection?

MR. DUBOW: I don't know the -- I know amounts that we collect them. I don't have the total assessed value here.

COUNCILMAN JONES: It's my understanding it was somewhere in the neighborhood of 1.6 -- nope, 168.

MR. DUBOW: That sounds right, yes.

COUNCILMAN JONES: 168 billion.

MR. DUBOW: Yes.

COUNCILMAN JONES: Which I would say is probably the largest taxable amount in our history.

MR. DUBOW: Yeah. We also until 2013 we based assessments on a fractional assessment. So we were showing assessed value as like a third of their value. So making that change meant the assessed value immediately tripled. But then the market has been strong since 2013. So, yeah, values have been going up.

COUNCILMAN JONES: So because of AVI we have seen the largest amount of increase in taxable properties in the City's history, correct?

MR. DUBOW: Yeah, it's a combination of AVI and the strength of the market.

COUNCILMAN JONES: All right. That's fair. So my question becomes we used to get annual requests to adjust the millage rate. You guys would come to us and say, we need X amount of millage rate adjustment in order to get this amount of revenue coming into our coffers so that we can operate the government, correct?

MR. DUBOW: So there were very few millage rate changes. I think it may be only a couple of years where there were millage rate changes. So that didn't happen a lot for the General Fund.

COUNCILMAN JONES: So what I'm asking I guess is, is it time that we based on AVI and the increase in value and the market rate, because I know the tax report came back saying eliminate the BIRT, let's take care of big businesses, isn't it time to give the little guy a break?

MR. DUBOW: Yep. So the

way we've been doing that is through relief measures. So for last year, for example, we put in that low-income freeze on the property tax so that your property tax won't increase if you meet the guidelines.

We've increased the Homestead so that homeowners see reduced value. And because of the way we've increased it, it's a particularly beneficial impact for low-value houses. We have the LOOP program. We have payments -- the OOPA program. We have a really wide array --

COUNCILMAN JONES: I'm familiar with OOPA and all of that. The question becomes for me has those programs not outpaced the value that we are receiving based on AVI and based on market rate and is it time for a millage adjustment downward to help out people who own real estate in our communities?

And I say all of that to say, Rob, that I put in a bill to look at neutralization of that amount to kind of evaluate where we are, evaluate how much we take in and whether or not in lieu of the fact that we're doing all this for businesses, isn't it time that we take a hard look at reducing the burden of property owners in Philadelphia? And that's a trick question.

MR. DUBOW: Yeah. But really there's -- it's really a question of approach, right, because what we've been doing over time is taking a targeted approach to help people and you're asking should we look at a more generalized approach helping kind of everybody or is the targeted approach better. And I think that's a good discussion to have during the budget process.

COUNCILMAN JONES: I think that's an accurate assessment.

MR. DUBOW: I like your use of assessment there.

COUNCILMAN JONES: So I put in -- play on words.

I have put in that bill, Mr. President, for us to take a look at our resolution. And we'll be submitting a subsequent bill because we are able to do that, but do we regularly do that is my question. And in areas that you have protected in South Philly and we have protected citywide with the reality of AVI, some places have disproportionately been overassessed. And I've had individuals come into my office and say that we have appraised the property at let's say $200,000. But the reality is they couldn't get $150,000 for it in the real world and therefore they are out of sync, out of loop with reality.

And so, what I'd like us to do is take a hard look at that population, although it only represents 20% of our budget but to homeowners it is everything. And so, with that I would like us to take a hard look at when is it time to give the little person a break and not just big business.

Thank you, Mr. President.

COUNCIL PRESIDENT JOHNSON: You're welcome.

The Chair recognizes Councilmember Jim Harrity.

COUNCILMAN HARRITY: Hello, everyone. Good afternoon.

MR. DUBOW: Hello.

COUNCILMAN HARRITY: Looks like everybody's sleeping here. Get it a little livelier.

Rob, I just got a couple questions. But, one, I don't usually feed into rumors but this one disturbed me, so I figured let me ask even if it just turns out to be false.

Are we allowed to spend the soda tax money or is it being held up in escrow? I was told -- the rumor was that the money that's going from the soda tax is right now held up in escrow because of some court battles or something that are going on?

MR. DUBOW: No. When the soda tax was first implemented, there were court battles and it wasn't imposed. But then those battles -- won those battles --

COUNCILMAN HARRITY: Good. All right.

MR. DUBOW: -- so that money is flowing.

COUNCILMAN HARRITY: Good. All right. Then to my next question which is what is the total revenue a year from the soda tax?

MR. DUBOW: It is this year projected at 66 million-ish.

