COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, April 4, 2012
10:18 a.m.

PRESENT:

COUNCIL PRESIDENT DARRELL L. CLARKE
COUNCILWOMAN CINDY BASS
COUNCILWOMAN JANNIE BLACKWELL
COUNCILWOMAN MARIAN B. TASCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN KENYATTA JOHNSON
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN DAVID OH
COUNCILMAN MARK SQUILLA
COUNCILMAN JAMES KENNEY
COUNCILMAN BOBBY HENON
COUNCILMAN BILL GREEN
COUNCILMAN DENNIS O'BRIEN

NO. 120164 - An Ordinance to adopt a Capital Program for the six Fiscal Years 2013-2018 inclusive.

NO. 120165 - An Ordinance to adopt a Fiscal 2013 Capital Budget.

NO. 120166 - An Ordinance adopting the Operating Budget for Fiscal Year 2013.

NO. 120167 - Resolution providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal Years 2013 through 2017, and incorporating proposed changes with respect to Fiscal Year 2012, which is to be submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") pursuant to the Intergovernmental Cooperation Agreement, authorized by an ordinance of this Council approved by the Mayor on January 3, 1992 (Bill No. 1563-A), by and between the City and the Authority.

COUNCIL PRESIDENT CLARKE: Good morning, everyone. This is a continuation of the Public Hearing on the Committee of the Whole regarding Bills No. 120164, 12165, 12266 and Resolution 12167.

Ms. Lewis, please read the title of the Bill and Resolution.

MS. LEWIS: Bill No. 120164, an Ordinance to adopt a Capital Program for the six Fiscal Years 2013-2018 inclusive.

Bill No. 120165, an Ordinance to adopt a Fiscal 2013 Capital Budget.

Bill No. 120166, An Ordinance adopting the Operating Budge for Fiscal Year 2013.

Bill No. 120167, a Resolution providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal Years 2013 through 2017, and incorporating proposed changes with respect to the Fiscal Year, 2012, which is to be submitted by the mayor to the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") pursuant to the Intergovernmental

Cooperation Agreement, authorized by an ordinance of this Council approved by the Mayor on January 3, 1992, Bill No. 1563-A, by and between the City and the Authority.

COUNCIL PRESIDENT CLARKE: Thank you.

Good morning, Administration.

MR. DUBOW: Good morning. My name is Rob Dubow. I am the Finance Director. I understand the way we're doing this here is just real quickly the numbers and right into questions.

COUNCIL PRESIDENT CLARKE: We'll appreciate it. Use more time for questions.

MR. DUBOW: Okay. And we'll need that.

The Finance Department's Proposed General Fund Budget totals $1.3 billion, that's an increase of $87 million over FY12 levels. The increase is caused primarily by an increase in Fringe Benefits and most of that is an increase in pension costs. And our direct appropriations for the Finance Department are $12 million, which is slightly lower than FY12 estimated obligations.

We are committed to the Administration's FY13 goal of 25 percent minority, women and disability-owned business participation in City contracting.

For FY12 year-to-date we have an overall 36.6 percent participation rate in contracting, and our goal for FY13 is 37 percent. We have a chart that's attached that gives some more detail on that and on the demographics of our office and we would be happy to answer any questions.

COUNCIL PRESIDENT CLARKE: Thank you. We will start out, I'm going to ask you about the FY12, the transfer of $1 million from the personal services category within the Office of Property Assessment to the General Fund, if you could just clarify that for me, please.

MR. DUBOW: Right. That transfer is to help with appeals of property assessments that has become actually more important with yesterday's ruling by the State Tax Equalization Board that said that our common level ratio should be about 25 percent. If that is applied to all the appeals we got this year, that could cost the General Fund about $18 million. We want to be able to cross appeal and say that market value should actually be higher which could help reduce that impact, if that's what the --

COUNCIL PRESIDENT CLARKE: That was in anticipation of --

MR. DUBOW: Well, we knew there was a preliminary ruling from the State Board, so we knew that this was coming.

COUNCIL PRESIDENT CLARKE: Knew it was coming, okay.

All right. You have $850,000 also transferred to the law department.

MR. DUBOW: That's part of the same thing.

COUNCIL PRESIDENT CLARKE: Part of the same thing?

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: Okay. All right. Let me ask you a question about $32.5 million supposed to be allocated to fund indemnities. Is this an increase?

MR. DUBOW: It's actually a slight

decrease because there were a couple of relatively large cases this year, and we're assuming that won't recur. There were about 3.4 million for two cases, one the Woods case and one the Isaac case, so that increased this year's number.

COUNCIL PRESIDENT CLARKE: Okay. And two vacant positions in Capital Budge.

MR. DUBOW: Capital budget, yes. One is the deputy director for capital, that position is vacant, and then another is for someone to fill a position of someone who moved elsewhere. So, there are two vacancies.

COUNCIL PRESIDENT CLARKE: Is there a particular reason the deputy director is no longer here.

MR. DUBOW: He passed away.

COUNCIL PRESIDENT CLARKE: Oh, that's very unfortunate, I'm sorry. I did not know that.

Okay. Are we going to fill the vacancies at all?

MR. DUBOW: Yes, we're working on filling them.

COUNCIL PRESIDENT CLARKE: Okay. I'm going to turn this over to my colleagues.

Chair recognizes Council Member Greenlee.

COUNCILMAN GREENLEE: Good morning.

COUNCIL PRESIDENT CLARKE: Good morning.

COUNCILMAN GREENLEE: I just have one question around the new office of property data.

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: Now, that's under Finance, but other departments are going to be working with you, is that kind of how it works?

MR. DUBOW: Yes, yeah. I mean the issue there is that different departments have different data sets on property and they're often inconsistent, and sometimes can be inaccurate which complicates a whole variety of City services, everything from EMS responses to sending out the bills. So, their job is to coordinate all that and make sure all that makes sense and is consistent, so it involves working with departments throughout the government.

COUNCILMAN GREENLEE: I guess if it's inconsistent there must be some inaccuracies, right?

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: Okay.

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: Sorry about that. I had to throw that in.

And just are there new employees involved or are these employees coming from other departments?

MR. DUBOW: There is an increase in our staffing level of four with a fifth to come on next year. Some of those employees were hired from other departments into the government.

COUNCILMAN GREENLEE: Okay, so some come from departments, okay. I mean, it would seem like it's needed, because I know what you mean, different departments give you different information. It's kind of crazy.

MR. DUBOW: Yeah, yeah.

COUNCILMAN GREENLEE: Okay. Thank you.

Thank you, Mr. President.

COUNCILMAN JONES: Good morning.

MR. DUBOW: Good morning.

COUNCILMAN JONES: Just as a note I have survival food here.

MR. DUBOW: Oh, thank you. We'll be checking back later in the day.

COUNCILMAN JONES: On page 60 of your Reward Fund was appropriated in FY12, $500,000 I believe it is.

MR. DUBOW: Yes.

COUNCILMAN JONES: Has any of that been drawn down?

MR. DUBOW: There have been a couple of allocations against it. I don't know whether it has been drawn down. We can get an answer for you. We will get back to you.

COUNCILMAN JONES: From the public safety aspect of it, I applaud you guys for putting it in and look forward to seeing how it is utilized, that in conjunction with the witness relocation money, the things that --

MR. DUBOW: Yes.

COUNCILMAN JONES: -- mean so much to the justice system.

ACS State & Local Solutions, according to page 40 of your budget detail, is receiving a contract for $1.4 million for violations, tracking and collection. Can you explain what that is?

MR. DUBOW: Yes. They help with revenue collections for code violation notices and they get a percentage of the collections. And we re-did the contract, I guess last year, and that percent went down. I think it's about 10.9 percent is what they get.

COUNCILMAN JONES: What has been their ROI on that investment of 1.4? What have they actually drawn down in collections compared to that investment?

MR. DUBOW: Hold on one second. I will -- last year their collection was about 10.3 million., because they are getting just under 11 percent, their collections are going to be about nine times whatever they get paid.

COUNCILMAN JONES: Are you aware that

the Commonwealth of Pennsylvania, of their continuum of collections, they have a department that goes after particular taxes? Are you aware of their revenue collection efforts at all?

MR. DUBOW: I am slightly aware. Our Revenue Commissioner actually came from the Revenue Department of the state, so he is very familiar with what they do.

COUNCILMAN JONES: You might be interested to note that they have invested 1.4 million, was it? 4.1 million into a collections process that yielded 1,700 percent rate of return equaling $70 million based on their efforts. And, so, when you tell me that we have invested 1.4 and we have gotten 11 million, if you look at what they've been able to do in a way that also employs permanent collectors that sharpen their skills, they go after five essential state taxes and they train their people individually in the nuances of those taxes, in the ins and outs of it, and those trainees, their only problem is that they can't keep them because they're so sought after by the private sector, you know, it's almost like if you were a prosecutor they want you to be a defense attorney at some law firm. Well, similarly, these people are so well trained that after they get their training they can't keep them, but the revenue collections to the state is a hundred -- what, 1,700, 1,700 percent. It's just phenomenal.

So, I guess what I'm getting is I would like to take a look at cost comparison to say is it better to farm this out or is it better to train competent permanent Philadelphians to do this collection and will we get a better yield for that.

MR. DUBOW: And it's fair also to say that on the tax side, a couple of the biggest projects that we're planning to do with our IT investment are in our revenue, in collections side, so there is the cashiering system and there's what we're calling Revenue Modernization, and that Revenue Modernization should be accompanied by kind of changes in our procedures that will help us collect more. So, people in Revenue think that that will help us generate a lot more revenue. It looks like it's kind of consistent with what you're talking about at the state, so.

COUNCILMAN JONES: They have predicted dollars. They do, they call it rabbit testing, and what they do is they use a small sampling of what the exposure or non-collectible is under a group of businesses. So, if it's accountants and there is a particular tax that they're not getting receipts for, they go after that group of individuals for the highest yields, so the fattest rabbit that they can chase out of the hole and get they most yield for, they do. So, what I am saying is that if we're looking to add taxes, if we're looking to do all of this, we need to look at what is already on the books to collect.

And I am going to be consistent, Mr. President, in insisting upon that before we burden ourselves and then the public with additional revenue enhancements.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you. Good work, by the way, Councilman. Very productive trip.

COUNCILMAN JONES: For the record, paid for by my own --

COUNCIL PRESIDENT CLARKE: City Council.

That's why it was even more productive because you paid for it by yourself.

The Chair now recognizes Council Member Goode.

COUNCILMAN GOODE: Thank you, Mr. President.

Good morning, Mr. Dubow.

MR. DUBOW: Good morning.

COUNCILMAN GOODE: Once again, I love the chart.

MR. DUBOW: Thank you.

COUNCILMAN GOODE: I wish every department would do one for reasons that will be illustrated through my line of questioning.

Until four years ago, since 1982, Embeck was situated in the Finance Department. Then OEO was created and situated in the Commerce Department. I don't expect you to answer a question as to whether that was the right move or not, but my question is what responsibility under the Charter in the Philadelphia Code do you still have for contract and diversity?

MR. DUBOW: For, I am sorry?

COUNCILMAN GOODE: For contract and diversity.

MR. DUBOW: Well, under the Charter we still have that same responsibility we had before. We have an MOU with Commerce so that Commerce carries out the function, but we still have the same responsibility in the Charter.

Does that answer the question?

COUNCILMAN GOODE: Absolutely.

So, do you still check the numbers?

MR. DUBOW: You mean city wide or do you mean for --

COUNCILMAN GOODE: Do you check the numbers in terms of whether OEO's numbers are right?

MR. DUBOW: No. I see what the numbers are, but I don't attempt to validate them.

COUNCILMAN GOODE: For instance, your

department spent how much last year on contracting, Fiscal Year '11.

MR. DUBOW: '11, hold on one second, let me just get --

COUNCILMAN GOODE: It's on your chart.

MR. DUBOW: Yeah, those are the largest ones --

COUNCILMAN GOODE: No, the question was how much total you spent.

MR. DUBOW: 3.9 million.

COUNCILMAN GOODE: The question was -- what was the total spent?

MR. DUBOW: City wide?

COUNCILMAN GOODE: What was the total spent on contracting last year from your department?

MR. DUBOW: So, on the chart, it's 11.9 million.

COUNCILMAN GOODE: The OEO report says it was 12.9. Which is correct?

MR. DUBOW: Hold on one second. There is -- actually that, the 11.9 is our largest contracts. There are some additional -- let me get to the totals.

You know, there are some other contracts and we don't have the '11 amounts for those, so let us get back to you with what the --

COUNCILMAN GOODE: What was the total spent for disadvantaged businesses?

MR. DUBOW: I have '12. I don't have '11 with me. For '12 it's about 4 million was the total spent.

COUNCILMAN GOODE: I am asking for '11.

MR. DUBOW: I would have to go back and get you those.

COUNCILMAN GOODE: It's actually on your chart.

MR. DUBOW: No, the chart is our largest contracts.

COUNCILMAN GOODE: Okay.

What was your participation rate for fiscal year '11 .

MR. DUBOW: It was, I think, a little over 40.

COUNCILMAN GOODE: What is your testimony, sir?

MR. DUBOW: 45.6.

COUNCILMAN GOODE: Hum?

MR. DUBOW: 45.6 is our '11 number.

COUNCILMAN GOODE: The OEO report says 40.47. Which is correct?

MR. DUBOW: I think this 45.6 is accurate.

COUNCILMAN GOODE: Okay. For the Office of Property Assessment, what was their participation rate for fiscal year '11?

MR. DUBOW: For '11 there was not -- they just started, it was at 33 percent.

COUNCILMAN GOODE: They have testimony --

MR. DUBOW: 33 percent.

COUNCILMAN GOODE: We have testimony on that.

MR. DUBOW: 33.

COUNCILMAN GOODE: The OEO report says it was 11.15.

MR. DUBOW: Right.

COUNCILMAN GOODE: Which is correct?

MR. DUBOW: The 33.

COUNCILMAN GOODE: Okay. We can keep

going, but I won't keep going.

MR. DUBOW: I understand your point.

COUNCILMAN GOODE: Do you fact check the testimony?

MR. DUBOW: Our testimony?

COUNCILMAN GOODE: All testimony.

MR. DUBOW: I do not.

COUNCILMAN GOODE: If we went through the testimony and looked at the numbers in the testimony, what would the participation rate be for the City?

MR. DUBOW: For everybody?

COUNCILMAN GOODE: Um-hum.

MR. DUBOW: We just do the testimony, we'd have to get back to you on that.

COUNCILMAN GOODE: Okay. Thank you. Please do.

MR. DUBOW: Sure.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Oh.

COUNCILMAN OH: Thank you, Mr. President.

Just along that line of questioning from Councilman Goode, could you provide the executive staff number again? There are supposed to be 26 total and then it equals only 25, so one staff member is missing in that first column.

MR. DUBOW: Oh, okay.

COUNCILMAN OH: All right. Thank you.

MR. DUBOW: But you're talking about for '12?

COUNCILMAN OH: Yes, for '12.

MR. DUBOW: We show 19 males, 17 females.

COUNCILMAN OH: Yes.

MR. DUBOW: It's here.

COUNCILMAN OH: And then the --

MR. DUBOW: Okay. I got it. I see what you're saying. I understand.

COUNCILMAN OH: Thank you.

MR. DUBOW: Sure.

COUNCILMAN OH: In terms of the definition of minority, women and disadvantaged business enterprise, it's definition, I am looking at some numbers where there is like 36.12 percent participation. And I'm wondering how are these entities being defined in terms of compliance?

For example, there could be a minority or women-owned business where the owner is a minority women and that person may have five employees. A person might be a partner in a law firm of 300 people and all the revenues may come through that one partner and be distributed amongst the 300 people in the firm. Does that count as 100 percent participation?

MR. DUBOW: If their partner was fit into one of the DWBE categories, is that --

MS. DOWD-BURTON: My name is Angela Dowd-Burton. I'm the Executive Director for the Office of Economic Opportunity. Thank for your question, Councilman.

Right now there is no participation given to partners within law firms. What we have done is defined a goal of analyzing the impact of giving credit for participation where we have partners who are the bankable or the billable partner within a law firm or an accounting firm or financial firm, but to date they are not being included at all with regard to participation.

COUNCILMAN OH: Okay. Thank you very much.

What I would ask for then is a listing of the companies that are participating with this particular vendor.

MR. DUBOW: Yes, we can give you that.

COUNCILMAN OH: Okay. Thank you very much.

The budget includes an increase of $75 million for additional pension costs.

MR. DUBOW: Correct.

COUNCILMAN OH: And last year there was an additional $62 million for pension costs; is that correct?

MR. DUBOW: That sounds right, yes.

COUNCILMAN OH: Okay. Do you have within your discretion or your authority as finance director the ability to plan for the prioritization of paying down the debt?

MR. DUBOW: On the pension fund?

COUNCILMAN OH: Yes.

MR. DUBOW: The way we determine that payment is we get numbers from actuary who calculates what is called the minimum municipal obligation, which is the amount that we're required to pay under state law. So, the only way we can change that amount is if there is something that changes in state law.

So, a couple of years ago the state authorized a deferral of a portion of our payment, so that led to a change in our payment, but I can't change that payment from the MMO. I can't go below the MMO unilaterally. I can go above it, but I can't go below it.

COUNCILMAN OH: Would you want to go above it?

MR. DUBOW: If we could do that without damaging the rest of our budget, yes. But, as you can see, pensions have already gone up so dramatically and taken up so much more of our budget that they've already put a tremendous strain on the rest of the budget.

COUNCILMAN OH: You did testify in

2007 in opposition to Bill No. 060833 which would eliminate the requirement that the Pension Fund be approximately 77 percent funded before payments could be made to the Pension Adjustment Fund.

MR. DUBOW: Correct.

COUNCILMAN OH: Do you still think that's a good idea or has your opinion changed?

MR. DUBOW: I still think that payments shouldn't be made to the Pension Adjustment Fund unless the fund has a certain level of health. That was the original idea. So, I think before that legislation you had to be in the upper 70s.

COUNCILMAN OH: Yes.

MR. DUBOW: Now we have a pension fund that's under 50 percent funded, and if earnings are high enough we'd still have to make Pension Adjustment Fund payments and I don't think that makes sense.

COUNCILMAN OH: Okay. The reason I am asking is I anticipate that Council will be asked to make some decisions and I am curious from the Administration's point of view what actions could you do now to address the pension deficit?

MR. DUBOW: Well, our primary focus is to get changes through the collective bargaining process and through the arbitration awards.

We actually had a fairly significant change in the arbitration award for correctional officers that required all new correction officers to go into what's called a highbred plan, it has a combination of a traditional defined benefit plan but with much lower benefits and the equivalent of a 401k plan and required new employees to increase their percentage contribution. We think that will help both the Pension Fund netting out we have to put in over the long-term. In the short-term there's probably not much you can do since it's a long-term problem and we need to look at long-term solutions for it.

COUNCILMAN OH: All right. Thank you very much. I know I'm past my time, Mr. President.

COUNCIL PRESIDENT CLARKE: That's

okay. Thank you, Councilman.

The Chair recognizes Council Member Henon.

COUNCILMAN HENON: Thank you, Mr. President.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN HENON: I have a few questions, one just to expand a little bit on what my colleague and Majority Leader Councilman Jones had mentioned about the collection, you know, professional contracts.

Is the Finance Department responsible for all collections throughout the departments of the City or is it just specifically for the OAR or BAA?

MR. DUBOW: Right. So, their tax collections are the responsibility of the Revenue Department, which reports up to the finance director, but we don't do those collections.

COUNCILMAN HENON: So, this is a professional contract for --

MR. DUBOW: For -- and that is just

for OAR, it's not for BAA. Parking ticket collection is done by the Parking Authority.

COUNCILMAN HENON: Okay. Great. My office has been working with your office, so I publically want to thank Paula Weiss and Eileen O'Brien for continuing and ongoing conversations with some of my concerns as we move through the process.

MR. DUBOW: Thank you.

COUNCILMAN HENON: And the process seems to be quite complicated.

MR. DUBOW: It is.

COUNCILMAN HENON: So, especially when it's regards to the code enforcement with the City.

MR. DUBOW: Yes.

COUNCILMAN HENON: And it's also my understanding that, you know, we should anticipate some changes being made moving forward, and it's important I think that somebody from 0AR or BAA please can answer a few questions so people better understand the process. It would be for me, you know, I would like to get that on the record, so I have a few questions.

MR. DUBOW: For OAR?

COUNCILMAN HENON: OAR and BAA.

MR. DUBOW: Okay. Well, that's Paula Weiss and we'll have her come on up then.

COUNCILMAN HENON: Again, for the record, this better helps -- it will help me, and I'm sure it will help my colleagues, but it will certainly help me on some of the questions that I've had in my short time here.

How many staff do you have working for the BAA?

MS. WEISS: OAR.

COUNCILMAN HENON: OAR. I'll have the same question for the BAA.

MR. DUBOW: Okay, we'll bring him up next.

COUNCILMAN HENON: Okay.

MS. WEISS: Council, I am Paula Weiss, Executive Director for the Office of Administrative Review.

Total for the OAR we have currently 21 staff members, well actually 20, and we're in the process of hiring a 21st for someone who had left -- who left us last summer.

12 of those are in the Code Unit. They process code violations and false alarms, registrations, and alarm fines, as well as processing all the code violation notices issued by various departments and doing some of the initial collection activity.

COUNCILMAN HENON: And how many violations do you process in a given year?

MS. WEISS: In a given year, depending on, you know, what gets written by the different agencies, in FY11 we processed approximately 120,000 code violations.

COUNCILMAN HENON: And that's 2011?

MS. WEISS: Yes.

COUNCILMAN HENON: How many of these violations are settled before being sent to municipal court for, I guess for liens or, you know, for judgements?

MS. WEISS: For judgements. When you say settled, you mean paid or dismissed as a result of an --

COUNCILMAN HENON: Paid and dismissed now that you've mentioned that. Thank you.

MS. WEISS: Probably about, I would say we hear from about half of the tickets that get issued.

COUNCILMAN HENON: So, about half are settled through a payment plan.

MS. WEISS: Either settled paid partially or paid in full. Some of them are partial payments if we reach a settlement or an agreement, or perhaps dismissed as a result of an Administrative review hearing where we can determine it was not issued correctly.

COUNCILMAN HENON: So, half are paid and half are dismissed?

MS. WEISS: No, half are not dismissed. I would about half of the 120,000 that get issued are either paid partially or in full or dismissed for some reason.

COUNCILMAN HENON: Or put on a payment plan.

MS. WEISS: Or put on a payment plan, right.

COUNCILMAN HENON: How many violations actually make it to court and --

MS. WEISS: Far fewer.

COUNCILMAN HENON: -- and do you have a record for those who do make it to court how many have judgements.

MS. WEISS: Yes. I would have to get back to you with that. We don't take the full remaining half or 50,000 or 60,000 to the municipal court because municipal court wouldn't have the capacity to handle that volume. We have a limitation of 160 cases per week that we're permitted by the Court to file and we try to bundle those looking for starting with our violators who have the most violations and working our way down, so we have a priority list.

COUNCILMAN HENON: So, repeat offenders --

MS. WEISS: Are more likely to receive municipal court code enforcement complaint, yes.

COUNCILMAN HENON: And you have an accurate record of those who have multiple violations?

MS. WEISS: Yes, on our database.

COUNCILMAN HENON: And can you explain

the difference between the BAA and the OAR?

MS. WEISS: Yes, the BAA is responsible for parking ticket violations and appeals. And the OAR handles code violations, burglar alarms, red light camera violations and a variety of other appeals.

COUNCILMAN HENON: What sections of the code governs your process?

MS. WEISS: For?

COUNCILMAN HENON: For the OAR.

MS. WEISS: Well, for OAR it really ranges a whole variety of code violations related to the Streets Department, L&I, they have to do with trash violations, quality of life violations, burglar alarm registration and fees, those sections of the code. But we also handle, as just said, red light camera violations. We have the Tax Review Board that handles appeals for a whole variety of taxpayer appeals, so.

COUNCILMAN HENON: The OAR or the BAA handles the red light?

MS. WEISS: OAR.

COUNCILMAN HENON: OAR?

MS. WEISS: Yes.

COUNCILMAN HENON: But parking is BAA.

MS. WEISS: Parking tickets are separate, yes, they're BAA.

COUNCILMAN HENON: Okay. And my last questions, and at the end if I could provide your office with a list of questions and you can have them answered and provide it to the Chair I would appreciate it.

What are your biggest challenges with the multiple codes, the different sections, the collections, the process that you have, what are your biggest challenges?

MS. WEISS: I think our biggest challenge is for code violations and alarms is compliance. The initial purpose and policy behind these code violations, and even the alarm and registration of fined sections was to encourage behavioral changes in our citizens, their quality of life.

As you see in your District, they're quality of life violations. The purpose is not to fine people or to create revenue necessarily. The purpose behind these code violations is to encourage our citizens not to do these things. Don't put your trash out too early, don't have false alarms that require police resources to come and check your house because your cat set off your burglar alarm. Make sure that if you have a dumpster behind your business it's well kept, it's not graffiti covered, it has the correct licensing.

So, we're really attempting to create opportunities where we can remind citizens that they need to follow these rules, these guidelines, these laws so that all of us who live in Philadelphia can have an improved quality of life in our neighborhoods and business district.

So, compliance and response is really our biggest challenge.

COUNCILMAN HENON: Okay. I am just going to add another question we can just provide it to the Chair, the amount of violations, people who fail to report and are guilty in absentia.

MS. WEISS: I can get that for you.

COUNCILMAN HENON: Thank you very

much.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Jones.

COUNCILMAN JONES: This is just a follow-up of my serious colleague there.

What role does the broken window law play within this? Do you collect also L&I violations or go after that?

MS. WEISS: Nuisance violations are separate.

COUNCILMAN JONES: So, if I'm following this, we have about a half dozen different collecting entities within the City of Philadelphia?

So, you have the Parking Authority, ou have OAR, you have -- so how many do we have that actually have the ability to go out and collect?

MS. WEISS: Well, it's more compliance as opposed to collect I guess. Well, L&I --

MR. DUBOW: L&I collects, fire collects on EMS, Revenue Department collects, Streets Department collects for the commercial trash set out. So, yes, you're right.

COUNCIL PRESIDENT CLARKE: There's about a half dozen entities that all have a similar function, which is not to judge what the violation was, that's not the issue here, but they have the function of a collection agency designed to bring in those violations and revenues that are assessed. Something we need to maybe take a look at by way of consolidating that effort and really professionalzing that effort in an effort to get more revenue, something, but I am going to move on from that good point, Colleague, for bringing that out.

I want to talk about for a second of the 2,956 Philadelphia properties held by non -- 2,300 -- and 20 of them held by non-Philadelphia owned delinquent taxpayers. I want to talk about the fact that that represents $28 million worth of revenue that we don't get. That many of them and 78 percent of all of those delinquencies are four-years-old. That 21.62 percent of those delinquencies are

12 years or older and that the City owns about $6,969,000 worth of those properties, so those are my number s.

MR. DUBOW: These are the tax delinquencies you're talking about?

COUNCILMAN JONES: Yes. These are a lot of properties, we're talking about the possibility of full valuation, we're going to discuss that today. But, again, my theme is that if we already have taxes on the books, we already have receivables that can be collected, what are we doing about that? And in particular that some of these bad neighbors don't live in Philadelphia and own other nice properties in other municipalities where they're paying their taxes on. That's like a double slap in the face. I am not going to pay you and I am going to pay Montgomery County, Delaware County their money because they're serious about it.

MR. DUBOW: Right, and I should say that we have also, I mean, gotten much more aggressive about our tax revenue collections. And one of the ways we've been doing this, and you asked that question about this before that we're looking into, is increasing the number of sheriff sales. We used to bring 100 a month and we've increased that to about 600 a month, and one of the things we're finding is that just because that has happened people are settling out before they even get to sheriff sale. We also last year sent letters out to all first time delinquents, so there were about 13 million of them from sending that letter out, we got about four-and-a-half million dollars worth of collections. So, we're taking a number of steps, and when Revenue is here Monday they can go into more detail on it, but I hear you. I mean, we have to be as aggressive as is possible to get every dollar that's owed to us, particularly at a time when we need more resources.

COUNCILMAN JONES: President Clarke is looking at the possibility, and these are broken down, Mr. President, by ZIP code where they are in our respective districts, but what comes to mind is the fact that some of them are heavily concentrated in some of the poorest areas of our city. And if, in fact, your legislation that you're considering about development districts where we've kind of taken an approach, an aggressive approach, of getting site control of some of these so that we can batch properties together to offer to developers seems like a -- it seems statistically that these delinquencies match that legislation as a potential for bringing revenue into the City of Philadelphia, so something I would like, and the President in his role up there kind of can't get into the debate, so he has asked me to do it for him. So, as we start --

MR. DUBOW: Can we get a copy of that?

COUNCILMAN JONES: Yes.

MR. DUBOW: Thank you.

COUNCILMAN JONES: As we start to come up with solutions that have a match legislatively, and we're going to look to the Administration to actually look at some of these as potential solutions before we go do anything else.

COUNCIL PRESIDENT CLARKE: Absolutely.

COUNCILMAN JONES: Thank you, Mr. President.

Thank you very much.

COUNCIL PRESIDENT CLARKE: I concur, Councilman.

The Chair recognizes Council Member Oh.

COUNCILMAN OH: Thank you, Mr. President.

Could you go back to the Office of Public Data?

MR. DUBOW: Sure.

COUNCILMAN OH: The consolidation of these various types of functions into one entity that is to because there is inconsistent standards and multiple city departments and to create and manage a cohesive program, efficient collection, maintenance and distribution concerning city property, does that include real estate?

MR. DUBOW: Yes.

COUNCILMAN OH: And does that also include different assessments of value of real estate?

MR. DUBOW: Well, we wouldn't be doing -- the actual assessment is done by the Office of Property Assessment, but they will be making sure that, you know, the addresses that the Office of Property Assessment have will be consistent with addresses that the fire department has or that records has.

So, they make sure the data is consistent. They don't do the property assessment.

COUNCILMAN OH: Okay. So, if there is a vacant lot or if there's a building that has an address, they're just making sure that everybody who makes a response to that data has consistent data?

MR. DUBOW: Yes.

COUNCILMAN OH: Okay. So, they do not in any way evaluate the condition or the value of the property in question?

MR. DUBOW: Right.

COUNCILMAN OH: Okay. On page 65 I noticed that there is an increase for potential Workers' Compensation claims of $1,845,000. And I was wondering, you know, what was the basis of that?

MR. DUBOW: It's an increase in the state rate.

COUNCILMAN OH: Okay. So, all other factors appear to be the same?

MR. DUBOW: Relatively right.

COUNCILMAN OH: Okay. Thank you.

I'm just curious about, and a discussion for another time, basically how our city and county deals with assigning public defenders because it's somewhat been the practice in Philadelphia that if you come into court and you're unrepresented you will get a public defender, whereas in the outlying counties there is a lot more strict standards about who is unable to afford counsel. And with the limited dollars that are there, and I'm all for funding, you know, we need to have representation for those accused, but I see there is a lot less money for Community Legal Services and for Child Advocates coming out of that pool.

MR. DUBOW: I'm sorry. We need a lot less money -- I am not sure I follow that.

COUNCILMAN OH: There is $35 million for the Defenders Association.

MR. DUBOW: Right.

COUNCILMAN OH: 800 --

MR. DUBOW: Oh, you're saying there's a lot less for CLS then for the Defender.

COUNCILMAN OH: Yes.

MR. DUBOW: Right.

COUNCILMAN OH: And for child advocates, which seems to be competing dollars.

MR. DUBOW: Well, they get conflict cases. So, cases that defenders conflicted out of go to the other -- to the CLS and support center. So, the Defenders is the main provider.

COUNCILMAN OH: I'm just concerned that we have a consistent process of ensuring that people are truly not able to afford an attorney --

MR. DUBOW: I understand.

COUNCILMAN OH: -- so that the dollars may be shifted to, for example, the child advocates and others.

MR. DUBOW: I understand.

COUNCILMAN OH: Okay. Thank you very much.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Bass.

COUNCILWOMAN BASS: Thank you, Mr. President.

Good morning.

MR. DUBOW: Good morning.

COUNCILWOMAN BASS: How are you?

MR. DUBOW: Good. How are you?

COUNCILWOMAN BASS: Great. Just a couple of really quick questions for you. Okay, so, going back to follow-up on Councilman Oh's question in reference to the Defenders Association and CLS, so the Defenders Association receives approximately, what was it, about $36 million was it?

MR. DUBOW: Yeah, 36.2.

COUNCILWOMAN BASS: 36.2 and 800,000 for CLS.

And do you know what the total

Defenders Association budget is or?

MR. DUBOW: There is a federal portion that's not included in here, but I am not sure how much that is.

COUNCILWOMAN BASS: Okay, but this is City's portion of it?

MR. DUBOW: Yes.

COUNCILWOMAN BASS: Okay. And the other question I had was in reference to the Office of Property Data, which is a new office that's being opened up.

MR. DUBOW: Correct.

COUNCILWOMAN BASS: And just an idea, I was curious as to whose idea, you know, how did this idea come up for this new office? Is this something that's done in other cities or are we modeling this after, you know, someone else who has done this successfully and, you know, what was the thought behind creating the office?

MR. DUBOW: The thought behind creating it was when we realized how bad and inconsistent our data was. And it made us realize that we really needed to do something to make it consistent and reliable. It was really Senior Administration officials talking it through and deciding that that's what we needed to do. There was -- I think we gave as a response to one of the TRANs ordinance questions, this table shows what the data process looks like now.

COUNCILWOMAN BASS: Okay.

MR. DUBOW: So, once we saw that we realized that has to be fixed.

COUNCILWOMAN BASS: Okay.

MR. DUBOW: And so their job is to make this into something understandable.

COUNCILWOMAN BASS: Okay. All right.

And it sounds like this new office would be somehow connected or it would make sense that if we were able to have a land bank, which I know that Councilwoman Quinones is proposing, that this would be something that would make sense to interface with a land bank here in the City of Philadelphia.

MR. DUBOW: Right, that's right.

COUNCILWOMAN BASS: I'm sorry.

MR. DUBOW: Yes, that would make

sense.

COUNCILWOMAN BASS: Would you be, you know, supportive of that?

Because it seems from what I have read that Administration feels that it may be too premature to move forward on a land bank and not want to rush into things. So, I just want to, you know, be clear that you think this is something that -- if it has merit and would be good for the City.

MR. DUBOW: If we got to the point where we had a land bank --

COUNCILWOMAN BASS: Yes.

MR. DUBOW: -- and we owned that property, it would be something that the Office of Property Data should have a good handle on.

COUNCILWOMAN BASS: Okay.

MR. DUBOW: Without talking about the merits of a land --

COUNCILWOMAN BASS: Okay. Very good. Thank you.

Thank you, Mr. President.

MR. DUBOW: Thank you, Councilwoman.

Mr. Dubow, real quickly. Councilman

Jones referenced the version of the proposal that we put together related to development districts and dealing with vacant property.

What's the status of that or who -- and I know we've had some conversations -- but where are we in terms of identifying the person who will move that process forward? And I see your chief here.

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: We've got to move it on a couple of the other issues, and my conversation with the Mayor, but we haven't quite gotten there on this particular issue.

MR. DUBOW: Yeah. So, that would be Ann Adams from my office. I know she had one meeting, right, and so we, you know, we do want to push that along, so we'll make sure that moves along.

COUNCIL PRESIDENT CLARKE: The last time I referenced it at a public hearing, a particular issue got a little movement, so I'm trying it again to see if we can get a little movement on that one given the conversation relating to, you know, getting public property back on tax roll, getting vacant land back on tax rolls.

All right. Thank you.

The Chair recognizes Council Member Henon.

COUNCILMAN HENON: Thank you, Council President.

Not to say I'm redundant, because we're going to ask this question over and over again regarding the Office of Property and Data.

In reference to your testimony you had mentioned that you're working with different departments to standardize the property data.

Can you provide a list to the Chair all the different entities, the departments that you're currently working with?

MR. DUBOW: Yes.

COUNCILMAN HENON: And their property assessments, and I don't mean the OPA, I mean the --

MR. DUBOW: Their responsibility for properties?

COUNCILMAN HENON: The assessments for

their properties and gathering the property data and what they are compiling, the types of data sets that you are compiling as you're assessing these properties?

MR. DUBOW: The one -- yes. I think I understand what you're asking for. Is it what each office responsibility for property is and what kind of data they have now?

COUNCILMAN HENON: Well, each department -- well, many departments let's just say. Many departments are doing their own property assessments. Maybe they're --

MR. DUBOW: They don't do assessments.

COUNCILMAN HENON: Okay.

MR. DUBOW: They --

COUNCILMAN HENON: They are --

MR. DUBOW: Collecting data on properties.

COUNCILMAN HENON: They are collecting their data to bring it up to 2012 technology, all right, so we can have a single point of data in their own respective department.

MR. DUBOW: Right.

COUNCILMAN HENON: I think that's what

they're doing.

You, the Department of --

MR. DUBOW: The Office of Property Data.

COUNCILMAN HENON: The Office of Property Data is a little more -- is a lot more comprehensive, I would imagine, so what I'm asking for is if you could provide a list of the departments that you are currently dealing with so we know, and what types of data sets and assessments and property data gathering that you are doing, performing right now.

MR. DUBOW: We can provide that.

The one -- yes, we can provide that. (Inaudible) having us use the word assessment, but I think I understand.

COUNCILMAN HENON: I know. Listen, I don't want to confuse it, because you're going to have a rough day ahead of you here with that, so, just your --

MR. DUBOW: What do you mean?

COUNCILMAN HENON: Your evaluation.

MR. DUBOW: Yes. Got it.

COUNCILMAN HENON: And what is or what

are the desired outcomes and goals that we're trying to accomplish and what's the timeline on this?

MR. DUBOW: In their response?

COUNCILMAN HENON: In their response, yes.

MR. DUBOW: Yes, we can put that all together.

COUNCILMAN HENON: Now, I have one last question, it's regarding risk management. Is that another time today or should I ask that question now?

MR. DUBOW: No, that's fine, it's right now.

COUNCILMAN HENON: All right. Can you tell me with regards to Risk Management how many claims and clients Risk Management currently has, or you can provide this to the Chair.