COUNCILMAN HARRITY: What is it? I'm sorry.

MR. DUBOW: It's projected at about 65.7, I think.

COUNCILMAN HARRITY: 65.7 million it's projected at?

MR. DUBOW: Yes.

COUNCILMAN HARRITY: Okay. How much of that goes to the day care, childcare?

MR. DUBOW: So we have -- actually it is divided between that and debt service on Rebuild --

COUNCILMAN HARRITY: Rebuild, right.

MR. DUBOW: We get you that split. We're actually at the point where the cost of the programs and the debt service is more than what we bring in, in the beverage tax, so it's supplemented by the --

COUNCILMAN HARRITY: How about this, is it around 10 million for day care? Is that number --

MR. DUBOW: For PreK I think it's more than that.

COUNCILMAN HARRITY: More than that? What would you think, anywhere around?

MR. DUBOW: I don't want to -- I don't want to guess. But I think --

COUNCILMAN HARRITY: Okay. But you'll get me those numbers and you'll get me the numbers of how much goes to Rebuild. And I pulled up another question. So Rebuild, you just said that we are paying off loans for Rebuild. Is that with that money? Is that --

MR. DUBOW: Yes. So

Rebuild is funded by borrowings and then the debt service of that borrowing.

COUNCILMAN HARRITY: So we're borrowing money to pay for something, right, but --

MR. DUBOW: To pay for --

COUNCILMAN HARRITY: -- the money is supposed to be there. So why are we borrowing money to do the projects if $66.6 million is going in there every year? I don't understand why we're not just paying for these projects instead of also paying interest on these projects. That's my --

MR. DUBOW: So the cost of the projects is -- and this is rounding. So let's say $300 million. And in order to fund that upfront, we borrowed. So we'd get money that we could then use to make investments in recreation facilities, libraries --

COUNCILMAN HARRITY: So essentially spending money that we didn't have yet?

MR. DUBOW: Well, no. We borrowed. And the reason you borrow for something, it's the same like getting a mortgage on your house because you're going to be using that facility for 20, 30 years. So there's a rationale that you will be paying debt service while you're getting the benefit of that. You wouldn't borrow for operations. You wouldn't borrow for day care, for example, because that's something you're using up that year. It's gone. But --

COUNCILMAN HARRITY: My thing is about the fiscal responsibility of it. You know, if we have money to build, let's build. But to take a loan to pay for something that the money's

supposed to be there for, that's
where my disconnect is.
MR. DUBOW: There's not
enough money that comes in from the
beverage tax each year to pay for
all of the facilities. There is
enough money to help us pay the
debt service over time. We would
not have been able to make the
investment that we made in
facilities just by using beverage
tax money as it came in. And we
get the benefit from these
facilities over time. So it makes
sense financially.
COUNCILMAN HARRITY:
Okay. I mean, it makes sense to
you. Doesn't really make much
sense to me.
MR. DUBOW: Well, also
we have capital guidelines that we
base on what industry standards are
for what it makes sense to borrow
for and what it doesn't and we

follow those.

COUNCILMAN HARRITY:
Okay. I guess I'll be happy with that. Okay. I'll give you some more investigating.

MR. DUBOW: And happy to talk to you about it any time.

COUNCILMAN HARRITY:
Yeah, absolutely. You know, I always -- money man.

COUNCIL PRESIDENT
JOHNSON: Thank you very much, Member.

I just had another question in regards to let's go back to the millage rate that Councilman Curtis Jones was talking about and obviously want to make sure that we're providing relief for homeowners. He talked about a targeted approach versus a general approach. Give me an idea between the difference in the approach.

MR. DUBOW: Yeah. So

targeted approach is doing things like the Low-income Freeze that we did or the Senior Freeze or Homestead, which just helps people on the residential side. If you just lower the millage because of the way state law works, you can't, for example, lower the millage on the residential side. You lower it for everybody. So --

COUNCIL PRESIDENT JOHNSON: So even the rich folks get a break as well?

MR. DUBOW: Businesses --

COUNCIL PRESIDENT JOHNSON: Everybody?

MR. DUBOW: Yes, everybody.

COUNCIL PRESIDENT JOHNSON: So your target approach is because you want to focus on those most in need?

MR. DUBOW: Yeah, that's

right.

COUNCIL PRESIDENT JOHNSON: Follow-up question -- it's like third rail but I'm still going to ask it -- have we ever explored PILOTs, right, because we're talking about real estate and taxable real estate, right?

And this came up in part of a conversation yesterday with some Tax Reform members just having the general conversations where you have a certain institution and they have millions in property, right, millions and millions in property but they're not being taxed. But yet the CEO might make eight figures, so to speak, I guess seven figures, right. And it'd be pretty well off as a nonprofit with property and land. Have we ever explored maybe certain thresholds?

MR. DUBOW: So there was a time when there were PILOTs from those institutions. There are PILOTs we get related to specific projects. We don't receive PILOT payments now from those institutions.

COUNCIL PRESIDENT JOHNSON: Have we explored it? As a revenue can't you --

MR. DUBOW: I think there have over the years been ongoing discussion. So I think, yes, it's been explored over time.

COUNCIL PRESIDENT JOHNSON: Councilmember Phillips. Thank you, Rob.

COUNCILMAN PHILLIPS: Thank you, Council President.

So, Rob, I just have a question on what Council can do to help in this situation. So there's high fixed costs, including like debt service that continue to be a challenge. Are there any strategies in place to restructure, reduce these costs without compromising essential services? And also, is there anything that we as City Councilmembers can do to help in this regard with you?

MR. DUBOW: So on the debt service side, one of the things that we do all the time is look to see whether there are opportunities to refund our debt the way you refinance a mortgage to see whether we can lower our cost. That's a little more challenging now that interest rates have gone up, but we still look at that.

Also, we talked a little before about doing things like do pay-as-you-go financing for capital. That really helps us in terms of reducing how much we have to borrow. So those things help with fixed costs. I think in terms of what Council can do -- there's a lot of what Council already does, which is kind of be thought partners with us as we kind of go through what we're going through, particularly with the uncertainty that we're facing.

COUNCIL PRESIDENT JOHNSON: Did you say thought partners?

MR. DUBOW: Thought partners, yes, work together.

COUNCIL PRESIDENT JOHNSON: Okay. Thought partners.

MR. DUBOW: I think, you know, my initial instinct was to say just pass whatever budget we send over. That would be helpful. But I thought --

COUNCILMAN PHILLIPS: I was going to say that. I was like --

COUNCIL PRESIDENT JOHNSON: Member Phillips, he said thought partners.

COUNCILMAN PHILLIPS:

Thought partners. I only mentioned that because all while being fiscally responsible is important, we absolutely do, that's our responsibility. We still have a lot of concerns that take place in the city. And our residents are still going to want to see action, so that was important.

And lastly, what are the -- I'm not sure if you talked about this deeply, but are there any alternatives to the federal cuts that are going to impact the City that we can turn to in terms of foundations or any of the private investments beyond?

MR. DUBOW: Yeah. I think we need to look for anything we can like philanthropy or whether there's any ability at the state. But I think the scale of what we could face, the federal government probably far outweighs anything that we could get there.

So I think one of the key things is to try to work with our delegation to make sure that the worst doesn't happen.

COUNCILMAN PHILLIPS: Yeah, absolutely. I mean, just from your standpoint, we want to balance long-term financial health as I mentioned earlier. Yet we still need to improve public services and economic opportunity. Where do you see our city going with our public services and economic opportunity with all these potential changes that are happening?

MR. DUBOW: Yeah. I mean, I think we still have to -- we still have to make the crucial investments. We still have to make sure -- we've been seeing increases in public safety. We have to make sure that continues. And seeing the city get cleaner, we have to make sure that continues. To continue to look for ways to increase economic opportunity, I think that's what you're saying. We have to make sure all that still happens in the face of the uncertainty we're facing.

COUNCILMAN PHILLIPS: All right. Thank you.

COUNCIL PRESIDENT JOHNSON: Thank you.

And I have my last question and then we'll bring up Marisa Waxman from PICA.

Have we, Rob, done an internal analysis for efficiencies in terms of just how we spend money as a government, like not an outside person such as a controller but within our own purview of the administration just to kind of look at how we go about spending our dollars to save dollars?

MR. DUBOW: Yep. And it's an ongoing thing, everything from looking at what people buy for events, like we're not buying 100 pineapples for example or everything is kind of done responsibly. Part of our budget review is working through with every department looking at how they spend their money and make sure that it makes sense, so it's an ongoing process. So I think the answer is, yes, we do that --

COUNCIL PRESIDENT JOHNSON: Thank you. I --

MS. MAYNARD: One of the things -- sorry.

COUNCIL PRESIDENT JOHNSON: Go ahead, Sabrina.

MS. MAYNARD: Through the budget process we find economies of scale sometimes. So we find like multiple departments will maybe be working on communications or what have you and we are in a position to make those connections on behalf of folks. And so, that's one of the things we look for.

COUNCIL PRESIDENT JOHNSON: All right. Thank you very much.

Any other questions from members?

Councilwoman Katherine Gilmore Richardson, Majority Leader.