MR. DUBOW: Okay, yes.

COUNCILMAN HENON: But I am looking for the amount of claims and clients that they have. I am looking for, if you could tell me, the settlement rate --

MR. DUBOW: Yes.

COUNCILMAN HENON: -- that they have.

Now, it's my belief that Risk Management has been a reputable insurance agency for many years. Has there been improvements over the last four years in their settlements and third-party insurers or subrogation?

MR. DUBOW: And you want all that in a response.

COUNCILMAN HENON: And I want that, yeah, over the last three years just if you could just compile that data and provide it to the Chair.

MR. DUBOW: Yes.

COUNCILMAN HENON: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Green.

COUNCILMAN GREEN: Thank you, Mr. Chair.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN GREEN: I have some general questions, but while the new Office of Property Data is there I just have a quick follow-up question.

During the testimony of the Records Commissioner yesterday she said that basically they've worked with this new office to take the data that they have in their databases and sort of transfer it over and keep it up to date. And I'm wondering if there's -- how this is working. Is there one database that has the property that the Office of Public Property Data is adding fields to that would not be in the records department, but that if you have access you can see those fields, if you don't, you don't, or are we keeping two separate databases that have to be separately updated because, you know, we haven't --

MR. DUBOW: And I think in the end you would want one database. I don't think that database exists yet, that's what we want to move towards.

COUNCILMAN GREEN: So, will the database created by this organization be the official database of records? Will records still have its own database?

In other words, if you're starting with a core set of data in somebody's database, you want to add in that database so that you're not creating two sets of data that could end up being different over time.

MR. DUBOW: Right. And the problem now is just that, that we have not two, but multiple different data sets that are in --

COUNCILMAN GREEN: Well, you're starting with a core set of data.

MR. DUBOW: So, in the end you'd want them integrated so that there'd be one set of data.

COUNCILMAN GREEN: So, what will be the master database with unique identifiers associated with property and business licenses in the City? Will it be in this entity? Will it be somewhere else?

MR. DUBOW: Yeah, I think most likely it would be in this entity in the end, but I think that's part of what the office is going to determine as it goes through this process where that should reside.

COUNCILMAN GREEN: So, right now this entity is an aggregator of disparate data from departments putting it in a separate database --

MR. DUBOW: It has got to do more than that. There's not -- it's not like everyone has reliable data separately and we're just putting it together. I think part of what they have to do is make sure that we have accurate data and that the way we go about compiling data is done in a more efficient way and that the integration and coordination is better than kind of with the system we have now where everybody is doing their own thing.

COUNCILMAN GREEN: Sure. This is something though as we roll out technology should take care of itself in the sense that every -- if every form has a field, every field has a requirement to go into one central database based on your access, you can see all of it, some of it, what is relevant to your department, et cetera, rather than having separate databases, we need one database with different access levels and permissions. And, so, I'm just --

MR. DUBOW: And it's not just technology. It's technology and your work processes and making sure that people have kind of consistent approaches to data and how we collect it.

COUNCILMAN GREEN: And that's within the departments, though, isn't it? I mean, you got to change the workflow process in a department in order to get reliable data from that department.

MR. DUBOW: That's right, and that's part of what the office will be doing.

COUNCILMAN GREEN: How does this combine with the other efforts where they're looking at work -- I mean, there are other efforts undertaken, for example, in Procurement. They're hiring a business analyst to look at just the issue of work flow processes and what technology they can implement. It seems to me like there is other efforts I am aware of in government, you and I are both aware of, that are sort of doing the similar things --

MR. DUBOW: Yeah, I think that this --

COUNCILMAN GREEN: I'm not sure I understand this, but I don't want to spend a whole lot of time on it. I'm sure you're doing it because you think it's a good thing and so maybe we can talk off-line about this.

MR. DUBOW: Okay. That's fine.

COUNCILMAN GREEN: Okay. Can you give me an update on the AVI related information requests from last week's hearings that we made?

MR. DUBOW: Yeah, I think there were -- you asked for some opinions from Council and they're working on those. You asked for the split between commercial and residential and we actually have that answer, we're just putting it together, it's about 56/43.

COUNCILMAN GREEN: Today?

MR. DUBOW: 56 residential, 43 commercial.

COUNCILMAN GREEN: Today?

MR. DUBOW: Right. We don't know where it will be afterwards and so we're kind of putting together responses to all the stuff that you asked for.

COUNCILMAN GREEN: Okay. Thank you, Mr. Dubow. I will come back.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Mr. President.

Good morning.

MR. DUBOW: Good morning.

COUNCILWOMAN BROWN: First, let me thank you for honoring the request of a couple of Council Members to provide a compositional breakdown of your department.

MR. DUBOW: Sure.

COUNCILWOMAN BROWN: And to know how much we appreciate that.

Are there any positions in your department that are grant funded or are they all civil service?

MR. DUBOW: Oh, are there, you mean, exempt positions?

COUNCILWOMAN BROWN: Yes.

MR. DUBOW: Yes, we have exempt positions.

COUNCILWOMAN BROWN: Just state what they are, if you will.

MR. DUBOW: So, we have a number of deputy finance directors. We have assistants to the finance directors, those are exempt positions, so my position is exempt. The heads of the various offices are all exempt other than the head of accounting I think. I think all the other heads of offices are exempt.

COUNCILWOMAN BROWN: Okay. The one contract that simple strikes my interest, and this may have been covered, the ACS State & Local Solutions.

MR. DUBOW: Yes, we did talk about that a little before.

COUNCILWOMAN BROWN: Are they local? I'm curious.

MS. PASTER: I believe -- I'm sorry.

This is Cathy Paster. I'm First Deputy Finance Director.

We are actually still looking at the -- right now the information says no, and I think that ACS is not, we do have some numbers on how many employees they have in the City, but they were recently bought out by Xerox so we were kind of trying to check to see how they fit in that category or not. So, that's where we stand with that right now.

COUNCILWOMAN BROWN: Then it would be difficult to answer the question do they employ local citizens, Philadelphians.

MS. PASTER: I think they have -- right. For ACS they have approximately I think 75, is that the right number, 75 employees in the City. I don't know how many Xerox has, so it gets rather large to try to figure that one out.

COUNCILWOMAN BROWN: Okay. And can you speak to how much they have collected on behalf of the City each year that they've had the contract? Have they met the prescribed or agreed upon expectations?

MS. PASTER: Yes, they have. And we did go through that a little bit. I think last year they collected about $11.3 million.

COUNCILWOMAN BROWN: When is the next

time this RFP will be released?

MR. DUBOW: We actually just re-did the contract in July of '09, so I guess it will be '13, in July '13.

COUNCILWOMAN BROWN: So, it's a four year --

MR. DUBOW: It's one year with extensions. And because we're happy with the job they're doing, we've been giving them the extensions. So next year, next July.

COUNCILWOMAN BROWN: All right then. And then lastly could the OEO Director please come back to the witness table.

(Witness approached).

COUNCILWOMAN BROWN: Good morning.

MS. DOWD-BURTON: Good morning.

COUNCILWOMAN BROWN: I did not fully hear your answer to Councilman Oh's question with regards to how the City works with law firms and what procedures or steps you go through to ensure that women and/or people of color in law firms get opportunity.

MS. DOWD-BURTON: I said one of the things we're doing for this year is looking at how we can acknowledge the partners in law firms that manage the City's account, they are billable partners, so they would get credit for bringing that business to that firm, so we're looking at how we can track those dollars, acknowledge the law firm, and report them in our report.

COUNCILWOMAN BROWN: And you're starting that effective?

MS. DOWD-BURTON: We're looking at that for fiscal year '12, so it would be this fiscal year and we're looking at how we can track those dollars.

COUNCILWOMAN BROWN: What was the trigger to do that?

MS. DOWD-BURTON: Well, talking with the law department, chief counsel, and acknowledging the fact that we do have a major law firm that has a partner who is managing our account. And so the question was how can we count or at least give credit to that firm for the dollars because the partner basically acts as an enterprise within that organization.

COUNCILWOMAN BROWN: Okay then.

MS. DOWD-BURTON: So, we're looking at that opportunity for not only law firms, but accounting firms, financial firms --

COUNCILWOMAN BROWN: Auditing firms.

MS. DOWD-BURTON: -- and other professional organizations that have minority and women in leadership roles.

COUNCILWOMAN BROWN: Okay then. Thank you very much.

MS. DOWD-BURTON: You're welcome.

COUNCILWOMAN BROWN: Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Mr. President.

Relative to the recent tax reform measures that passed in Council last year, have you done analysis as the impact on both the -- I guess the BIRT now and wage tax and other taxes? Are we going to factor that in between now and 2017? Because it shows in BRIT, for example, a steady two-and-a-half percent growth over those years. Have we figured out whether or not that takes a hit, the wage goes up? I mean, are we able to predict that or not?

MR. DUBOW: I don't think we specifically looked at whether those -- we didn't ascribe any additional growth in our tax projections to those bills.

COUNCILMAN KENNEY: Okay.

MR. DUBOW: I mean, we're hoping they produce extra growth and our consultants look at a whole variety of factors, but, you know, I don't think --

COUNCILMAN KENNEY: But it would seem that the BIRT would perhaps be impacted negatively while the wage tax may be impacted positively.

MR. DUBOW: Well, let me say, so we did make the change in revenues from just the modifications to the BIRT and the licenses, and so there was an impact there, about $80 million, but we didn't put any supply side affect in, if that answered your question.

COUNCILMAN KENNEY: Okay. Also, what

is the City doing to promulgate the information relative to the two tax reforms? I mean, how are we packaging that to outside firms or outside companies that may not know about it and may want to relocate here as a result of knowing about it?

MR. DUBOW: Yeah, I think both Revenue through its newsletter and Commerce through outreach it does have been telling people about the changes and trying to --

COUNCILMAN KENNEY: Do Revenue's newsletter go out to anyone other than the people they collect taxes from now?

MR. DUBOW: It goes out to practitioners. So, it would go out to accountants, for example, who would have clients so they would let their clients know. So, yeah, it gets -- it's not just taxpayers.

COUNCILMAN KENNEY: So, within the region and within New Jersey and Delaware or?

MR. DUBOW: Yeah.

COUNCILMAN KENNEY: Okay. Overall when you're doing your projections for both the year coming budget and the other four years in the plan, how do you settle on your revenue numbers? What method do you go through to determine in every category of revenue what you expect and how do you -- I mean, is it science, is it art, is it a combination of both?

MR. DUBOW: Yes, yes. On the tax revenues we have our outside consultant who, you know, does their projections and then there is a meeting with local economists and they kind of give feedback on what they think the -- what they think of those projections. And then there is a little bit of kind of looking at history, so it's a combination of a variety of factors.

COUNCILMAN KENNEY: All right. Thank you.

Thanks, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Jones.

COUNCILMAN JONES: Thank you, Mr. President.

On page 56 of your budget detail,

Class 200, Office of Property Data, you have a TBD Data Architect Consultant and GSI Database Consultant.  First contract is for $95,000, the second contract seems to be for $65,000.

MR. DUBOW:  Right.

COUNCILMAN JONES:  Can you give me some detail on who they are and what actually they do?

MR. DUBOW:  Sure.  We don't know who they are yet, I mean, because we'll go through a competitive process to figure out what they are.

COUNCILMAN JONES:  So, what is the --

MR. DUBOW:  Yeah, so, Kathy is going to --

MS. PASTER:  So, right, like you say, we don't know who they are, there will be a process, but a large part of what they'll do is, and I think this was talked about a little bit in terms of the data and the standards around that data, and so when there is a system that these people, the architect, the architect will -- the data architect, I am sorry, will handle kind of the data side so we kind of would help layout what kind of structure the system would have for the data and what kind of protocols people will have to follow and that they're standard and consistent across all the City departments so that we don't have the inconsistencies we have now, and the GIS Consultant --

COUNCILMAN JONES: When you speak of inconsistencies, what does that mean?

MS. PASTER: People may have a different address for the same property in some cases. They may have inconsistencies about whether, you know, it's a residential property or a different type of property. They may actually use a different way to address the property. They may start like with a, you know, this is 2013 B, you know, and a street whereas another department puts it in the system as B2013 which sounds like simple things, but then when that kind of thing happens we can't match the data in the system. So, those kind of things. So, that's what I mean by on the data side and the consistencies and the standards that everybody has to follow.

And then the GIS database consultant would do something similar but more related to the kind of geographic information, the GIS, what they call parcel layers and kind of pictures of the properties.

Councilman JONES: We did a project out in West Philadelphia from 63rd Street to 69th Street looking at potential site assembly for a development, mixed use development we wanted to do, and one of the kind of challenges, and often probably for District Council people, is we had to access two databases to reconcile one property. Does this contract address that?

MS. PASTER: This will help -- yes, it does. This will help -- this is kind of someone who helps in the planning stage to get to the system that will address those problems that you're discussing, yes.

COUNCILMAN JONES: And will all citizens have access to this or will members of government and members of Council have access? Where will this information -- what are the levels of access?

MS. PASTER: I'm not sure that we have the answer to that yet. I think that could be discussed as we go through the process and determine kind of what it looks like and how access gets controlled or, you know, certainly there is some information that's already available to the public in terms of, you know, property data, but we can figure that out.

MR. DUBOW: And, obviously, I mean, we would like to make the information as public as possible.

MS. PASTER: Yes.

COUNCILMAN JONES: When the Council President explores, again, the issue of development districts, and as he's trying to make Philadelphia user friendly for development, some people even believe we may be seeing the beginnings of the end of the recession. So, the idea there is build baby build, but we want to take away the impediments for potential developers. The Site Assembly acknowledged about that is an expensive process, and if they have choices, Montgomery County, Delaware County, other counties, then

Philadelphia County in order to be competitive with them has to be able to provide that information in a timely fashion so that we can get things built, shovels in the ground, and taxes paid.

MR. DUBOW: We agree.

COUNCILMAN JONES: Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Chair recognizes Council Member Green.

COUNCILMAN GREEN: Thank you, Mr. President.

I think the other information that we're looking for is Global Insights report.

MR. DUBOW: On projections, we'll get you that.

COUNCILMAN GREEN: And I am going to follow-up with OPA on the questions I asked about that stuff.

Are you going to be here for that testimony or?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay. Excellent.

MR. DUBOW: I have no choice. That was a moment indecision.

COUNCILMAN GREEN: I could ask the question twice.

It looks like several city-wide business application initiatives identified by OIT would fall in the finances area.

MR. DUBOW: Yes.

COUNCILMAN GREEN: Including the cashiering system and the Admin Modernization Phase III Financial Data Warehouse System.

I know you've talked about this. Can you detail which of the prioritized projects fall within your oversight?

MR. DUBOW: Sure. So, there's Cashiering and Revenue Modernization, which are both in Revenue. There is the CAMA/OPD System, which is the Office of Property Data and the Office of Property Assessment, and then there's the Legacy Modernization which includes a number of finance-related income processes.

COUNCILMAN GREEN: So, will these change the work flow practices in these areas?

MR. DUBOW: They will.

COUNCILMAN GREEN: Have you done an analysis of how that will result in savings or the ability to have people perform other functions?

MR. DUBOW: We are actually in the process of doing that for the various investments.

COUNCILMAN GREEN: Okay. What is the time frame for completion?

MR. DUBOW: It varies by project. We can -- I mean, for each one it's going to be different.

COUNCILMAN GREEN: You testified that these systems would yield additional or increased revenue collections.

MR. DUBOW: Through revenue modernization, yes, we believe it will.

COUNCILMAN GREEN: And, so, does the five-year plan revenue assumption take any of this into account?

MR. DUBOW: No, because we don't have good projections for what that will mean yet.

COUNCILMAN GREEN: But you intend -- when will you have good projections?

MR. DUBOW: As we get through the planning process. So, we're -- I mean, I think we're months away on each one of these.

COUNCILMAN GREEN: Okay. Contract spending, do you have any unencumbered Class 200 professional services contract funds for FY12?

MR. DUBOW: We do have -- we do. We have about 330,000 unencumbered.

COUNCILMAN GREEN: Do you expect to encumber all of that?

MR. DUBOW: We expect to encumber most of it, yes.

COUNCILMAN GREEN: Okay. So, we'll just ask you to provide a list of that to the Chair as with all the other departments.

MR. DUBOW: Yes.

COUNCILMAN GREEN: Thank you, Mr. Chair.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Any other questions of these witnesses?

(No response).

COUNCIL PRESIDENT CLARKE: He's teeing up for the next witness I see. There being none, thank you very much for your testimony.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT CLARKE: We will now ask the Office of Property.

Ready, sir? Good morning. Please proceed.

MR. MCKEITHEN: Good morning President and Members of City Council. I am Richie McKeithen, Chief Assessment Officer for the Office of Property Assessment also known as OPA. Here with me today are four members of my senior management team. They are Michael Piper, Real Property Assistant Administrator; Jean Machiz, Real Property Assistant Administrator; Veronica Daniel, Administrative Service Director, and Larry Saltzman, Director of Information Technology for OPA.

We are here to testify on the proposed 2013 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 providing a response to real property tax appeal cases, applying real property tax exemptions, and administering the Real Property Tax Abatement Program.

There are 579,383 parcels of real property in the City of Philadelphia. These parcels include residential, condominium, multi-family, large apartment complexes, retail, hospitality, office, industrial, warehouse, hospital, government (City, State and Federal), religious, exempt and non-exempt property uses.

For fiscal year 2013 we are requesting from Council a general fund budgetary allowance of $11,714,752.

Class 100 Employee Compensation, et cetera, is 218 full-time positions. Class 200, Professional Service, and Class 300 and Class 400 supplies and equipment for a total of 11,714,752. This is a $2.6 million increase over fiscal year '12 estimated obligations of $9,105,882. The increase is for full funding of 218 budgeted positions and for additional property assessment consultant services. The OPA's disadvantaged business participation, also known as DBE, rate for fiscal year 2011 was 33 percent. The Department expects 28 percent participation for fiscal year 2012. During fiscal year 2013 the OPA anticipates that it will require contractual services for the full value reassessment project, which includes sketching, measuring, et cetera. Vendor availability is not yet known at this time, however, OPA will continue to work with the Office of Economic Opportunity to best meet the opportunities available and fully support the Administration's 25 percent goal.

The Office of Property Assessment continues to strive to reach its goal of valuing all real property parcels throughout the City of Philadelphia in a fair and equitable manner and at 100 percent of fair market value.

In order to reach this goal, OPA has conducted the following steps:

Step one, researched numerous real property sale transactions that have occurred over the last few years in an attempt to estimate the direction and pace of the real estate market.

Step two, conducted field inspections in over 75 percent of the residential parcels throughout the City to obtain vital information such as property condition, size, and current use.

Step three, reviewed thousands of permits from the Department of License and Inspection that have been taken out by property owners.

Additionally, requests for income and expense data which only captures the income stream relating to the real property have been mailed to property owners of various hotels, office buildings, multi-family complexes, strip malls, 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 is requesting will allow the department to ensure that it reaches it goal of fair and equitable assessments that represent true market value using methodologies that follow industry standards.

Thank you for your consideration. I'm available to answer any questions that you have today.

COUNCIL PRESIDENT CLARKE: Thank you so much for your testimony.

Mr. McKeithen, are you enjoying your stay here in Philadelphia?