COUNCILWOMAN GILMORE RICHARDSON: Yes. Thank you. Thank you very much, Mr. President. I apologize. I wanted to come back around and be mindful and thoughtful of my colleagues.

But one thing I wanted to talk about that we've noticed and particularly with the increase of some of the spending that we've had to do this year for obvious reasons is that our spending continues to outpace our collection and we know that that's not a sustainable practice forever going forward.

And so, one, I heard the President talk about how you all are looking for cost-saving measures internally. But I wanted to go back to something that was brought up in the past administration, something that I think Montgomery County was able to do very well. You know where I'm going with this. And you all have implemented program-based budgeting, right, but have not really achieved real savings as a result of that implementation.

So is there any thinking around implementing a zero-based budgeting model for the City that we kind of start from zero, start from scratch to try to get us in a better place around spending?

Because I mean it's like you said, it's like having your own house. If I only have $10,000 a month and I'm spending 12, I'm short 2 every month. And so, what are we doing about that?

MR. DUBOW: So I do think that our budgeting process, the performance-based budget, does give us a good idea of what we get for what we spend and whether that investment makes sense. I think zero-based budgeting is a -- I think we would need to significantly ramp up our administrative capabilities to do that.

COUNCILWOMAN GILMORE RICHARDSON: Right. And you know I brought this up in the past.

MR. DUBOW: Yeah.

COUNCILWOMAN GILMORE RICHARDSON: But I think over time we are spending much more than what we have in previous years, and we know the staffing allowances and the vacancies that we have and the need to address over time and all of those things.

But with the real realities that we face over the next three to four years, I think it's incumbent upon us to do all that we can to reduce the overspending so that we're in a better space.

MR. DUBOW: And I think that is something we can do given the budget process we use now.

COUNCILWOMAN GILMORE RICHARDSON: Okay. And then if you could give me a written response on what it would take to move us from our current budgeting model to a complete zero-based budgeting model for the City, that would be helpful.

MR. DUBOW: Yes.

COUNCILWOMAN GILMORE RICHARDSON: And what it would take from a staffing perspective so that we can see that from a staffing perspective, so that we can see that if from a staffing perspective it even has a return on investment.

MR. DUBOW: Yes, and even whether we have the ability to hire that many people.

COUNCILWOMAN GILMORE RICHARDSON: Right. Okay. Thanks.

COUNCIL PRESIDENT JOHNSON: Thank you, Majority Leader.

The Chair recognizes Councilmember Quetcy Lozada.

COUNCILWOMAN LOZADA: I just have one really quick question, and I'm responding to some of the concerns that we are experiencing in the District as it relates to some of our, I guess, water infrastructure or the pipes in the city of Philadelphia.

I have in my District about 10 to 15 sinkholes. And so, considering that some of the infrastructure in the city is so antiquated, are we prepared to respond to the growing number of sinkholes that we're seeing in I'm sure it's not just in the 7th Council District but across the city of Philadelphia, understanding that some of that money comes from the federal government? Are we prepared to respond to some of those issues that we're going to see over not just the winter months but of course entering into the summer? Are we prepared for that?

MR. DUBOW: Yeah. And so, I know Water has substantial capital investments that they have planned over time. I do think there are some federal matches for that. So I think that is probably one of the uncertainties we face, is what that federal funding looks like going forward. So I agree with you it's really important to be able to make that investment and to avoid having what is happening with sinkholes.

COUNCILWOMAN LOZADA: How much is budgeted for that right now?

MR. DUBOW: I have to get back to you. I have to kind of talk to Water about it, but it's a substantial amount.

COUNCILWOMAN LOZADA: Okay. Thank you.

COUNCIL PRESIDENT JOHNSON: Thank you, Member Lozada.

Are there other questions for this panel?

(No response.)

COUNCIL PRESIDENT JOHNSON: Thank you very much for your time, Rob and Sabrina.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT JOHNSON: Thank you very much.

Will the Clerk please call the next panelist.

THE CLERK: Marisa Waxman, Executive Director of PICA.

(Witness approached Witness table.)

COUNCIL PRESIDENT JOHNSON: Welcome back, Marisa.

MS. WAXMAN: Thank you.

COUNCIL PRESIDENT JOHNSON: Just state your name and title for the record and please begin your testimony.

MS. WAXMAN: Great. Good afternoon, Council President Johnson and members of the Council's Committee on Fiscal Stability and Intergovernmental Cooperation. My name is Marisa Goren Waxman. I'm the Executive

Director of the Pennsylvania Intergovernmental Cooperation Authority, also known as PICA.

PICA is grateful to this Committee for convening today to provide an opportunity to highlight the need for the City to maintain and enhance its financial condition. As you know, this is why PICA exists.

In the early 1990s, the City of Philadelphia was on the brink of bankruptcy. Revenues fell short of projections. The City didn't have cash to pay for its operations and no one would lend it any money. Local- and state-level stakeholders rallied and cooperated to address the fiscal crisis, and the Pennsylvania legislature passed the PICA Act to bolster Philadelphia's fiscal condition and restore access to capital markets.

The passage of the PICA

Act also created PICA as an independent state authority with a bipartisan board that assists Philadelphia in solving financial and budgetary problems and helping it achieve and maintain access to capital markets.

Today a large part of PICA's work is reviewing and approving the City's five-year financial plan and monitoring the City's finances to ensure that the City sticks to that plan. This cooperative approach has been working. Revenues have increased, improved. Fiscal and budgetary practices have been put into place. The City's bond ratings have improved, and fund balances have generally grown.

But ongoing fiscal stability is not insured. Local decisions, changes in the economy and policy choices at other levels of government can either improve or undercut the City's fiscal condition. It's important to remember that we don't just want fiscal stability to get a good bond rating or an award from the Government Finance Officers Association.

Maintaining and enhancing our fiscal condition means that Philadelphia can predictably provide critical services to residents, be ready for the unexpected, whether it's a mega snowstorm or Super Bowl parade and avoid overburdening its taxpayers at the same time.

PICA's the City's fiscal lifeguard. If the City is in real fiscal distress, we dive into the pool and use all of the tools at our disposal to ensure the City doesn't go under. Much of the time when things are going well financially, we're just watchful, scanning the pool for potential danger either from outside like an oncoming storm or from within the pool like imbalanced pool chemicals or horseplay that could turn dangerous. We issue reminders to brush up on your breaststroke, have flotation devices available and be aware of upcoming weather conditions.

Over the past month, there have been announced changes from the federal government that may have a material impact on the City of Philadelphia's finances. Changes to the nature and level federal grants directly to the City may have an impact on service delivery and infrastructure investments. Changes in grants to organizations and institutions across our region may also impact social services, cultural offerings and more. Loss of jobs at those organizations or Philadelphia-based federal employees would have a negative impact on Philadelphia's tax collections.

Policy changes related to tariffs could raise costs for items that the City purchases, requiring more funds or scale back projects. Many of the proposed changes are not entirely clear, face legal challenges, and this creates fiscal uncertainty as the City manages its current year budget and develops the FY26-30 plan.

PICA uses a group of nine indicators to monitor the City's fiscal condition. Although a single data point can reveal if a city's in distress like a negative fund balance, assessing relative fiscal health in Philadelphia's trajectory requires more varied inputs.

These indicators are grouped in five categories: Debt, fiscal management, pension, reserves and revenues. While for most of the indicators, they're not specific targets or thresholds that are legally mandated or universally identified as correct, PICA has identified thresholds to categorize whether the City's performance raises minimal, moderate or significant concern.

As PICA's entire reason for existing is to maintain and enhance the City's fiscal stability, we'll always have at least minimal concern about any indicator. When PICA reviewed the FY25-29 plan last summer, it had minimal concerns about three of the measures, the City's credit rating, wage tax collections as a percent of estimates and the change in tax and local government, nontax revenue collections.

PICA had moderate concern about one indicator related to debt, long-term obligations as a share of General Fund spending. There were five measures however at levels raising significant concerns for Philadelphia's financial health. That was the operating surplus or deficit as a percent of revenues, the percent of the pension funded, the change in fund balance, fund balance as a percent of revenues and total reserves for unanticipated conditions.

The City's FY25 Q2 Quarterly City Manager's Report released on February 18th offers more recent data for some of the fiscal indicators in FY25. The City's updated projections show a significantly larger operating deficit in FY25 than presented in the FY25-29 plan. The Q2 QCMR shows a small reduction in revenues and a large increase in spending.

Initially, the City planned to spend 96 million more than it collected in FY25. That has been updated to 395 million. While this is possible due to the larger than projected FY24 fund balance, the City cannot spend more than it collects indefinitely.

The City's Q2 projections show a small increase in fund balance over the adopted Five-Year Plan with an additional 16 million raising the expected FY25 fund balance to 584 million. This is a small positive step, but the level of fund balance remains well below recommended levels. And given that the FY24 fund balance was significantly higher than presented in the FY25-29 plan, there's now a larger percentage decline from the prior year to the next. Ideally, fund balances would grow each year, at least until the City can achieve more reasonable levels of reserves.