MR. MCKEITHEN: Yes, sir, I am.

COUNCIL PRESIDENT CLARKE: All right. Good answer.

A couple of questions.

Mr. McKeithen, if you're aware, low income housing tax credits were made available to promote affordable housing in the City of Philadelphia and all throughout the nation. And given the funding source for that housing and the controls relating to cost associated with rents, it's essentially rent controlled housing so it basically flattens out value because you can only charge so much over a period of time, in most cases 15 years during the term of the tax credit, in prior years when we've been dealing with tax credit deals we've had to negotiate on a case by case basis with the City of Philadelphia and the developer to determine the value of the property and we had this kind of informal understanding with the prior individual in the comparable position, it was a different name then, and I think we may have sent you a couple of emails from Mr. Wetzel from my staff.

MR. MCKEITHEN: Right.

COUNCIL PRESIDENT CLARKE: Is your office prepared to formalize that process so we don't have to every time a tax credit bill comes up we have to have this issue?

MR. MCKEITHEN: Yes, sir.

We talked to Herb Wetzel.

COUNCIL PRESIDENT CLARKE: Yes.

MR. MCKEITHEN: And we actually had a meeting with Mr. Wetzel and we came to the conclusion that the best way to look at these properties is through an income type of approach.

What we're going to do, right now

we're in the process of gathering up all of the properties that we want to request income expense data from property owners that we're going to look at that valuation approach to value their property, and so what we were going to do is take the list that we had and compare it, we are going to ask, we had spoken with Mr. Wetzel, and he was going to give us a list of properties that he knew that were in this situation and cross reference them and then send out requests for property owners to send us the information so we can value their property accordingly.

COUNCIL PRESIDENT CLARKE: On an individual basis per property or income restrictions as it relates to the rent paid by the occupant?

MR. MCKEITHEN: Right. The rent paid by the occupant will be totaled up and including the income and expense form just for the real property. So, the property owner will not send us anything that's outside the realm of what they're getting for rents and things like that and then we'll take all that into consideration and value the properties accordingly because there are some circumstances which are different from a typical income producing property that those properties suffer with, so.

COUNCIL PRESIDENT CLARKE: Okay. All right, okay. Yeah, because they're pretty -- the rent requirements are consistent, so I would anticipate it would be easier to do the analysis --

MR. MCKEITHEN: Exactly.

COUNCIL PRESIDENT CLARKE: -- versus every individual.

MR. MCKEITHEN: The difficult part about it, and Herb is going to work with us on this, is that all the property owners have to understand that they have to give us the information for us to be able to properly value.

COUNCIL PRESIDENT CLARKE: Will that happen relatively soon?

MR. MCKEITHEN: Yeah, we're looking at May and then getting them back by June.

COUNCIL PRESIDENT CLARKE: Okay,

because we have some announcements for tax credit deals coming down the pike real soon and applications maybe a month or two later for new credit deals, so we want to make sure that we have that inflow, please.

MR. MCKEITHEN: Yes, sir, I'll make sure you get it.

COUNCIL PRESIDENT CLARKE: Thank you so much.

In your testimony you stated that 75 percent, thereabouts, the field inspections are completed.

MR. MCKEITHEN: Right.

COUNCIL PRESIDENT CLARKE: What type of data is currently available for analysis.

MR. MCKEITHEN: Right now we're just collecting characteristic, data on characteristics, like condition of a property, verifying some square footage, making sure we have the proper address or the address of record, looking at things that would add value to the property.

So, what you would see right now in our database are things like if a property has a garage we want to record that. If a property is in excellent condition and looks like it has been remodeled, we want to record that. If a property is actually smaller than what we have on our records by a great deal, we want to record that. That's all we would have right now.

COUNCIL PRESIDENT CLARKE: Right now.

MR. MCKEITHEN: Yeah.

COUNCIL PRESIDENT CLARKE: When will the additional 25 percent be complete?

MR. MCKEITHEN: My deadline date for that is by June 1st.

COUNCIL PRESIDENT CLARKE: Okay. The information you have now, is it done by ZIP code or Council district, if we were to ask for information just to get a sense of the characteristics as you say?

MR. MCKEITHEN: We have it by GMA, which is geographical mapping area, which is similar to a neighborhood. GMAs are little districts that we see typical market activity and so we have it broken down by that.

COUNCIL PRESIDENT CLARKE: And we can

kind of understand by neighborhood? You said by neighborhood.

MR. MCKEITHEN: Yeah, GMAs might straddle a typical neighborhood. Like, for example, Mt. Airy might be composed of several GMAs. Chestnut Hill definitely might make up several GMAs, but GMAs are things that make it easier for us to define market value and give things credit where they deserve and things of that value.

COUNCIL PRESIDENT CLARKE: When do you anticipate you'll start getting actual numbers?

MR. MCKEITHEN: I am looking at starting to run actual numbers by May, mid May on the GMAs that we have completed. After we finish completing a GMA with field inspections we want to look at some boundary things and make sure the boundaries are as accurate as possible and then from that point in time we start running models. So, by mid May I am looking at having some information to share with Mr. Dubow about what we're finding out there.

COUNCIL PRESIDENT CLARKE: So, mid

May, that would be around the time that we normally wrap up our budget process.

Is there any way we can get snap shots of that particular phase of your analysis prior to mid may, because, as you know --

MR. MCKEITHEN: I know.

COUNCIL PRESIDENT CLARKE: I know you're not in a vacuum that there is a significant concern about wrapping up this process from the Council perspective without having a real sense of the actual values and what we'll ultimately be voting on in the budget process.

MR. MCKEITHEN: We're moving as swiftly as we can. I don't want to commit to you and then not be able to deliver. Every week, every two weeks, I give my progress to Mr. Dubow. I would be able to say for certain if there weren't more things we weren't finding every step of the way that, you know, we need to actually take time and correct data and things like that, so as we continue to progress, I'm working as fast as I possibly can, I will give you what I have as early as possible, but I can't say for sure right now as of today.

COUNCIL PRESIDENT CLARKE: All right. I appreciate your not wanting to commit to a date that you're not sure that you can meet. I can respect that.

In the budget details, you budget $1 million for property assessment consulting services. What is the purpose of that?

MR. MCKEITHEN: Right. Part of the valuation process is to get as accurate a square footage on the property as you can and it's not always as simple for some of our more difficult properties to measure. Some of our properties are freestanding single family residential properties that have a lot of curvaceous angles and things like that. So, when we started going out in the field and we started doing the fieldwork, I polled my evaluators on their comfort level with measuring some of these type of properties, and so the overwhelming response was, you know, I saw that I needed to get some more expertise in measuring some of those properties, and so that's what that money is for. There is an RFP that will be released for appraisal firms that do this type of work to come in and measure these properties and make sure that we got them nailed down.

COUNCIL PRESIDENT CLARKE: The RP is out now or will be out soon?

MR. MCKEITHEN: No, it will be released. We're putting some finishing touches on.

COUNCIL PRESIDENT CLARKE: Okay.

COUNCILMAN GREEN: Point of information.

COUNCIL PRESIDENT CLARKE: Okay, Councilman.

Councilman Green.

COUNCILMAN GREEN: What do you mean by measure, that's my only question?

MR. MCKEITHEN: Pull a tape, take a tape measure and measure around the exterior of a property and subtract for any overhangs and areas that aren't finished square footage.

COUNCILMAN GREEN: And that's the sole function that's being performed by this outside --

MR. MCKEITHEN: Well, this company will not only do that, but they'll provide a sketch of the particular parcel and that sketch will have the square footage and a design of the property.

COUNCILMAN GREEN: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman Green.

Chair recognizes --

(Off the record).

Councilman, would you like to continue, we seem to have --

COUNCILMAN GREEN: Thank you.

Point of information moved me to the bottom when I was at the top.

I appreciate your keeping an eye on that.

I want you to do something which I think it will be very hard for someone from the Administration to do and imagine I know nothing, so I would like to walk through a day in the life of an assessor.

I would like to get a better

understanding of how OPA is determining property values. So, could you describe just in your own words the day in the life of the various different levels of employees that you have and what they do in order to get us to where we're going.

MR. MCKEITHEN: All right. That might take some time, but I'll start off with the evaluators and work my way from there.

An evaluator is an individual that is charged with valuing a real property throughout the City of Philadelphia, and we have them broken down into various units. An evaluator for a commercial maybe different from an evaluator for residential, but effectively a residential evaluator will come into work, report in on a day that's not a field day, report to their supervisor. One of my biggest charges is that they return phone calls and things like that, emails. So, they'll check their technology for any phone calls and any emails or any correspondence from a taxpayer. They'll look at any inquiries they may have outstanding to get back to a taxpayer, handle a question, and then they'll dive into the actual evaluation part of the work.

As I mentioned before, GMAs are areas that we distinctly have as many neighborhoods and give all types of information on what properties should be, distinct characteristics of what properties should be grouped together, and so an evaluator will take the GMA that they're working on and they will look to see where they are. Right now we're doing field inspections, so everything is about collecting characteristics. So, if they went out the previous day, they will look to enter the characteristics that they have collected from the field into our system.

Part of the process is that we have to have all the characteristics and information loaded into the system so it will matter, so it will count, and so that might be what an evaluator residentially does for the better part of their day.

If they have a field day, they will go out to the field, they'll take the GMA, the GMAs are in binders and so they will start on a particular street.

COUNCILMAN GREEN: So, sir, before we get to the field day, in the office day, when you say they look at information about their GMA, what are they looking at? Are they looking at a computer database? What data did they start with? Is it the data that the BRT produced and made available in 2008? Is it different, that was in the CAMA System, is it different data? So, like what are they -- what does that mean?

MR. MCKEITHEN: Okay. They're looking at several different types of databases. We have Trend, which is commonly known as the multiple listing service, so it depends on what they're doing. If they're looking at sales, they're going to go log into Trend and they'll see what sold in their particular GMA.

COUNCILMAN GREEN: But I mean what were they assigned to do? What is expected of them when they're not in the field that day?

MR. MCKEITHEN: All of the evaluators are assigned GMAs. So, what is expected of them is that they, one, come into work and check their email and things like that and return phone calls.

COUNCILMAN GREEN: Yeah, not that part, the other part.

MR. MCKEITHEN: Two, report into their supervisor to see if anything specific --

COUNCILMAN GREEN: Not that, we're talking about what they do when they set up their desk

MR. MCKEITHEN: Okay, three, they log into one of several systems, one being VSAM, which is a system that we currently use. Evalassist, which is another system we currently use. Trend, which is another. We have several different databases that they may log into to set up their work station to begin working.

COUNCILMAN GREEN: But what does begin working mean? Do they randomly choose properties to look at? Are they assigned properties to look at? Are they given a list of properties to look at and evaluate by a supervisor? How do they determine what to look at?

MR. MCKEITHEN: They are all assigned GMAs and they are working on one particular GMA at a time, so they're going to pick up with that GMA where they left off.

COUNCILMAN GREEN: So, they're going through every property in a GMA by block, by value?

MR. MCKEITHEN: By block.

COUNCILMAN GREEN: In what order are they assigned those properties by the --

MR. MCKEITHEN: The GMAs are --

COUNCILMAN GREEN: -- or do they make that up themselves?

MR. MCKEITHEN: No, they don't make up anything themselves.

The GMAs are broken down into blocks. They're in binders, typical, similar to the binder that the young lady has before her right there, and they are organized into blocks and they are going to go down each property that they had seen the day before and may have jotted down information.

They have field sheets that they have collected information on and they're going to make sure that that information is entered into the system.

COUNCILMAN GREEN: Do you have a copy of the field sheet?

MR. MCKEITHEN: I can get you one.

COUNCILMAN GREEN: If you could have someone bring it over, I will come back and we'll pick this up.

Thank you, Mr. Chair.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman Green.

We will now recognize Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Mr. Chairman.

Good afternoon, everybody.

I just want, Mr. McKeithen, first I want to follow-up on one of the answers to Council President Clarke's questions on this whole timeline thing.

I know you said you have certain information ready by a certain time. I guess my question is when, just so I am clear, will you have samples available that you can give us from different parts of the city so we can kind of get a general idea about where this is going?

MR. MCKEITHEN: Right. As I was alluding to, I don't want to commit to that. I won't have anything -- I can't imagine having anything until May, some time in May, and that depends on what happens today. Every day I come into work I oftentimes run into roadblocks, so, you know, it's hard to commit to anything.

COUNCILMAN GREENLEE: Yeah, I think Mr. Dubow --

MR. DUBOW: I want to add one thing. What we will try to put together for you is an analysis that shows average assessed values and market values now in neighborhoods and how that compares to sale prices. That won't be exactly what happens with assessments, but it can give you some general idea of where things are.

COUNCILMAN GREENLEE: I'm sorry. Say that one more time just so I'm clear.

MR. DUBOW: So, you get average market value now in GMA and then average sale price, so when the assessment process is done the assessed value will be closer to where the sale price is.  It won't be exact because there are other factors, but that at least will give you a sense of where things are headed.

COUNCILMAN GREENLEE:  Okay.  And when are you saying that could be?

MR. DUBOW:  I think we said we'd have that within a couple of weeks, so.

COUNCILMAN GREENLEE:  A couple of weeks.

MR. DUBOW:  Yeah.

COUNCILMAN GREENLEE:  I guess that's helpful.  I guess I would have to see it to understand what you're saying.

MR. DUBOW:  Yeah, we'll walk you through why we think it's helpful.

COUNCILMAN GREENLEE:  No, I appreciate that.

And as far as, Mr. McKeithen, about what you just said every day something else comes up, this whole problem with the Steb ruling, and I understand now that you're going to have some of your people out there, am I right, to say kind of checking out the appeals that are presently out there; is that right?

MR. MCKEITHEN: Well, we had approximately 2,000 appeals, and so a lot of those appeals have been heard already and so we have to work with the Board to see -- because we now have a new ruling on the CLR -- exactly how they're going to handle possibly rehearing, how they're going to deal with the cases that have been heard already.

COUNCILMAN GREENLEE: The reason I bring that up, again, talking about timeline, does that then push -- because I know you were saying, I am sorry to interrupt, but I think the last I heard as far as having the property values for next year should be somewhere you said October?

MR. MCKEITHEN: Right. We want to have notices out before October 1.

COUNCILMAN GREENLEE: Okay. And how does this affect that, this whole Steb issue affect that?

MR. MCKEITHEN: Everything that occurs is a possible risk to us being pushed back because the same people that do the appeals are the same people that do the fieldwork.

COUNCILMAN GREENLEE: That's what I mean, yeah.

And the reason I bring it up because usually the notices go out late August, right, I mean that's usually the way it works, right? And you have to appeal by the first Monday of October, right?

MR. MCKEITHEN: Right.

COUNCILMAN GREENLEE: So, everything obviously is getting pushed back, if my math is right, at least about six weeks or so, right?

MR. MCKEITHEN: Right.

COUNCILMAN GREENLEE: And wouldn't you expect, is it fair to say, you're going to get more appeals this time than normally because of such a difference?

MR. MCKEITHEN: I am quite sure we will.

COUNCILMAN GREENLEE: Right. So, again, not to belabor the point, but that timeline, given that the bills have to come out in what, December, it sounds awful problematic.

MR. MCKEITHEN: Well, we've worked out something with the Revenue Department, Mr. Dubow can speak to that, but the bills will be sent out during their normal time period as far as I've been advised so far, so.

COUNCILMAN GREENLEE: All right. And I understand there will be some --

MR. MCKEITHEN: If someone has --

COUNCILMAN GREENLEE: -- consideration given on the amount of appeals they'll be.

MR. MCKEITHEN: If someone has an appeal when this appeal has been settled the taxpayer will get an adjustment one way or another on a bill.

COUNCILMAN GREENLEE: Okay. And do you have any general idea about the number of appeals? I mean, have you given any thought of an estimate of that?

MR. MCKEITHEN: Well, seeing how we have never done a reassessment in the City of Philadelphia, especially of this magnitude, that's kind of hard to judge. I don't have any real historical data that even matches up to what we're doing.

COUNCILMAN GREENLEE: I didn't know if you somehow thought of an estimate about how much it might be. I know it's hard, I understand. I am just wondering if you thought about that.

MR. MCKEITHEN: Yeah, I mean, I'm hoping that it will stay reasonable within industry, you know, standards of some degree, but --

COUNCILMAN GREENLEE: I like your optimism.

MR. MCKEITHEN: I can't say because we've never done, I have nothing historically to go by.

COUNCILMAN GREENLEE: Okay. I hear you. I'll come back.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you.

Chair -- you know what, real quick, before I go to the next member.

I want to ask a question about other municipalities that have gone to this system, actual value major overhaul of the taxing system, and a member or two have referenced other locations where this has happened and there was major responses from the constituency.

Are you familiar with this having been done in any other city in the recent past and the impact on a comparable city or larger urban city?

MR. MCKEITHEN: I haven't seen a case where, recently where, we're going not just actual value, but full blown reassessment of doing that and actual value. I haven't seen many cases, if all of that.

We have looked for cases where people that have gone to actual value and they have done it so long ago that it's somewhat hard to even compare. I know Washington, DC went to actual value back in the late '70's when they got home rule. You just don't have a lot of empirical data to crunch to get an idea.

I can tell you based off of talking to a lot of your constituents throughout the city as I do town hall meets and things like that, that, you know, there's more of a fear of what people will pay versus what their assessed value is and what it will be because a lot of people know that they're assessed value in a lot of areas are somewhat low; however, everything that I've gotten back as far as questions have been what am I going to pay and that sort of thing which Mr. Dubow and his team handle.

COUNCIL PRESIDENT CLARKE: So, because you've been unable, and I don't know if that has been the mission to determine if any other places, you just may know from an historical perspective being in the industry, I guess that there has been no analysis done in terms of what the impact might be on the City of Philadelphia --

MR. MCKEITHEN: We're looking right now --

COUNCIL PRESIDENT CLARKE: -- in terms of the response.

MR. MCKEITHEN: -- to try to get more of that information. I know we're looking at Allegheny County.

COUNCIL PRESIDENT CLARKE: If I didn't bring it up, Councilman Kenney was going to bring it up.

MR. MCKEITHEN: I know we're looking at Allegheny County and we're crunching some of the information that they've given us, but we haven't come to any conclusions as of yet, so.

COUNCIL PRESIDENT CLARKE: All right. Okay. All right. I'll be interested to know that.

The Chair recognizes Council Member Oh.

COUNCILMAN OH: Thank you very much, Mr. President.

We discussed this before, but I would like to get your comments in terms of, you know, my concern which I would like to state again and see how you will respond to it at this time. It may not change.

I think there are two things that are of concern to me and many of the people that I speak with. One is that there have been statements made prior to this entire process coming to a conclusion as to the amount of money that is anticipated to be forthcoming in next year's taxes, real estate taxes, coupled with the fact that we went through a real estate bubble in the city, as did much of the country, that was followed by a dramatic drop in the economy that I think is somewhat particular.  And I think the concern is that, you know, people have a piece of property that they have done no additions to, that they have not invested money in any way to make it of higher value to them, they have a limited amount of income, and so does everybody else in their neighborhood, and under those circumstances they're not seeing an increase in the quality of life related to they're property or their neighborhood.  And a third-party comes in and says your property is now going to be worth this much more and you should pay this much more.