The City has made tremendous improvements in its fiscal condition since the crisis that precipitated the creation of PICA in the early 1990s. In the past five years, the state has had notable successes, including navigating the economic and operational challenges of a global pandemic, while maintaining positive fund balances, achieving its highest credit rating in more than four decades, depositing funds in the Budget Stabilization Reserve for the first time and making subsequent deposits, progressing towards a fully-funded Pension Fund and making the final payment on the PICA bonds.

PICA recognizes and celebrates these achievements and commends successive Mayors and City leadership, City employees, City Council, City unions, Pension Board members and many other stakeholders for this progress. But PICA simultaneously continues to have concerns about the City's fiscal stability.

Looking ahead, PICA recommends that the City sustain and expand its efforts to maintain and enhance its fiscal condition, by allocating additional resources for expected and unexpected circumstances. With uncertainty coming from federal funding and policy changes, upcoming labor contracts, continued community needs and other potential challenges, planning for reserves is a prudent step to avoid future fiscal crises.

Setting aside more reserves, whether in fund balance, the Budget Stabilization Reserve or other reserves is not without drawbacks. There are trade-offs with other policy priorities and estimating the correct amount of needed reserves can be challenging, but there are many benefits as well, including less need to reduce spending and services when a crisis hits and potential for improved credit ratings and lower borrowing costs.

Improving development of detailed and accurate budgets for planned initiatives is recommended as well. Launching new initiatives and expanding services, apps and comprehensive budgets may expose the City to cost overruns and budget shortfalls. Since the budget was adopted, the City's financial reports indicate the need for significant resources for programs underway that haven't been approved by City Council.

For example, the most recent Quarterly City Manager's Report indicates the need for an additional 7.7 million for expanded Fire services, and the report from the first quarter outlined the need for tens of millions or more for contracts for the new wellness centers that had not yet been legislated and aren't reflected in the City's approved FY25-29 plan.

PICA also recommends continuing the commitment to achieving 100% funding for the Pension Fund by 2033. If the City stays the course as planned and the Pension Fund is 100% funded by FY33, the City's normal cost will be less than 200 million annually, rather than the nearly 900 million we are paying now each year. At that point, the City will have the flexibility to set aside funds for incremental adjustments to improve the health and safety of the Pension Fund while also freeing up hundreds of millions of dollars in revenue previously dedicated to fixed costs for other priorities.

PICA is pleased to continue its support for the City of Philadelphia's financial health and is grateful for the ongoing cooperative relationship with the administration. And as City Council gears up to consider the FY26 budget and the FY26-30 year plan, PICA remains, as Rob suggests, another thought partner and a resource for thinking about the impacts of Philadelphia's fiscal stability. And please remember to sign up for our E-newsletter and follow us on LinkedIn to stay up-to-date on our monitoring and analysis of the City of Philadelphia's fiscal condition. Happy to answer any questions you have and thank you.

COUNCIL PRESIDENT JOHNSON: Thank you very much. I think you answered a couple of my questions in your summary. I want to get an idea of -- and you pretty much summarized our overall health, right. I think right now you said we're spending more than we're actually collecting. And so, we have to stabilize it as we move forward.

I'm going to do this. Councilmember Kathy Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Thank you. Thank you, Council President.

And thank you, Marisa. It's so good to see you and thank you for all of your help over the years. I wanted to go to the part of your testimony where you concentrated on the total reserves for unanticipated conditions. And you talked about PICA setting additional benchmarks for the City relative to the total reserves.

And so, could you just talk about that a bit more? You know that we worked together so that we can increase the contributions going to the Budget Stabilization Reserve, particularly after COVID. That was a very glaring experience to go through together.

So if you could talk about those higher benchmarks. You heard the Administration talk about the Federal Reserve and the money that was set aside in the most recent Mid-year. And so, in light of that updated information can you talk about what you all are thinking about for the total reserves?

MS. WAXMAN: Certainly. I'll start -- and thank you, Councilmember -- by noting that the PICA Act, the state legislation, only requires the City to have a positive fund balance in order for the PICA Board to approve the plan, right. So when we're looking to approve the plan, if they've got $0.67 less than the price of a pineapple, whatever it is, that's enough to get PICA's approval. That said, we make recommendations to go higher.

The Government Finance Officers Association recommends 17% and PICA isn't particularly, doesn't particularly care that it be definitely all in fund balance or all in the Budget Stabilization Reserve or all in a new federal grants reserve. It's about looking holistically that do we have about two months' worth of revenues or two months' worth of savings because if there's a problem and it's a little bit of a wobble, it can cover it.

But really what that level buys us is time to make good, smart, strategic decisions if the scale of the problem is huge, like the loss of all federal funds. We're not going to be able to build up in the near term a $2.8 billion reserve.

COUNCILWOMAN GILMORE RICHARDSON: Right.

MS. WAXMAN: But having that 17%, two months' worth of spending, buys us time to be thoughtful and make good decisions.

COUNCILWOMAN GILMORE RICHARDSON: Okay. Thank you for that. I wanted to make sure I put that on the record. Knowing that -- and I think your testimony talked about this, around the spending. Okay. Could you talk about sort of some of the recommendations that the PICA Board is giving to the City specifically because you talked about having to have the positive fund balance no matter what.

But when spending outpaces your revenue collection at some point the buck is going to stop. And so, what has been the recommendation from PICA to the City?

MS. WAXMAN: So our clearest recommendation is to get to the point when you're doing a five-year plan, plan to get to structural balance where your revenues each year can more than cover your expenses. And so, that's what we would like to be seeing in the outyears of the plan.

Philadelphia has been able to do it in certain years. But projects going forward, I think that it would be smart, sound, fiscal and budgetary practice to develop budgets that expect to have structural balance to them and not rely on fund balance because at some point those won't be there.

COUNCILWOMAN GILMORE RICHARDSON: Right. Thank you. Thank you very much.

COUNCIL PRESIDENT JOHNSON: Thank you, Madam Leader.

Marisa, what specific areas do you believe Council should be paying close attention to in terms of our City's fiscal health from the outside looking in?

MS. WAXMAN: So you know I think all of them obviously and I know that you are and we appreciate this hearing today. But I think it's sort of stepping through the basics. One, looking on the revenue side, making sure we understand where we're getting funding from and our expectations match up to reality.

Luckily, we found that Philadelphia has a really good track record there but keeping the eye on the ball that the revenue projections are realistic. Once we get to the spending side it's thinking about things like all those fixed costs, what can we do. It's a lot of those you can't change in one year but making the progress on the Pension Fund, being thoughtful about debt issuance and balancing that with pay-as-you-go financing is really important to make sure that we are not locking ourselves into payments, pushing those forward on folks so that there's no flexibility.

Really on the spending

side it's about maintaining a level of flexibility so that we can make decisions for what the needs are. And then we're PICA. The key thing we care about is maintaining and planning for positive fund balances just so that there's a cushion so that if something unexpected happens, there's the flexibility to make different decisions and the time to make them.

We've seen in the city the past year a number of organizations go away, BDT, University of the Arts, that seem not to have time to make different decisions. And that's really what having adequate reserves is about, is either being able to sort of bridge over a minor thing or being able to pivot and make decisions. And so, building flexibility into our financial plans I think is really key.

COUNCIL PRESIDENT JOHNSON: Can you highlight any particular revenue streams or expenditure categories that are showing concerning trends compared to our projections?

MS. WAXMAN: So obviously, as both the Finance Director and I raised today and everyone is thinking about, the federal funds is a significant concern as well as the tax revenue streams that are dependent on those. So coming from our meds and eds, we have always been a city almost insulated from certain economic changes and trends because of our concentration. The meds and eds, that their funding wasn't based on sort of the economy, day-to-day ups-and-downs of the stock market. But right now they really may be much more vulnerable.

And I may not get this

exactly right, but I believe around $100 million of the wage tax each year comes from federal government employees. And so, there's a real vulnerability for us that we haven't had in the past and that's something that we're looking at and concerned about.

And then PICA just did a report looking at the precision of our revenue estimates over the past 20 years. Some of them have been really close on the nose, our wage tax or real estate. But we do have some other taxes that are incredibly volatile that Rob and Sabrina already spoke about today, the Business Income and Receipts Tax and the Realty Transfer Tax.

The amusement tax is also pretty volatile, but it tends to depend on how good the teams are and whether or not we get into the playoffs. So if you can control that, that'd be super helpful for the revenue projections.

COUNCIL PRESIDENT JOHNSON: Yeah. I'm looking for, what is it called, not a three-peat but a two-peat. Okay. Back-to-back.

The Chair recognizes Councilmember Anthony Phillips.

COUNCILMAN PHILLIPS: Thank you, Council President. All about the two-peat.

I just want to ask, you mentioned in your testimony that setting aside more reserves whether in the fund balance, Budget Stabilization Reserve or other reserve is not without drawbacks and you mentioned that it's important that we put more into the reserves. It would be very prudent. Do you have a dollar amount of how much it should be in the reserves every single year?

MS. WAXMAN: So as I said, PICA by law is simply looking for a positive fund balance. But we do recommend looking to things like the GFOA, which would right now be in the neighborhood of about $1 billion. So about twice what the City is projecting for its fund balance this year.