I think there is really two issues. One is, you know, the credibility of the assessment under those circumstances and the accuracy of the assessments under the those circumstances since there seems to be at least from my perspective a certain amount of subjectivity into how you're going to evaluate real estate. And could you address those two concerns?

MR. MCKEITHEN: Okay. I'll do the best I can.

We're going to value the property using industry standards that any assessment office -- assessment office in the country, let alone the world, would use. We are just looking at data, sales, condition, size, things like that. We don't, as an office, get into affordability and issues of that nature. Mr. Dubow handles that.

We're going to be looking at the most recent data, so we will capture whatever the most recent fluctuations were and they will be in our values. The credibility will be there because we will be able to show you sales that have occurred to typical properties, sales that have occurred to atypical properties, and based on the type property you have this is what your property could sell for. And that's all we do. I mean, we looking at data and looking at the property and assign a value and the credibility, I believe, will be in the fact that we've used these things to demonstrate what your property is worth versus the value that's on there now that in a lot of cases is no where close to what it would sell for.

COUNCILMAN OH: Say that again.

MR. MCKEITHEN: A lot of cases throughout the city we have values on property that are not anywhere close to what they would sell for.

COUNCILMAN OH: They're evaluated too low or too high?

MR. MCKEITHEN: I can't say which way. I've seen a lot of low value properties and we're going to get closer to what that property would actually sell for, so the credibility, and as far as I'm concerned, is we're using industry standards and industry techniques that other assessment offices throughout the country use to place a value on property and the proof will be in what you see properties sell for relative to our assessments. We have statistical measures after we're done with a reassessment to demonstrate the quality of it, and, you know, we'd be more than happy to share that with the public when we're done.

COUNCILMAN OH: Okay. So, if you assess the value of a property in a certain neighborhood, and when you're done assessing its value, let's say it was $60,000 and now it's evaluated at $120,000, after you're done that evaluation you're going to be able to show that that property and properties like that will actually sell for 120,000.

MR. MCKEITHEN: Right. We're going to have some industry measures that demonstrate that the property assessment after we're done based on our standards is acceptable for --

COUNCILMAN OH: With actual sales?

MR. MCKEITHEN: Yeah, we only compare -- that's how we get to placing the assessments is through the sales, so sales are the lifeline of any assessment office valuation. So, we don't just -- you know, we use sales data to arrive at these assessments.

COUNCILMAN OH: Mr. President, can I have a couple of more minutes to finish my question?

COUNCIL PRESIDENT CLARKE: Couple more

--

COUNCILMAN OH: Minutes to finish my question. As in two.

COUNCIL PRESIDENT CLARKE: As in two. Okay, sir.

COUNCILMAN OH: I want to state this clearly.

Philadelphia became known as a city that was undervalued in property, and there was a lot of property being bought and a lot of investors from outside of Philadelphia came in and there was a lot of buying and selling buying and selling of property. Values in many neighborhoods that have working class or below working class level people, lower middle class and whatnot, their property value started to increase. And before those houses could start to decrease in the sales process to get past the bubble, we had this very big recession, nobody was buying houses. That's the history. So, once you're done evaluating these houses, wherever they are, what you're saying is these are not theoretical sales values, that these are the actual sales that are going to incur in these -- these are the numbers.

MR. MCKEITHEN: Yes. We look at properties that have sold -- just to give a little bit of background, this might help.

We look at properties that have sold that are arm's length transactions. We look at who bought the property, some of the conditions of sale, things of that nature, so we can define what a typical sale would be for a typical home buyer and a typical seller.

And, so, based on a lot of that criteria, then we code the sales and we look at properties that have sold versus the actual properties in the portfolio in the neighborhood.

COUNCILMAN OH: Okay. Thank you very much.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Squilla.

COUNCILMAN SQUILLA: Thank you, Mr. President.

I am not going to rehash the part about the time frame because obviously we don't know when it's going to get done and we'll have the same answers to the same questions, but as far as the purchase of services, I know in Class 200 there seems like there's an increase.

What are the amounts being spent for the purchase of services?

MR. MCKEITHEN: We'll get that for you.

We have $1,425,748 for services. And some of the contracts -- the contracts total up to $1,310,148.

COUNCILMAN SQUILLA: Where are the contracts for?

MR. MCKEITHEN: Well, they're for consultants, industry leaders like Dr. Bob Gloudemans is one of the people who we consult with. He is the expert in modeling. He does modeling for localities all throughout the country, writes books and things like that. He is one of the top people in our industry that does mass appraisal modeling. In the past we've have used Dr. Gillan. He does a lot of work us with land valuation and things like that. Bernie Camins, who is an MAI appraiser, who is renowned throughout the state does our training, you know, for our CPE licenses with our evaluators. Those are some of the more key contracts that we have.

COUNCILMAN SQUILLA: All right. So, they're the contracted out services that you're using to get this job done?

MR. MCKEITHEN: Right.

COUNCILMAN SQUILLA: And then all of your evaluators have CPEs?

MR. MCKEITHEN: Not all of them. We're in the process now, and I'll let Mr. Piper chime in on this, but we are in the process now of getting all of our evaluators CPEs. We've given them two years upon hire to obtain the CPE credential.

COUNCILMAN SQUILLA: But they're the ones that are out there doing the assessment at this point?

MR. MCKEITHEN: Yes.

COUNCILMAN SQUILLA: And then now that we know that there are going to be more --

well, the appeal process is going through this year with the Steb increase, and that that also takes away some of their time, so we may not get to the actual deadline, is there any intention to hire more evaluators?

MR. MCKEITHEN: Well, we're in the process now, we work with HR constantly. We just asked HR to put out a test for EV-1 again. We just had interviews and hired approximately 16, about 17 EV-1s to come in our office. Now we're looking at bringing in an additional 15 bodies in terms of trainees. We're constantly around the clock working with HR to ensure that we get opportunities to hire individuals, so.

COUNCILMAN SQUILLA: All right. Because I noticed in the budget plan that it seems like there is a decrease in computer equipment that you have as far as usage.

Are these new people coming and not going to be using computers?

MR. MCKEITHEN: No. Every individual coming in will have a computer and --

MS. DANIEL: What happened, during fiscal '12 we budgeted for the computers for the complete increase in the staffing, so there was $250,000 that was put in just for the computer budget, just for the increase of staff what we had anticipated, so what we've done is we've arranged to have those computers purchased during fiscal '12 so during fiscal '13 we'll already have the equipment for the new staff.

COUNCILMAN SQUILLA: So, you'll have enough equipment for all the new hirees, so it looks like over 30 new hirees maybe coming.

MS. DANIEL: For the most part. It's actually more than 30. I mean, ultimately it was probably between 60 and 70 evaluators, but the equipment will be in the office for them when they arrive.

COUNCILMAN SQUILLA: Okay. One more question.

I notice that in the budget also there's -- how do the people evaluators get around, they have to go out in the field. Do they use their own personal cars or is that something --

MR. MCKEITHEN: Yes, they're using

their own vehicle. They're using -- a lot of evaluators that work center city will use public transportation, but, yes, right now they're using their own vehicles.

COUNCILMAN SQUILLA: Is there any reimbursement for that?

MR. MCKEITHEN: No.

From my understanding that was considered several years ago when -- prior to my arrival -- when they looked at the salaries, so.

COUNCILMAN SQUILLA: Okay. Thank you for now. I'll come back.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Brown.

COUNCILWOMAN BROWN: Good morning.

MR. MCKEITHEN: Good morning. How are you.

COUNCILWOMAN BROWN: We need to go on the record to say, first of all, thank you for visiting with us to sort of set up this big journey that all of us are about to go on. And

I have to say I do appreciate that Councilman Green asked to walk us through a day in the life of.

My thinking is that what you're about to undertake is a huge example of a case study that could be done by a Fell School or a JFK School of Government Professional and how you manage the public relations of this.

And, so, my question to you is has some thought or consideration been given to -- I know you have a strategic plan for the roll out -- but do you have a parallel strategic plan that addresses the PR prep and that aligns itself with the actual roll out so that we can minimize the fear that we know exists city-wide amongst our taxpayers and manage it where seniors are understanding that they are in a place separate from the rest of the world?

MR. DUBOW: Yes, very important point, something we really need to do, and so we're looking at bringing in outside firms to help us communicate the message so people know what's available to them and what this actually might or might not mean to them because there is a lot of fear and we need to do something to try to quill that.

COUNCILWOMAN BROWN: Do you have any lessons learned or best practices from other cities that have had to undergo this huge undertaking and lessons learned on what not to do as we embark on this?

MR. MCKEITHEN: My past experience has demonstrated to me one of the biggest things you can do is constant communication.

COUNCILWOMAN BROWN: Forgive me, I'm sorry, I was side tracked by my majority leader here, who said do not do it during an election year, that's a lesson learned.

But beyond that what else?

MR. MCKEITHEN: Constant communication, ergo in my assessment notices I've had brochures designed to put in the assessment notice of things like frequently asked questions, who you call, what this means, things like that. But you can't over assess the fact that the communication and getting out to the community. So far I've done several town hall meetings with State Rep Cherelle

Parker as of late. I've done a couple -- my staff has done some meetings, community meetings, I've done several, you can't over emphasize getting out to the public --

COUNCILWOMAN BROWN: Agreed

MR. MCKEITHEN: -- and really getting this message out and letting the public get a feel for who you are.

COUNCILWOMAN BROWN: Sure.

MR. MCKEITHEN: And things like that, and where they can get information and where they can get responses.

COUNCILWOMAN BROWN: Agreed.

MR. MCKEITHEN: That is paramount in this type of an effort.

COUNCILWOMAN BROWN: Environment.

There is an old adage, and I think I shared this with you or someone in a meeting, children have to hear something seven times before it really kicks in. So, we know for something as complicated as this, adults are going to need to hear it seven times more to get their arms around it and accept the reality.

The one group I continue to be concerned about, like many of us, are our seniors. So, I ask that a strategy be considered to go to every single senior citizen center in the city and tell the story about what is about to happen and how and if it may or may not impact their world.

MR. MCKEITHEN: I think that's a great strategy.

I would ask Council Members if you have any town hall meetings or events that you're planning that you feel as though we can help as far as getting that message out, we more than welcome you to invite us. Because, once again, that's where we meet a lot of the seniors, at the town hall meetings as well as the senior facilities, so I think that is a great strategy and we'll look to employ that.

COUNCILWOMAN BROWN: I am sure there are a number of members that will take you up on that offer as well.

I am surprised that hasn't rung, so I need to re-read my questions privately before I say them publically.

So, thank you for the important work that you're doing.

MR. MCKEITHEN: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Council Member Green.

We'll come back to him when he comes back in.

Chair now recognizes Council Member Kenney.

COUNCILMAN KENNEY: Thank you, Mr. President.

Let me give you a scenario that I have concern about relative to your folks working the field.

If you're in a neighborhood that is gentrified or gentrifying, and the values are changing and younger people are moving in and putting money into their property and 75 to 80 percent of the houses on a particular street are purchased relatively recently at a higher inflated price or a higher price than what was used to in the neighborhood and they put a lot of money into the property, and in the middle of the block you have a person who has lived in that house probably for four or five generations, probably paid $10,000 for the house, their grandmother paid $10,000 for the house, but they happen to be on a street, happy to see the street improving and the property values going up, but how do you reconcile the increase value of that particular generational family-owned property with properties of -- for want of a better word -- yuppies who are coming in, and we welcome them, it's terrific they're coming in, many of them potentially are getting some sort of tax abatement, and now you have this generational family that is going to potentially experience a  major increase in their assessment and a major increase in property tax?

How do we handle those folks?

MR. MCKEITHEN:  Okay.  What the Councilman just described was a prime example, a great example, of a neighborhood life cycle where a neighborhood goes from being somewhat dormant to stable to moving in a matter of increase in values.

What you typically will see is that even the most docile or even the most typical house or below average condition house, value will go up because new individuals are coming in buying these properties at higher prices. Well, the assessor is bound by the sale prices and the data and the assessor will not see who lives in what, he is going to value the property based on what it would sell for.

When the values are laid out and disbursed to the taxpayers, the value for an average house will be at one rate and a value for a house that has been fixed up that we can tell the permits and all things taken will be at another rate, but I can tell you from experience that even in a neighborhood where the life cycle is evolving, even the most basic house will now sell for a price that is much higher than what it used to sell for and helping that senior or the individual who has been there for years stay in that property will be something that Mr. Dubow's team will work on.

COUNCILMAN KENNEY: See, part of the issue is going to be in certain areas of the city where there are high property values already, the difference may not be that much because they've probably been reassessed at some point in time at a higher rate, it's those neighborhoods that are primarily blue collar that are experiencing this uptake in property value because of the desirability of living in the city, and that's a terrific thing, we want it, however, those people are going to be to sticker shock folks.

MR. MCKEITHEN: Yes.

COUNCILMAN KENNEY: And guess what, they don't really care about -- they care about the value of the property, but they're not in any intention of selling it any time soon other than passing it along to their kids. So, there's a -- it's not -- I don't think we can just go with comparables or just go with what we think the value of the property is in every single instance because we're going to really hurt some folks who have not moved out of the city, not moved to southern New Jersey, Delaware County, and whose neighborhoods have been okay or struggling or marginal for a long time, and now because of the factors of center city kind of getting too crowded, people are moving north, moving south, moving west, and they're going to get this bill in the mail that's going to knock them off their kitchen chair and we have to be ready for that. I don't want to chase folks out of town because certain neighborhoods are doing better than they did in the past 20 years.

So, I mean, is there any consideration of that fact?

MR. MCKEITHEN: Not by the assessor. The assessor is going to value their house irrespective who lives there, he's going to value it for what it would sell for. Mr. Dubow will --

COUNCILMAN KENNEY: We don't look at anything inside? So, if I have a house that I am living in, I haven't done anything to the property, I have a 1960s kitchen and paneling on the wall and I haven't done any renovation, that property is the same value as the guy next door who could be a young professional couple?

MR. MCKEITHEN: No. That property will be based on its condition, but when you have neighborhoods that are evolving, some of the younger yuppy individuals that you've described will buy the most basic house, almost literally in shell condition for a value because they just want to get in, and that's how neighborhoods increase in desirability and increase in valuation.

COUNCILMAN KENNEY: Just finally, and if I can just for a second because I usually don't go over time, Mr. Dubow, we passed -- Commonwealth passed property tax relief for long-term residents back in the '80s. It was a Constitutional Amendment to the State Constitution allowing cities of the first class to give property tax relief to long-term residents in gentrifying areas.

How do you intend, if you intend, to use that State Constitution provision to soften the blow for a lot of these folks?

MR. DUBOW: So, right now actually we don't have something in our proposal. We have the two issues we talked about, the Homestead exemption and the smoothing, but we're happy to talk about other possibilities that would help with the issues that you're bringing up.

COUNCILMAN KENNEY: Okay. We'll be back.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you.

Chair recognizes Council Member Henon.

COUNCILMAN HENON: Mr. President, I would say the other day we had in here for testimony I believe it was the mayor's Commission on Aging and we were getting some statistics and a snapshot of all the programs and assistance that the office and guidance that they provide to our seniors, long-term residents in the City of Philadelphia. And one of the things that I got out of it that was -- that caught my eye was that 60 percent of those seniors who use either the resources or were asked for some guidance and advice for some direction, 60 percent of them were property owners. And I see in, whether it's the testimony or the five-year plan or somewhere in the budget report, that only a little over 13,000 of our seniors take advantage of freezing, you know, their tax rates at its current level.

So, my question is they are the numbers that were dealt with. Now, that's only 60 percent of property owners of I don't know what aggregate of our seniors throughout the City of Philadelphia, I have a large amount of senior citizens that, you know, I mean, we all represent, you know, in the City. So, I mean, we have an older city, you know, maybe some younger folks are starting to move in and gentrifying the areas, which is fantastic and I hope it continues on that trend, you know, but we do have some longevity here in the city.

But if you take that trend for those who were just asking for assistance in one form or fashion, the 60 percent number, I would imagine it's going to be comparable for those who don't take advantage of the freezes in the 13,000.

Would you be able to explain maybe how we can better outreach to the longer residents here and the seniors because only a small portion of the seniors are taking advantage of the freeze, but a large portion of those are taking advantage of -- which is a small part of the whole -- are taking advantage of the assistance for property owners.

MR. DUBOW: So, we agree that we need to do a better job of outreach, particularly with the changes that will come with AVI. And I think this goes back to Councilwoman Brown brought up before, we'll bring in outside firms to help us design a strategy to communicate better so that people know what's out there and we see more people take advantage of it.

COUNCILMAN HENON: All right. Let's just say over the course of last year, you know, visiting many senior groups, you don't have, that only represents a little part of the population, the senior population, that you can actually touch and reach, so I would hope there would be a more comprehensive plan moving forward on outreach. And, you know, I am glad to hear that you're out there to start, but I think we could do a better plan of reaching seniors just to inform them and let them know, you know, what is already available and that they should take advantage of.

MR. DUBOW: Right. And that has to be kind of two parts. One is, you know, Mr. McKeithen going out and explaining what is going on, but then we need kind of more wide spread information, whether it's through mailings or how ever, to make sure that we've reached a broad audience.

COUNCILMAN HENON: Right. And to follow-up while you're up here, Mr. Dubow, the request was made, I think you had said for different Bellwethers, you know, samplings of neighborhoods.

MR. DUBOW: Yes.

COUNCILMAN HENON: Would you be able to add to that set of data, you know, when ever you provide it, the increase or decrease of the snapshot assessments in the neighborhoods, whether this way you can give us a bird's eye view of whether a neighborhood is either increasing in its assessments or has decreased in the trending of the hundred percent property.

MR. DUBOW: What we can show you is the difference between where market values are now and where average sale prices are and that will give you a sense of what might happen.

COUNCILMAN HENON: I mean, and I'm not asking for specifics.

MR. DUBOW: And it might not be exactly where assessments go, that might be --

COUNCILMAN HENON: And I am not asking for exact assessments. Just so we know that, hey, look, here is a neighborhood here who has been either gentrified or, you know, has been on an upswing, or, you know, in turn has been negatively effected so we could show where we stand on that.

MR. DUBOW: Yes.

COUNCILMAN HENON: And last question is when we're assessing the properties, you have the Office of Property Data, which is, and many other departments are collecting data across the city, is the assessors while they're out there going to coordinate with them as we move forward so you get a real assessment of the city owned properties, whether it's commercial, residential, and I had one other category, commercial, residential usually covers it, or vacant lots?

MR. DUBOW: Yes. So, the two offices are working closely together. So, yes, when the assessment process is done, the Office of Property data will have that information. So, yes, the answer to your question is yes.

COUNCILMAN HENON: Great. I have no further questions.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Council Member Greenlee.

COUNCILMAN GREENLEE: Previous Council Members touched on a lot of what I was going to ask, but just sort of as a follow-up to what Councilman Kenney was talking about, what you used to determine, the surveys that you gave that were given out, that were stuck in doors or --

MR. MCKEITHEN: The door hangers?

COUNCILMAN GREENLEE: Yes, door hangers, that's it.

What kind of success did you have in receiving answers on that? I know I heard from some people they were afraid to give me information.

MR. MCKEITHEN: Yeah, the door hangers were a hit as far as some innovative practice that we put into our office. We haven't finished yet sending them all out. I think we sent out about 30,000, yeah, about 30,000, we ordered about 30,000 and I am down to my last box in my office right now. So, our IT director is going to go through a process where we actually scan and things like that and so we'll have some numbers on what came back in.

COUNCILMAN GREENLEE: So, you're still getting out those door hangers?

MR. MCKEITHEN: Yeah, they're coming back, my office is full of them. I have several stacks.

COUNCILMAN GREENLEE: Any percentage of how many people you think so far of the ones you have given out that have responded roughly?

Do you have any idea? I am just wondering

MR. MCKEITHEN: I would say better than five percent, better than seven percent. I mean, just off of what I see visually.

COUNCILMAN GREENLEE: Seven percent responded?

MR. MCKEITHEN: Now, we haven't counted anything so I won't be able to verify that until later.

COUNCILMAN GREENLEE: Is that, by the way, I saw something in the budget about $10,000 for surveillance money, is that what that is, the survey?

MR. MCKEITHEN: No.

I'll let Ms. Daniel tell you what the surveillance is.

MS. DANIEL: That $10,000 is for occasionally the inspector general would do surveillance because we have people who work out in the field and, you know, we do hold employees accountable for the work. So, occasionally the  in spector general will go out and do surveillance and when they do that the departments pay.

COUNCILMAN GREENLEE: So, you have to pay the inspector generals --

MS. DANIEL: Yes, we do.

COUNCILMAN GREENLEE: -- to check on you, huh?

MS. DANIEL: Yes, we do.

COUNCILMAN GREENLEE: Okay. So, a lot of departments have that I wonder?

MS. DANIEL: The departments pay those contracts. The contracts belong to the inspector general, but we pay them.

COUNCILMAN GREENLEE: All right. Okay. And just add in, this is just a statement just to add to what Councilman Kenney said, and I think he put it very well, but I think the people that I'm really worried about in these areas that he's talking about, we might be able to find programs for seniors or maybe low income people, but there's that regular sort of working class person that has been caught up in this and they're the ones that I think we really have to be, and I guess I'm directing this more to Mr. Dubow, I think they're the ones we really have to be concerned about, you know, that they might not fit into a program per se, but, you know, they may have inherited that house, as Councilman Kenney said, maybe they're only 45, 50 years old or something, you know. I know a few of them myself, so, you know, so I just throw that out there I guess, I don't know if you have a comment on that, but that's the thing that I keep thinking about in all these neighborhoods, almost every one in the First Councilmanic District, for example, has that kind of person in there.

MR. DUBOW: Right. I think we understand that's an issue. Other than smoothing, we don't have an idea for kind of a mass system, but, again, I mean, if there is an idea, we're open to it.

COUNCILMAN GREENLEE: No, I hear you. See, I thought you were going to give me a brilliant idea. No, I am only kidding.

MR. DUBOW: I didn't hear what you said.

COUNCILMAN GREENLEE: I thought you were going to give me a brilliant idea. No, I'm only kidding, but it's just a concern out there that I think a lot of us have that we know a lot of those kind of people that are kind of in the middle somewhere, so.

MR. DUBOW: Yeah, yeah.

COUNCILMAN GREENLEE: Okay. Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Jones.

COUNCILMAN JONES: Thank you, Council President. I appreciate it.

COUNCIL PRESIDENT CLARKE: You're welcome.

COUNCILMAN JONES: I think Councilman Henon touched on this a little bit, but I would like to speak about it a little bit.

The amount of city-owned real estate in various conditions, whether it's a lot, whether it's a vacant property, whether it's something we acquired in sheriff's sale, about a half dozen entities, whether we're talking about the Redevelopment Authority, the Philadelphia Housing Development Corporation, public property that owned these properties, so this assessment is going to be applied to them. What is the current assessment of all government-owned not municipal buildings, but acquired properties through various acquisition projects or processes like sheriff sales? What is our guesstimate as to what that real estate is worth?

MR. MCKEITHEN: See, we'd have to run a report to get that. We have reports on what our basic city-owned property is, but we could ask for a report.

COUNCILMAN JONES: So, define city-owned property. Are you talking about municipal buildings?

MR. MCKEITHEN: Municipal buildings, schools, things like that, office buildings, warehouses.

COUNCILMAN JONES: When you gather your data, I would like a particular pool, if you could provide to members of Council, that shows all of the acquired sheriff sale, PHDC, RDA properties that are in some form of ownership yet limbo, again, that speaks to what the development potential is for those properties. So, if we own 200 properties in the 9th Councilmanic District that are owned by PHA and they're vacant, if we own another 80 properties that might be in various forms of ownership such as public property or redevelopment, what is that worth, so that as we start to look at developers that may be interested in our District, particularly in my District, we lost population, and so now we have vacant properties that could be developed to attract residents back to there.

So, again, I speak to the Councilman's development district idea that if we can get a sense of what they're worth, if we can get an accurate picture of where they are and where they're owned, we can market these properties to people who want to build something. So, that data is very much important to us to see what the true value of those things are.

MR. MCKEITHEN: No problem, sir.

COUNCILMAN JONES: Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you.

Mr. McKeithen, I want to follow-up to a question I had earlier with respect to the process and you talked about the current process coming up with the characters, the characterization of properties, and the character of properties and I tried to get you to commit to a little bit more.

How difficult, because we had a briefing from the Administration and they talked about a scenario, I think they talked about a $30,000 house and a $100,000 house, and I know that wasn't your side of the process, that was Mr. Dubow's side, and I understand, I'm kind of getting a sense from a policy perspective, you're trying to stay as far as away from that, you're simply trying to be the numbers guy, so I guess I'm asking both of you all, how difficult would it be to, since you were able to come up with a 30 and a 100,000, how difficult would it be for you to come up with a list of properties in increments of $10,000 up to $400,000.

MR. MCKEITHEN: Of assessed value?

COUNCIL PRESIDENT CLARKE: Coming up

with scenarios based on what we received -- and maybe I shouldn't be asking you this question -- coming up with scenarios of properties starting at 10, and you can start at 20, maybe nothing is at 10 anymore, but in increments of ten, 20,000, 30,000, 40, 50 and based on the characteristics, or those particular neighborhoods where you have done some work as it relates to having actual feet on the ground, up to $400,000.

MR. DUBOW: I am not sure what you're asking for us to do with those various properties.

COUNCIL PRESIDENT CLARKE: You gave us a briefing, right?

MR. DUBOW: Right.

COUNCIL PRESIDENT CLARKE: And you talked about two properties, examples.

MR. DUBOW: It was what a Homestead exemption would mean for each of them.

COUNCIL PRESIDENT CLARKE: Right. So, are you telling me that you can't also tell me what, based on the information, you can't tell me what the possibilities would be if you applied the actual values and snapshots?

I mean, aren't you that far along where you have a sense of in those particular neighborhoods? Basically, what I'm asking you to do, since you can't, and I understand I guess from Mr. McKeithen's perspective, he wants to get all of the information and just give it to us in some level of completion.

I guess what I am asking you, can you give us snapshots in 10, 20,000 dollar increments up to $400,000? I mean, I got to believe you can do that. I just can't believe we're not in a position based on having actual value applied to properties, because you are doing assessments, you have been doing assessments in some areas of the city, just give me examples of properties.

MR. DUBOW: And what will happen to their assessments you mean?

COUNCIL PRESIDENT CLARKE: Exactly.

MR. DUBOW: Well, not what would happen to their taxes, but what would happen to their assessments?

COUNCIL PRESIDENT CLARKE: Both.

MR. DUBOW: We won't know what will happen to taxes until we have all the assessments done and we know how much we're going to have to -- we won't know --

COUNCIL PRESIDENT CLARKE: Why can't you? I don't understand that. You can't do snapshots --

MR. DUBOW: We can give you -- we can give you different tax rates and what it would mean, but we won't know what the tax rate is to put against it.

So, we can tell you different values, but because we only have -- and if I understand what OPA has done, they've gathered data on 75 percent of the houses, they haven't put values on them yet, so we have to finish the values first --

COUNCIL PRESIDENT CLARKE: For the entire city, you can't pull out -- I mean, I'm not a cynical person, but it almost seems like you're doing it in a way that you're going to ensure that you won't have any information for us until you get to the end of the process, which happens to be beyond the budget.

MR. DUBOW: Right, and that's not what's happening. I think what OPA is doing is a process of how they would always do a full assessment.

MR. MCKEITHEN: Procedurally, the way the process works, is that you have to collect all of the data first and then you need to vet it to make sure it's clean and make sure it's as accurate as possible, because if you don't then you're going to get -- it's that old bad information in, bad information out.

We're just at a point, when I say 75 percent, we have inspected over 75 percent of the residential parcels to get well it has a garage. We haven't tied to that what that garage value means to that property in that neighborhood yet.

COUNCIL PRESIDENT CLARKE: Why can't you do that?

MR. MCKEITHEN: Because we have to have, one, the model set up yet and we have to use neighborhoods where all the data has been collected and data entered. See, we don't have --

COUNCIL PRESIDENT CLARKE: Why?

MR. MCKEITHEN: Because if it's not entered into the system while we have it, it doesn't count until we enter it into the system because the model is going to run against the system to get a variable factor for what that garage would mean as far as money, as far as assessments, and so we can't do -- put one step in front of the previous one because it wouldn't gain us anything. We have a report that Councilman Green has asked for that was prepared on the 75 percent and we took two GMAs to show the data, which is all like whether the property's in average condition, whether it has a garage, whether it is boarded up, but what does that boarded up property, what would that sell for, that step isn't ready. We haven't even calibrated the model yet to do that, and that's what we will be doing in between late April and May and then running the models and then seeing what spits out, but we still got some cleaning up and stuff to do and some collection to do. I cannot emphasize that enough.

One day, and I know this doesn't help you all today, but technologically when we have things like tablets where we don't have to do the actual physical data entry, because right now we're all on paper, where we have tablets and things that we can go out in the field and record information that loads right up and I don't need a body to sit there and type it in, then we can work at a much more efficient pace, but right now we are nowhere close to that, not at OPA.

COUNCIL PRESIDENT CLARKE: Okay.

MR. MCKEITHEN: Sorry.

COUNCIL PRESIDENT CLARKE: I'm saying okay because you're not going to give me more than that, but not because that's an answer that I am really comfortable with, but okay.

Chair recognizes Council Member Green.

I certainly defer to Councilwoman Tasco, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, sir.

Councilwoman Tasco.

COUNCILWOMAN TASCO: I couldn't get

here earlier, so I missed a number of rounds, and I only have probably one question.

When we were at Councilman Kenyatta Johnson's town meeting a number of residents from the Eastwick area raised the issue of flooding, and some areas of my district, well now former district, in the Logan sinking home area, we don't have any properties there, but maybe in, it could, we don't know, have further subsidence. When you are assessing the problems, what do you take into account, and maybe you don't know there has been a subsidence issue or a flooding issue in assessing the value of a property, does that come into play?

MR. MCKEITHEN: Yes, the answer to that is yes. And also the answer to your assumption is true also. We can only take into account things we know about. This is a mass appraisal process, and so a lot of things we won't find out until after taxpayers notify us, like houses having flooding issues, houses having interior walls that are moving and things like that. That's where we make adjustments. That's why I'm imputing a first level appeal process in the Office of Property Assessment for the first time ever because you should be able to call us once you get a notice and say, you know, I don't think you took this into account, you know, can you come down here so I can show you. And we actually go down to your property and you can point that out and then we can try to tie some value to it.

Things that we know about, things that you guys let us know about are awesome because we can try to take it into account before we send out notices or when we're doing analysis. But if information doesn't come to us through the sales of, you know, we don't get information on this property sold for this low amount because of its flooding and things like that, then there is no way we could account for it before the notices are sent out. That's why it's absolutely, absolutely, absolutely vital that taxpayers once they get their notice understand that we have a first level process that you don't have to come down and sit before a panel, you don't have to have a formal hearing that's tape-recorded, you can come down and talk with us and show us, you know, at your property things that we might need to make adjustments on.

COUNCILWOMAN TASCO: That was my question.

The other thing I just want to say to you, Mr. McKeithen, is thank you for coming out Saturday to our town meeting that State Representative Cherelle Parker had. It was very important to those residents and I am sorry I couldn't stay, but thank you for coming out.

MR. MCKEITHEN: I had a great time. Once again, I love coming out and meeting with the taxpayers face to face.

COUNCILWOMAN TASCO: All right. Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

Councilman Green.

COUNCILMAN GREEN: Thank you.

We're back into the life of an evaluator, or assessor, who has sat down at their terminal and working on their GMA and you were telling me what that meant. And what is it that they are doing? Have they been assigned a path through their GMA by somebody and they're working on that? Are they doing data entry on what they did the day before and that's really all they're doing in their GMA, going out, collecting data on the form and entering it in the computer? Exactly what is it?

MR. MCKEITHEN: Okay. I gave a primary example of we were talking about a residential, I didn't even touch on a commercial one, but residentially speaking, after they have entered in the information or while they're entering in the information they are recording all types of things that they have discovered in the field, like there might be an addition to a property that we never had on the books.

COUNCILMAN GREEN: So, this is all on the form that they filled out while they were in the field, the property data form you mentioned earlier?

MR. MCKEITHEN: The property data form will have information that they have recorded. If they see additional things, that might just be in their notes. They have notepads as well as property data forms, so.

COUNCILMAN GREEN: So, all information related to a property goes on two separate pieces of paper and it's not found in one place?

MR. MCKEITHEN: It goes on several pieces of paper, whatever they have with them, which mainly is they're binder, but, yes, they will record it in any method that they have. They have pads, they have a whole number of things, and so they will record whether that property has an addition. They'll measure it or sketch it and things like that and then you have to put that addition on the books.

COUNCILMAN GREEN: That's what they've done in the field. So, they're now --

MR. MCKEITHEN: No, we back at the office now.

COUNCILMAN GREEN: They're now at the terminal.

MR. MCKEITHEN: We're back at the office, okay. So, they're picking up this addition, so they have to fill out a money sheet, they have to put in a money sheet to make sure that we have accurately recorded that addition and put it on the books so it can be taxed.

COUNCILMAN GREEN: What's a money sheet mean?

MR. PIPER: Good afternoon, Councilman.

COUNCILMAN GREEN: Good afternoon.

MR. PIPER: A money sheet and what Mr. McKeithen is referring to is a form in which the data is actually put into the database.

COUNCILMAN GREEN: So, the money sheet is not another piece of paper, it is the entry of the data that's on the property data form that was in the field and on the binders or notebooks that were in the field, we're now doing data entry.

MR. PIPER: Someone will do the data entry, correct.

COUNCILMAN GREEN: It's not the evaluator?

MR. PIPER: Not necessarily.

COUNCILMAN GREEN: So, the evaluator is coming back and taking the data they have from the field and it is on the property data form, it's written in the binder they had with them for that block or the area they were covering, and it's --

MR. MCKEITHEN: Or on a pad or something.

COUNCILMAN GREEN: Thank you. And it's potentially on a pad also, and they fill out a new piece of paper when they get back into the office called the money sheet.

MR. MCKEITHEN: For an addition, right, for an addition or something of that nature.

COUNCILMAN GREEN: And then someone takes that money sheet and does the data entry. So, the evaluator is not doing the data entry of what was discovered in the field at all?

MR. MCKEITHEN: No. See, the evaluator is going to enter in the information for what they saw with that edition. Someone else is going to enter in the numbers from the money sheet because you have to apply value to what you saw in addition to what is there. And, so, someone else will enter in that the addition -- we're picking up "X" amount of money for this addition and it goes into another system.

COUNCILMAN GREEN: It goes into an another system?

MR. MCKEITHEN: Yes.

COUNCILMAN GREEN: So, what's the other -- well, before we get to the other system. What is the system that the evaluator today is putting his or her data in?

MR. MCKEITHEN: It's called Characteristics. It's a part of our VSAM module.

COUNCILMAN GREEN: And so primarily evaluators today, and for the last couple of years, haven't actually been assessing properties, they've been gathering data and inputting that data into Characteristics?

MR. MCKEITHEN: Ever since my arrival,

they have been entering data that they have discovered in the field into Characteristics so we can make sure it's recorded. Prior to my arrival, I don't know where they were putting the information.

COUNCILMAN GREEN: Thank you, Mr. Chair.

I have more questions, but I don't know if anybody's --

COUNCIL PRESIDENT CLARKE: Thank you, Councilman. We'll come back to you.

The Chair recognizes Councilwoman Bass.

COUNCILWOMAN BASS: Thank you, Mr. Chair.

Hello, how are you?

MR. MCKEITHEN: How you doing? Good afternoon.

COUNCILWOMAN BASS: I'm well. I just have a couple of questions, I think everything has pretty much been covered, but I do want to start by saying I think it's, just in my own opinion, I think it's a little bit troubling and scary that we're undertaking such a huge process and we don't have the technology or the tools of today. We don't, you know, send folks out with, you know, notebooks or Ipads or PDAs or anything, you know, they got a note pad, and, you know, that's just a little bit, in my opinion, a little bit disconcerting that we would undertake such a huge effort of something that's so important and vital to the life of the City and really not have the tools, and so it's not, you know, I know it's not your fault, I am sure that you would have the tools, you know, if you could get them, you know, but I just thought that was something that was just a little bit troubling to me.

Just a couple of questions. You mentioned that five to seven percent was the rate of return on the door knockers about?

MR. MCKEITHEN: I believe, roughly. I won't know for sure until I have my IT person actually scan everything and get into a database.

COUNCILWOMAN BASS: Okay. And was that what was expected, what was the expected rate of return? Do you know what the average is in cases like this in other cities that have done this sort of thing.

MR. MCKEITHEN: Well, from my perspective, and once again it could be more than five percent, it's coming more than what I thought it might come in. I mean, I don't mean to be precarious or anything, but, you know, it has done better than I was initially told because I was initially told that they would all be thrown in the street and nobody would send it back.

COUNCILWOMAN BASS: So, you didn't expect anything back?

MR. MCKEITHEN: I did, but some of my colleagues didn't.

COUNCILWOMAN BASS: So, we didn't have a particular goal of what we hoped the rate of return would be on these items?

MR. MCKEITHEN: I hoped the rate of return would be at least seven to ten percent.

COUNCILWOMAN BASS: So, seven to ten was the goal?

MR. MCKEITHEN: I hope, right.

COUNCILWOMAN BASS: Okay. And so it's

a little bit lesser.

MR. MCKEITHEN: But I had to temper that based on what I was told from my colleagues, so.

COUNCILWOMAN BASS: Okay.

MR. MCKEITHEN: In the assessment world -- if I may.

COUNCILWOMAN BASS: Sure.

MR. MCKEITHEN: Any information that you get is vital and of use, so without year one tying a specific goal to something saying if it was a failure or not, because we have never done anything like this, I thought that us getting them back and getting information, some of the information would get back and I thought it was rather good.

COUNCILWOMAN BASS: Okay. All right, good.

Now, also a question on just a follow-up from my colleague, Councilman Green, regarding the money sheet and the way that process is, and, again, this goes back to technology. So, the money sheet information is provided by the assessor, and it is then entered by someone else

MR. MCKEITHEN: Right.

COUNCILWOMAN BASS: The data is entered. So, what kind of quality controls do we have in place to make sure that that's done correctly?