COUNCILMAN PHILLIPS: So you can't necessarily recommend anything that would make sense --

MS. WAXMAN: Well, we recommend aiming towards that GFOA level around 17%. But by law we're not going to hold up the City's financial plan because the state law says it should be positive. But we recommend looking to that 17%, which right now is about $1 billion and is in line with what other jurisdictions do.

I know it may sound, you know, we've gotten used to having much thinner fund balances in Philadelphia but that's not normal.

COUNCILMAN PHILLIPS: So that's why, you know, I understand $1 billion is the goal, right, but we're not going to meet that goal. But I just was curious, like who would be responsible that would give us a sense of what can we do that would be just as grand?

MS. WAXMAN: So one of the things we'll be looking for when we look at the FY26-30 plan when it comes out next month is, is the City even hitting what its internal goal of 6% to 8% in each year of the plan. So that's another, you know, if you think that getting to the 17%, billion dollars, within the next five years is too much of a stretch, another sort of level that we'll be looking at is, is the City hitting that at least 6% to 8% target in each year of the plan.

COUNCILMAN PHILLIPS:
Okay. And then also, have you looked at other cities that are doing well with their reserve balance or cities that have come out of a circumstance similar to what we're going through right now that we should potentially model?

MS. WAXMAN: Yeah. So there are a number of cities that, you know, no two cities are exactly alike. But we do keep an eye and PICA in the past benchmark against other cities. We probably will within the next year. But looking at cities like Las Vegas, you might think those are gamblers. They're not willing to have a lot of money set aside. No, they have over 20%.

A number of cities legislate and say that there must be at least a 10% fund balance. Washington, D.C. has -- and obviously their structure is very different, but they have very significant reserves.

And so, there are places that we can look to that the demographics are somewhat similar, conditions are always a little bit different, but it's something we can also get back to you with. It's just looking at where are other cities right now and how does Philadelphia stack up so that's something we can certainly look into.

COUNCILMAN PHILLIPS:
Yeah, that would certainly be very helpful. Yeah, that would be beyond helpful. And I'm just really curious about how do we get the right dollar amount, right, because right now Rob is kind of like overseeing all of it, right. And do we need to make sure we get other people involved, right, to

make sure that we're at the right dollar amount because we just want to get this all right. Thank you.

COUNCIL PRESIDENT JOHNSON: Thank you, Member Phillips.

Councilmember Katherine Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Thank you, Mr. President.

Marisa, I wanted to just go back to the part where you mentioned the impact of the job loss in the federal government for people who work here in Philadelphia around the wage tax. And you said in total for all of our federal employees it's around $100 million in wage tax that comes to the City. And what is PICA's thinking around the impact that that could have on our budget?

MS. WAXMAN: I mean,

there's so much uncertainty right now so knowing what the scale is going to be is hard to predict.

COUNCILWOMAN GILMORE RICHARDSON: You don't know what you don't know right now.

MS. WAXMAN: And so, yeah. All of us wish we had a crystal ball and knew how this would shake out, as we talked to colleagues in other cities, turn to our professional organizations that look nationally. But there may be hard challenges ahead, but we don't know yet what those are going to be.

And one of the nice things about being at PICA is we're concerned with the fiscal stability but obviously it is the elected leaders. We don't substitute our wisdom for the policy choices and decisions in those places, but we are happy to provide as much analysis and support as you guys navigate upcoming challenges as we can to you.

COUNCILWOMAN GILMORE RICHARDSON: Sure. I would love to keep up with the federal trend. We actually had a constituent reach out to our office yesterday looking for assistance who was just let go from SSA. So I would love to continue to receive the outside PICA analysis regarding this issue in particular. Thank you.

COUNCIL PRESIDENT JOHNSON: Thank you very much, Majority Leader.

Are there any other questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT JOHNSON: Marisa, as always thank you --

MS. WAXMAN: Thank you

so much.

COUNCIL PRESIDENT JOHNSON: -- for your hard work and your dedication. Welcome back to City Council.

And with that being said, if there are no other questions, comments or witnesses for this Committee, this concludes the hearing on Resolution No. 240886. And I want to sincerely thank everybody for taking time out of your schedule and being here at this hearing. Thank you very much.

(Committee on Fiscal Stability and Intergovernmental Cooperation adjourned at 1:06 p.m.)

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C E R T I F I C A T I O N

I, hereby certify that the proceedings and evidence noted are contained fully and accurately in the stenographic notes taken by me in the foregoing matter, and that this is a correct transcript of the same.

TANEHA CARROLL
Court Reporter - Notary Public

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