MR. PIPER: Well, once again, this speaks to, you know, the process and why we're doing it like we are. You know, we're bringing the information in and we actually have a quality control unit that's responsible for auditing what it is that's been updated in the database.

COUNCILWOMAN BASS: Okay. And one last question was, I just wanted to follow-up on Councilman Jones's asked, he had requested an assessment of all government owned property and that there will be a breakdown by Council District, that's correct, that you will be providing?

MR. MCKEITHEN: Well, he had asked, if I am not mistaken, for PHA, some of the governmental entities, but he didn't specify Council District.

COUNCILWOMAN BASS: Okay. Can we have it broken down by Council District?

MR. PIPER: We can do it by ZIP code and we can do it by what is included in the Council District, but our data isn't exactly stratified by Council District, but we can do the best we can with it.

COUNCILWOMAN BASS: Okay, so you can do it by ZIP code?

MR. PIPER: We can.

COUNCILWOMAN BASS: Okay. That's fine. Thank you.

Thank you, Mr. Chair.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Council Member Green.

COUNCILMAN GREEN: Thank you.

So, the process is the evaluator, since you came to OPA, have been coming back from the field responding to emails and phone calls, sitting down where they have noticed something that they think is big enough to effect the value of the property potentially in a significant way, they fill out a money sheet for all other data that they get that is different from I guess the binder they went out into the field with which has, you know, whether or not it has got a garage, how many bedrooms it has to the extent you can tell, the size --

MR. MCKEITHEN: Condition and things like that.

COUNCILMAN GREEN: Right, it's two story versus three story, things you can see

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: They would correct that themselves in Characteristics Database.

MR. MCKEITHEN: Right. Now, we in an effort to time to expedite things, we had brought in some temp individuals to help with the data entry because some of my evaluators aren't as swift data entry wise, so we had brought in some additional assistance to help speed the effort along, but most of them are putting it themselves because they are quite confident they can do that.

COUNCILMAN GREEN: So, if we have

collected data on 75 percent of the properties in the city.

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: The evaluators have input into Characteristics that data, have they not?

MR. MCKEITHEN: I can't say that they have put in all 75 percent because some of them are a little less efficient at data entry. Some of them have focused more on the field collection.

Because we were up against winter time, and we were really fortunate to have the type of winter that we had, but we didn't know we were going to have that type of winter, so the efforts moved towards data collection, data collection, data collection waiting for the terrible winter to finally hit and it never hit, so we are more along the process of collecting than we are at data entry.

COUNCILMAN GREEN: Well, it's a simple -- where is the room with -- does each evaluator keep at their desk the binders of unentered data? Are the binders returned to a data entry pool?

MR. MCKEITHEN: It's a highbred. Some of the evaluators have the binders at their desk and they enter them in themselves. Some of the evaluators are using an assistant and the assistant has the binders and they're sitting there all day constantly entering in information.

COUNCILMAN GREEN: While the evaluator is in the field?

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: Okay. And so most days the evaluator is in the field and there is people doing data entry back in OPA --

MR. MCKEITHEN: Right. We have a --

COUNCILMAN GREEN: -- with that data?

MR. MCKEITHEN: -- combination of things happening. We have evaluators out in the field collecting data. We have evaluators in the office entering data. And then we have assistants that are entering data for some of the evaluators.

COUNCILMAN GREEN: How many GMAs is an evaluator assigned to?

MR. MCKEITHEN: Well, there is property count, so it varies, so we try to --

COUNCILMAN GREEN: How many properties is a --

MR. MCKEITHEN: We try not to -- we try to keep it, you know, it's property count and then it's the type of properties you have.

If you have properties that are very homogeneous, you may be able to have a higher property count than someone who has properties that are all unattached, you know, large in size and scope, and more difficult to value, so it varies. Some may have 13,000, some of them may have 5 or 6,000, some of them have 20,000. We try to, as we get additional staff and get them trained up, we try to reduce the property count per parcel per evaluator down to something that's more easily acceptable with standards.

COUNCILMAN GREEN: Thank you.

As the -- I am going to go until they cut me off

MR. MCKEITHEN: Okay.

COUNCILMAN GREEN: Okay. So, as the

properties are -- I guess the question is somebody with 20,000 properties, they have personally gone and looked at 75 percent of those

MR. MCKEITHEN: No, the total office is at 75 percent, not each evaluator.

COUNCILMAN GREEN: And that is somebody going into the field or are they using pictometry or are they using Google Earth?

MR. MCKEITHEN: That's going into the field and looking at the properties.

Now, some properties we can't see because of logistics, you know, they may be fenced off or they may be behind a barrier, we'll use pictometry for those. Some things we can't see, even though we can see the front of the property, we can't see the back, so we use pictometry for those.

COUNCILMAN GREEN: Is every property checked with pictometry by the evaluator?

MR. MCKEITHEN: Is every property checked with pictometry?

COUNCILMAN GREEN: Yes.

MR. MCKEITHEN: Not every property.

COUNCILMAN GREEN: Just if they think there's something they can't see --

MR. MCKEITHEN: Right, if they can't see because they typically would see the front and they can drive down an alley to see what is going on in the back.

COUNCILMAN GREEN: So, who's auditing the data that's being handled by the data entry pool or verifying the data that's being put in by the evaluator himself or herself, the evaluator's assistant, or the data entry pool, does anybody audit that information that goes into Characteristics?

MR. MCKEITHEN: Another step in this process is to, once a GMA is completed and all the data is entered, then we call that a hundred percent complete, that's both field inspection and data entered, then we attempt to run a report on all of the changes and we can look at -- the supervisor can look at a couple of things to see, you know, inconsistencies. The evaluator looks at it, and, you know, so we have a quality control also that will look at, we will spot-check certain neighborhoods and behind certain evaluators to ensure that everything is consistent.

COUNCILMAN GREEN: How many GMAs are at a hundred percent?

MR. MCKEITHEN: Right now I'd have to go back and find that out. I know I have several that are a hundred percent field inspected, but I don't know how many are a hundred percent data entry, data, you know --

COUNCILMAN GREEN: I would like the answer to both questions provided to the Chair, please, a hundred percent field inspected and a hundred percent --

MR. MCKEITHEN: Data entered.

COUNCILMAN GREEN: We can go through that on call backs.

Are evaluators taking photos of the properties they inspect while they're out in the field?

MR. MCKEITHEN: Only new construction or things where they feel as though a property has changed a great deal.

COUNCILMAN GREEN: Okay. Let me see here. So, I guess this leads me to some questions about the methodology -- I'm sorry.

You said that the money sheet goes into a system that is separate from the Characteristic VSAM Software

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: Where does the money sheet data go?

MR. PIPER: I'm sorry, where is it entered?

COUNCILMAN GREEN: Yes, what system is that entered into?

MR. PIPER: It's, and Larry can explain this better, our IT guy, but it's entered into a front end part of the database that is designed just to pick up the Characteristics and then that's loaded into the primary database at the end of the day so that the next time we go to check and we run the report we can see what is touched and what changes were made.

COUNCILMAN GREEN: Is the primary database Characteristics or is it something else?

MR. PIPER: No, it's Characteristics

is what we put the characteristics in, that goes into VSAM which currently is our primary database.

COUNCILMAN GREEN: Okay. And the money sheet information that goes into the front end, is that going to go to VSAM or something else?

MR. PIPER: It's going to windup in VSAM.

COUNCILMAN GREEN: In VSAM?

MR. PIPER: Yes.

COUNCILMAN GREEN: Okay. And that is the current property evaluation system in the City?

MR. PIPER: Well, it's the current database maintenance system, yeah.

COUNCILMAN GREEN: Okay. Well, let me just go through this before I get to that.

So, my understanding is that every year there are only 15 to 16,000 valid Bona fide arm's length residential transactions; is that correct?

MR. MCKEITHEN: I'd have to check. I don't know offhand.

COUNCILMAN GREEN: Please provide that to the Chair.

How many years of sales are built into the software for comparison purposes with the data being currently entered?

MR. MCKEITHEN: We're building in five years into the models.

COUNCILMAN GREEN: My understanding is that it should be at least 24 months, and if it's been a stable market it can be 30 to 36 months, but when you go back too far you're creating a data set that can be bad.

MR. MCKEITHEN: Well, we're considering five, but we didn't say that we necessarily going to calibrate everything with five years. We looked at five years worth of sale and then we are going to really hone in on the most recent two years and then we'll do a hold out sample of the most recent months.

COUNCILMAN GREEN: Okay. Is that being done in VSAM?

MR. MCKEITHEN: That's outside the box. That's an SPSS.

COUNCILMAN GREEN: SPSS?

MR. MCKEITHEN: Yes.

COUNCILMAN GREEN: What does that stand for?

MR. MCKEITHEN: That's statistical package, well along with Evalassist now. Evalassist is a database that was created in the office for the purposes of looking at sales and things like that, and recording information from sales, so when we get to the point of doing modeling we primarily use SPSS which is a statistical package and then that information -- some of the information loaded into SPSS comes from Evalassist with the help of Evalassist.

COUNCILMAN GREEN: So, what is the methodology built into that software?

MR. MCKEITHEN: Into Evalassist?

COUNCILMAN GREEN: Into coming up with the ultimate values.

MR. MCKEITHEN: Well, the methodology is to, basically what you're doing is you're trying to estimate what a market is, so you're looking at, you have the City broken down into different GMAs and you're analyzing all the sales data for all particular properties, be it single family, twins, rowhouses, fully detached properties, you're breaking all of that out individually and then you're trying to tie co-efficient to everything that you picked up that you think adds value from the characteristics.

COUNCILMAN GREEN: You're comparing the characteristics of the property -- if I can restate --

MR. MCKEITHEN: Properties that have sold versus --

COUNCILMAN GREEN: Right.

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: So, you're taking the characteristics of the properties you've sold, whether it has one, two, three bedrooms, two or three bathrooms, a garage attached or separate, and you're taking the 15 or 16,000 such properties that sell a year, maybe less in the last couple of years because I know our transfer tax has gone down, but let's just call it 15 to 16 over the last two years, so it's a pool of roughly 32,000 properties with characteristics assigned in different GMAs, well, obviously a smaller pool in each GMA.

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: And you're comparing that to the characteristics that are in a particular GMA?

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: So, you're taking sales data and comparing it to characteristics of properties that are not sold, but are every other property in the city?

MR. MCKEITHEN: That's mass appraisal.

COUNCILMAN GREEN: Right.

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: And so that's what you're doing.

So, really, you could do that today?

MR. MCKEITHEN: No, you can't do that today in my opinion because you don't have everything vetted out. You don't have all the characteristics for your city. You don't have all those parcels looked at and you don't have --

COUNCILMAN GREEN: That is true and --

MR. MCKEITHEN: So, you would be, in my opinion professionally, you would be haphazardly placing value on properties that you don't know if that property has that characteristic or not.

COUNCILMAN GREEN: Well, you know that in the database other similarly situated properties probably don't have that characteristic either. I recall as the OPA headed down this path, it was really driven by our former budget director of gathering every single piece of data, you reach a point of diminishing returns with respect to data, you either have a statistically significant sample of data or you don't.

MR. MCKEITHEN: But let me tell you why I wouldn't take that approach just specifically.

If you were to value a lot of properties on a particular block and you said that they had garages and garages added, let's hypothetically say $30,000 to a particular single family property, then you're going to give those people an assessment notice that represents something, an additional $30,000 that they don't have. Now, of course those people can appeal, and we have a first level process, but you're making them go through a process that you put on them because you did not vet the data, and then that's somewhat --

COUNCILMAN GREEN: Well, that's true, but there was data in Characteristics before OPA was created.

MR. MCKEITHEN: Right, but, sir, it is bad, that's why we couldn't go with the last reassessment, if I'm not mistaken. And if you look at what we're finding, we're finding, you know, things that need to be documented like houses that have been knocked down that, you know, we're still carrying on the books and vice versa, new construction where we have vacant lots. So, without giving it the proper time and consideration to really look at that data, to really clean it up and vet it, in my opinion you would be acting somewhat irresponsibly.

COUNCILMAN GREEN: Maybe it's irresponsible to --

MR. MCKEITHEN: As an assessor I wouldn't feel comfortable with that.

COUNCILMAN GREEN: Well, what percentage of the City's data has a house constructed that is not in your system? And, frankly, that is not the fault of anybody but L&I or whoever is supposed to be sending that information over to you.

MR. MCKEITHEN: We are not blaming anybody, we just --

COUNCILMAN GREEN: It's a simple question.

What percentage of the properties, residential properties, has such a big change like no house there, which is probably not going to be a taxpayer who is going to pay a bill, and the opposite which is there is a house that we didn't know was there, what percentage statistically --

MR. MCKEITHEN: I don't have a percentage. What I have is verbiage from my residential supervisors who informed -- we meet every week, every Friday, and I am told there are blocks, there are streets, that we don't have values for where the houses have been removed.

I am hearing from my supervisors, as well as some of my staff, that we have numerous properties where additions have been built and we don't have it on the books. And, so, these are the reasons in my opinion why I stated from day one our process has to involve a field inspection for at least every residential parcel and a great portion of the commercial ones as well.

And, also, and not to cut you off, but that doesn't even begin to speak of the commercial piece that we haven't even --

COUNCILMAN GREEN: I haven't even gotten to commercial

MR. MCKEITHEN: Okay. All right.

COUNCILMAN GREEN: So, really, wherever a house has been knocked down that your records show was there, the value of the property may not change all that much with respect to that, I imagine, but let's just say and where ever there is a new house that appears it's not in the Characteristics database, that would produce a money sheet, would it not?

MR. MCKEITHEN: Yes, it would, but --

COUNCILMAN GREEN: Okay. So, here is another request.

MR. MCKEITHEN: If we have seen it. Once again --

COUNCILMAN GREEN: Well, 75 percent of the city is done so it's going to be a pretty good sample size. Statically that's way better than a poll.

MR. MCKEITHEN: Okay.

COUNCILMAN GREEN: So, it's a simple question. Can you please provide the Chair with the number of money sheets that are in the front end system that effect value at all, and break it down by 10,000, by 20,000, by 30,000, by 40,000, by 50,000 and just the total number of money sheets that went into the system.

MR. MCKEITHEN: We may not be able to do that because the money sheets I don't know if they're coded to pick up whether something is new construction or not.

MR. PIPER: No.

MR. MCKEITHEN: Yeah, see, you would have to have that coded. And one of the things I want to do for next tax year is to have some sort of system where we can tally up new construction, but right now we don't have a system that will tell you whether something was new construction or exactly what the cause of the money sheet was like that.

COUNCILMAN GREEN: So, what are the codes that are available for a money sheet?

MR. PIPER: We do have codes that are available to indicate a change, but they don't necessarily --

COUNCILMAN GREEN: What codes are they? What codes are available for money sheets?

MR. PIPER: I can provide them

MR. MCKEITHEN: Yes, we can provide that to you.

MR. PIPER: There's only about 12 codes.

COUNCILMAN GREEN: I think among those 12 codes we can put together a request that will --

MR. MCKEITHEN: We'll provide you the codes.

COUNCILMAN GREEN: And based on that we can put together a request.

MR. MCKEITHEN: And that would have to be a manuel process, correct?

MR. PIPER: Yes.

COUNCILMAN GREEN: I am sorry. You don't code -- when you take the money sheet data and you put it in the front end system, you don't record the code that created the money sheet in the front end system?

MR. PIPER: We do record the code, yes.

COUNCILMAN GREEN: Okay. So, I can ask for a run based on the various codes?

MR. PIPER: Right.

COUNCILMAN GREEN: And based on the change in values in the front end system?

MR. MCKEITHEN: We'll provide you a list of the codes and then you can tell us what you want.

COUNCILMAN GREEN: I already know what I want. I would like a run of the money sheets by code and by value, so $10,000 change, $20,000 change in $10,000 dollar increments.

MR. PIPER: By the value of the change?

COUNCILMAN GREEN: Yeah. So, if the front end system doesn't record the change in value that was created by the money sheet?

MR. MCKEITHEN: As I look at my IT director, he is saying he doesn't know if our system will be able to, but we will do the best we can and try to get you a report and we'll work with you if you're amenable to seeing what we can do.

COUNCILMAN GREEN: Okay. I mean, certainly I will wait to hear back what you say you can do.

MR. MCKEITHEN: Yes.

COUNCILMAN GREEN: And I will reserve judgement on whether or not I am amenable to that.

So, my understanding is that the following data points can lead you to 85 percent of the value of a residential property: Sale price, location, year built, condition, poor, fair, good, excellent, and type of construction, brick, masonry, stone, wood, et cetera.

MR. MCKEITHEN: You're asking me is that true. I think that it depends on what market you're in. I mean, that might be a guideline, but that might not necessarily be true for every locality.

COUNCILMAN GREEN: Don't we have far more data points on almost all properties in the City of Philadelphia currently in Characteristics?

MR. MCKEITHEN: Once again, the current data points might be erroneous. That's why we're out doing a --

COUNCILMAN GREEN: They might be, but they might be -- in other words, when we gather this data going city wide, every year we're going to have to go out and see if there are changes again and again and again, and at a certain point you have enough data statistically that you say, okay, this is close enough.

MR. MCKEITHEN: Can I, if I follow

you, let me say this. I think year one and two, that might be -- we might be better off to say something like they'll be a small change in certain, but we have never ever as a city gone out and inspected everything. And I think until we do that and we do that and collect the data accurately and it reflects accurately in our system, I think we're -- I don't think you can say that.

COUNCILMAN GREEN: Statistically, the data produced by the BRT in 2009 I think was presented and was presented on a disk to Council, which I have in my office, met IAAO standards and it met it based on the characteristics that were currently in the system. So, it was a statistically significant enough sample for us to meet those standards two years ago. You've added data for three years since that time that that run was produced, so statistically you have got a big enough sample size today to get it almost perfect. You're never going to get every property right, but at a certain point you have to say I have enough data, let's run it and see how it looks. And that's kind of, you know, I don't think it will be unreasonable for Council to ask you to do that before we reach the end of this process. And I think you heard the President trying to make that point earlier

MR. MCKEITHEN: I think I would have to advise or recommend against that based on what we have seen.

I can't speak for what was done in 2009 and what reports were run. I know that since I've been there, there have been numerous discussions amongst our staff about things that they are finding out in the field and I think there was some criticism from the media perspective of what that reassessment back then might have produced as far as errors. So, I professionally would advise against it without seeing everything.

COUNCILMAN GREEN: So, what you're telling me is you have never even evaluated the BRT assessment yourself, it's just you're going based on what you have read in media reports and?

MR. MCKEITHEN: I have talked to the

people who ran that file and a lot of them are currently there, and so based on what I have been told, I trust in the methodology we're using now versus what they may have done back then.

COUNCILMAN GREEN: Right, but it was just statistically -- basically they used statistics to correct for data that wasn't in the system and they got it basically right. If you go look at a -- do you have a disk of that?

MR. MCKEITHEN: I don't have it in my possession, no. But, once again --

COUNCILMAN GREEN: You have access to it, to that data?

MR. MCKEITHEN: When you're doing a re-assessment, you want to do it as accurately as possible --

COUNCILMAN GREEN: Of course you do.

MR. MCKEITHEN: So, I mean, without being too picky, so to speak, I think that if you can continue to go out and find errors in the data of substantiality, additional stories that aren't there, properties that we don't have listed as being vacant lots, I mean, I think that you owe it to your profession and the taxpayer to take the steps to do it right as much as possible.

COUNCILMAN GREEN: Absolutely correct.

MR. MCKEITHEN: And I, based on the historical information that I have gotten, I have been told a lot of individuals are happier, have more confidence in what we're doing now versus what they did back then.

COUNCILMAN GREEN: I don't know what that means sort of people having conversations about what happened in the past or not happened in the past. This is a simple area, and it is clear that the more data points we have, the more accurate the system is going to be. At a certain point, you have to fish or cut bait and say do we have enough data to produce a statistically significant sample that is going to be correct for 99 percent of the residential properties in the city or 97 percent of the residential properties in the city, and I am not an assessor, but since they could do that without all the extra data that was provided and get it right within IAAO standards, it's my suggestion that we could --

MR. MCKEITHEN: Well, first thing's first. I have no knowledge of how those studies were run statistically. I'm not going to, you know, cause immense doubt in them, but I would be more confident in doing the steps that a typical jurisdiction would do recommended by IAAO that you would get the type of results that you could stand by.

COUNCILMAN GREEN: I completely agree. I am not suggesting you stop having people --

MR. MCKEITHEN: So, I am saying I can't speak to that --

COUNCILMAN GREEN: I am not suggesting you stop having people gather data. I mean, that's constantly what us evaluators should be doing all the time, especially as we go to a mass appraisal system where based on that data it's computers that are going to be generating values and evaluators are going to be confirming what is produced based on their field experience rather than the other way around going into the computer system. So, I completely agree, that it's only a simple point, and that point is at a certain point you have enough data to have it be statistically significantly correct such that you can go out and meet IAAO standards and be there. And I don't hear you saying that we would not meet standards if we didn't --

MR. MCKEITHEN: I am getting ready to say I don't know that you would. You know, without tossing -- without saying that, you know, everything that was done in 2009, I can't speak to it, you're speaking to me about it, but I don't know that you could produce the type of statistics that would be industry standards based on what we have in our system now. And my professional opinion is that you continue with the steps that are necessary to ensure that you would meet those standards.

COUNCILMAN GREEN: Well, I guess I would like to know statistically of the 75 percent of the properties that you have reviewed, how many have had a data change that is significant enough to effect their value. Because if the answer to that question is not a large number, then we're just spinning our wheels. We need to go ahead and produce values based on what we have and continue to update as every assessor's office should every year. Or we can wait, as you're suggesting, if this is the professional thing to do, then we should wait for all of the data to be in so that this body can make an informed decision about the measures we are going to put in place to protect low income, seniors, and other people, et cetera, that would be legal, and without knowing the data and the aggregate values, we can't come up with whether 15,000 or 90,000 is an appropriate Homestead exemption

MR. MCKEITHEN: But you cannot get a value tied to what we have collected until you have run, cleansed, and reviewed the models, and we are not at that point yet. And I think that's what we were discussing with Councilman Clarke, Council President Clarke, is that we're not at that point.

So, all we have are characteristics that have been collected on whether a property has a garage, what condition it's in, things like that, but there is no value tied to any of that yet.

COUNCILMAN GREEN: Well, we have that data because we have the last 24 months of sales data, the last 36 months of sales data, and we could at any time we wanted apply that to the information in Characteristics to see what results are produced and then do a statistical analysis to see if that met IAAO standards

MR. MCKEITHEN: I think when you're modeling, and, you know, probably Dr. Bob Gloudemans would be a better individual to tell you since I am not convincing, but you can't -- it's not recommended that you model based off of information that you collected year end analysis you've done years ago. If you're going to have --

COUNCILMAN GREEN: I don't understand that question, because isn't the pricing model based on the sales over the last 24 to 36 months?

MR. MCKEITHEN: It's based on those sales --

COUNCILMAN GREEN: And don't you have

that data today?

MR. MCKEITHEN: -- but for 2009 analysis you had to have had sales prior to 2009. So, you're looking at sales if you went back, if the team who did that analysis did three years back, they're back into 2006, and that's a whole different type of market.

COUNCILMAN GREEN: I am not asking for values in 2009, I am asking for values in 2012, and you get that based on the value --

MR. MCKEITHEN: But you're using characteristics that haven't been finished.

COUNCILMAN GREEN: But that's actual sales data. That's actual sales data which you have. You have the actual sales data, don't you?

MR. MCKEITHEN: We have sales data running up to as current as possible, but, you know, we don't have characteristics that have been collected and vetted for right now.

COUNCILMAN GREEN: But you have actual sales data for every property that's sold over the last three years, don't you?

MR. MCKEITHEN: We have access to

that.

COUNCILMAN GREEN: And isn't it that information that creates the pricing model?

MR. MCKEITHEN: That information is used, but that information is used with characteristics that are in that time period.

COUNCILMAN GREEN: Sure. And you could use it with all of the characteristics you're going to continue to gather.

MR. MCKEITHEN: So, I guess what I'm saying is, okay, so you're asking to use current sales and you want to use old characteristics.

COUNCILMAN GREEN: No, I don't want to use old characteristics.

MR. MCKEITHEN: Well, that's what we would have if you --

COUNCILMAN GREEN: I want to use the characteristics that are currently in the characteristics database.

MR. MCKEITHEN: Right, but once again while 75 percent have been collected, not 75 percent have been put in, so you basically will be using a lot of old characteristics.

COUNCILMAN GREEN: Sure you would. And most of the old characteristics is accurate. You're not changing -- in other words, you're not suggesting that you're changing most of the characteristics on every single property, are you, because we just determined that 85 percent of a value could be determined by just a few small number of characteristics, when you add the number of windows, the number of bedrooms that is already in your data.

MR. MCKEITHEN: I think that the characteristics that we are finding are enough to state that we need to collect them all. I mean, you got to also think about equity here.

What happens if the characteristics that we have collected partially in a neighborhood, we use those and the other part of the neighborhood we haven't, we used the old ones, and so now you got, in my opinion, an equity problem, have the taxpayers been treated fairly if, in fact, they are -- some of them are using new data and some of their values are used for old data. It's just not a clean --

COUNCILMAN GREEN: It's never going to be perfect.

MR. MCKEITHEN: Okay.

COUNCILMAN GREEN: And the more data you have, the more fair the system is, would you agree with that?

MR. MCKEITHEN: No. Not -- just in the general sense. Good data, I think the key here is good data. Yeah, you can have data, the data module is filled out, is it good, is it accurate, is it clean, not so in our case. I think that's why we had so many problems.

COUNCILMAN GREEN: You say that, but you don't produce data to demonstrate that. I mean, you're saying, well, you know, we do change a lot, but I mean I think if we're going to be asked to do what we're being asked to do, we should expect you to be able to answer that question. What percentage of the data has been inaccurate with respect to a particular property on average.

MR. MCKEITHEN: Right, but I won't know whether it was accurate or not until I go see it all.

COUNCILMAN GREEN: But you can't go see it all.

MR. MCKEITHEN: Okay.

COUNCILMAN GREEN: Isn't there a percentage of data that if you -- I mean, you're not keeping statistics to even demonstrate the point you're trying to make and you're in control of all the data and we are just supposed to sit here and based on the experience reach a conclusion --

MR. MCKEITHEN: I think you're recommending to me that we use old data that may have passed some standard and we don't really know how that report was run to see how it -- I don't know how it was run to see how it passed the standard, but you're recommending to me that we use old archaic data that we're finding today in the street that a lot of it is incorrect.

COUNCILMAN GREEN: How much?

MR. MCKEITHEN: I can't tie --

COUNCILMAN GREEN: That's anecdotal -- that's anecdotal stories you're repeating. I want to know statistically what a lot means.

And if you can't answer that, then it's just anecdotal.

MR. MCKEITHEN: Okay, well maybe it's -- I can't tie a percentage to it because I don't have a system that will tie a percentage to it, but I mean the best I could do is inform you of what we're finding and --

COUNCILMAN GREEN: Let's just take one small example. It's a rowhouse in Northeast Philadelphia in Mayfair, let's call it, and the data in the database is going to say that it was built as a three bedroom, it's going to say that its lot size is "X," the same as all the other lots around it. It's going to tell you what, I don't know if it tells you whether or not it has a front roof, it tells you, you know, how many bathrooms it has or had when it was built, you have most of the data you need. The additional data you're going to add to that property is incremental. If they built a garage somehow in the back alley, that's an important piece of data, but my point is there aren't that many properties that have undergone that significant a change where it is not worth while to just -- to take the combination of the new data -- it's all the datas and characteristics, old like the information on that rowhouse, and new, which is additional information on that rowhouse. And, so, we have a lot of data, and most of it is accurate, so --

MR. MCKEITHEN: And, sir, I think we want the same thing here, I really think we do, but my example would be what happens when half of a block or like five or six houses in a block are gone and we have them as free-standing single family homes and we don't even know that they're gone because we haven't gotten down to that part of the city yet and we're going to value them with a value of $250,000 and the public is going to see that and say, well, how can Mr. McKeithen know what he was doing when he valued all these houses on all these streets and they're vacant lots.

COUNCILMAN GREEN: Well, the answer to that question is we do that today. The answer to the question is that will be such a small subset of the overall amount of data that you will have gotten it 99 percent correct. That's the answer. You can't create the rule for the exception, and that's what you're suggesting. You're trying to create a rule for every exception and apply the rule in cases where it doesn't exist, and that's not how a statistical modeling works and it's now how our property appraisal system should work. You don't create rules for the exceptions.

Okay. So, turning to commercial property valuation.

MR. MCKEITHEN: Yes.

COUNCILMAN GREEN: Can you walk me through the day in the life of a commercial industrial evaluator?

MR. MCKEITHEN: Okay. A commercial evaluator, we have several different commercial units, depending on what unit you're in, but I will start with the major office, hotel evaluators. They're going to come in, they're going to do some of the same similar things a residential one would. They'll check their emails and check their phone, calls and things like that. Then they're going to start looking at some of their properties, trying to acquire the data that's needed to value those. Some of that data, the most important pieces of data are going to be like the income and expense documents. If they don't have an income and expense document for a particular piece of property, they're going to look for comparable properties in the specific building class and try to get data and comp it out to the subject property.

They work mainly with pro forma sheets, which is the income and analysis, to get a final value, and then they're going to walk through each item on the pro forma and see if it's reasonable or not or supportable and then they're going to derive a final value for any particular office building or hotel.

They work a lot more with professionals in the industry. We have different applications that will help us look at leases, they're going to look at all types of financial information to walk through every component of that pro forma and then they're going to move onto the next property and value each of those properties more on an individual basis as opposed to in mass like the residential people do.

For like the apartment unit, they will do something very similar. They look at the income and expense information for each particular parcel that they have information for. They will look at comparability for ones that they don't have it for and look at rental rates and things like that and try to, you know, gain a value for each multi-family apartment complex property.

So, similar with industrial, similar with the large general commercial stuff, and so they mainly work on a more individual basis with information and then caucus up with their supervisor, or Ms. Machiz back here, who is the assistant administrator for commercial, and, you know, industry experts.

COUNCILMAN GREEN: So, for commercial properties, how many properties have you received the rent roll and income information on as a percentage of the whole to allow you to evaluate that and how do you audit that?

MR. MCKEITHEN: We can get that for you. We did do a breakdown on what we got back off of the last mailing, so we will get that for you.

COUNCILMAN GREEN: In order to set values city wide if the same -- I assume you're trying to apply the same principal to commercial and industrial that you're applying to residential?

MR. MCKEITHEN: It's a mass appraisal approach, but it's more itemized when you get down to it.

Industrial is a little bit different. It can be done more in mass with rates per square foot of sales and things like that, but when you're talking large office buildings, hotels, it's much more of an individual process.

COUNCILMAN GREEN: Right. And you try to audit out expenses that are --

MR. MCKEITHEN: Right, that don't belong.

COUNCILMAN GREEN: -- overhead.

MR. MCKEITHEN: Exactly.

COUNCILMAN GREEN: Unnecessary interest expense paid to a corporate parent, what is your process for --

MR. MCKEITHEN: Well, we have a list of things that are not applicable in real property valuation, and so when we see those listed in the income and expense report we pull them out and we only use the things that are applicable to industry standard.

COUNCILMAN GREEN: Do you know what percentage of properties have been you have all the data you need?

MR. MCKEITHEN: Well, you never have all the data you need, you have a certain amount of --

COUNCILMAN GREEN: I completely agree with that point. That's the point I was trying to make a minute ago. You never have all the data you need.

MR. MCKEITHEN: But you use the data that you have.

COUNCILMAN GREEN: That's right. I agree again.

MR. MCKEITHEN: But for commercial

properties it's much easier to do because you can go to other things like Costar and you can go to brokers and things like that and get information, so.

COUNCILMAN GREEN: What percentage complete are you in terms of gathering the data?

MR. MCKEITHEN: Well, we're sending out income and expense surveys in May to be returned back in June for the commercial properties, so large office building, hotel, some of the things I just told Council President Clarke, the multi-family properties.

COUNCILMAN GREEN: I'm sorry, so what happens when you don't get back data in June for 90 percent of the properties in the city, how do you then go through and do what you're doing with residential properties such that by September you can set a value on all of that stuff? If you're beginning that process now, how can we reasonably expect it to be completed in three months?

MR. MCKEITHEN: Well, once you get the commercial I&Es, it's a lot less analysis than you might have to do with residential.

Large office buildings are not going to change in condition and things like that in between the time you first see it and when we you do that I&E report, so we're going to get back, you know, a certain percentage and it will be -- hopefully it will be healthy enough where we can make certain assumptions and, you know, plug in information on pro formas and derive values. And then we also have -- I'm sorry -- we also have appraisals that will be done on various properties out of a certain dollar value, and so we will have that information as well.

COUNCILMAN GREEN: What percentage of the properties -- you're basically saying you have not begun that process today because you're sending out the --

MR. MCKEITHEN: We have begun field inspections for like our industrials and our mixed use and things like that. I was starting off with the large office building and hotels where, you know, you don't -- you live and die pretty much by the I&E reports.

COUNCILMAN GREEN: And what happens if you don't get the I&E reports until August for a majority of the properties?

MR. MCKEITHEN: I anticipate we will get the majority of them by June, no later than July. If we don't -- we also in appeal season, so some of them it behooves us to wait until an appeal is filed and we have an appraisal report from the actual property owner, so.

COUNCILMAN GREEN: Well, they're likely to win any appeal if we haven't reappraised them in this process, aren't they, because compared to the average residential property they're over valued. So, to the extent you don't complete or get that full information by September, aren't we setting ourselves up for a situation where we've set a Millage Rate based on values that are way too high for commercial and industrial?

MR. MCKEITHEN: You're going to get an opportunity, if you don't get the I&E, then you're going to get enough I&Es from comparable properties, typically you will get enough I&Es from comparable properties to make assumptions about your subject that you didn't get the I&E for. So, you know, that's -- and then once again you have things like Copass and Costar and things like that to lead you along the way to help you with these assumptions in the pro forma.

COUNCILMAN GREEN: So, how much of a change are you expecting in commercial and industrial?

MR. MCKEITHEN: Well, I can't say. I mean, I haven't run any numbers on them yet, so I can't say.

COUNCILMAN GREEN: You can't say. If it's a significant change and you have two months to do it, doesn't that really put into question the whole process?

MR. MCKEITHEN: No, because you can, once again, you have the information, and the information is valid.

COUNCILMAN GREEN: You don't have the information if they don't send it back.

MR. MCKEITHEN: Once again, you're not -- if you don't get the information for each every individual property, you're going to get it for some that are comparable enough for you to make the assumptions.

COUNCILMAN GREEN: What percentage are you going to have get it from in order to have a statistically significant sample enough?

MR. MCKEITHEN: I don't think that you have to -- I think you need to be able to get enough for each type of property breakdown that you have. And in addition to that, with all the information that you can obtain from outside sources, like, once again, Copass, Costar and things like that, I think you have enough information to make an estimate of value.

COUNCILMAN GREEN: So, what you do is you take the information you have on property "X" and say that I can apply this to property "Y" because they're similar properties, they're the same --

MR. MCKEITHEN: Worse case scenario.

COUNCILMAN GREEN: I'm sorry?

MR. MCKEITHEN: Worse case scenario.

COUNCILMAN GREEN: Right.

MR. MCKEITHEN: Right.

COUNCILMAN GREEN: Okay. So, what I don't understand is why you can't do the same thing in a residential area where you've got rowhomes built all around the same time, half the block is done, you know, you know the other half was built at the same time, it's going to be roughly the same data you can apply to it to get similar values, in other words, you compare -- you apply the values from the properties that you've looked at -- I mean, we can go back and forth on this all day -- but statistically I think you're demonstrating what you can do in commercial, you can do in residential if you choose to, or you can choose not to and then the data is not available for City Council as they consider this momentous decision. It's a choice you're making that --

MR. MCKEITHEN: I think that this is -- it will be a huge mistake to think that you could do the same thing with residential you could do with commercial. And commercial properties, once again, are not as volatile. They're not knocked down as often. They change as far as leases and things like that and tenant fix up, but they don't change as far as being removed and new ones being built as often as residential, and so you have a better opportunity with collecting data and getting -- and making assumptions then you would with unseen residential properties.

COUNCILMAN GREEN: I would accept your premise if there was any data to back it up.

MR. MCKEITHEN: Okay.

COUNCILMAN GREEN: So, what data does OPA have that demonstrates that residential properties actually change their characteristics, get knocked down more than commercial properties or industrial properties in the city, for example? I mean, you just made a statement as if it were fact, I would like to know --

MR. MCKEITHEN: Experience has taught me that you don't oftentimes see a Marriott knocked down as often as you would see a rowhouse.

COUNCILMAN GREEN: No, but a lot of the industrial properties are knocked down in this city, a lot of smaller commercial properties. We're talking about all of commercial and industrial.

MR. MCKEITHEN: I am more concerned about the larger ones that would be an obvious mistake. I think that they're a lot easier to deal with from that perspective then a residential rowhouse in neighborhoods you've never seen.

COUNCILMAN GREEN: But once again what you're presenting is anecdotal evidence and not data, is that fair?

MR. MCKEITHEN: I don't have statistics to demonstrate that, but I think twenty-some years of experience will show.

COUNCILMAN GREEN: Could you please provide us with a matrix showing the following -- we will send this to you too -- all existing property tax relief mechanisms, whether they're permitted under state law, the State Constitution, as Councilman Kenney mentioned, whatever. All proposed mechanisms. The source off authority state or local law for the mechanism. What property owners are eligible for the relief under the mechanism.

The average and total value of relief provided for each mechanism and projected amounts for proposed relief measures. And based on the totals, and this is the important part, the average cost to the average taxpayer of the existing and proposed relief measures?

MR. DUBOW: We can get you the information we have on that. So, you'll send that to us too so we'll know exactly what you're asking for.

COUNCILMAN GREEN: Yes.

I think I will stop here and we'll wait for a call back so we get some data.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you. Councilman.

We will break for 45 minutes. It's 2:45.

(At this time, a short break was taken).

COUNCILMAN JONES: Good afternoon. Council is reconvened. Will the next operating department come up, I believe it is the Office of City Treasurer. Will you please approach the witness table.

(Witnesses approach).

COUNCILMAN JONES: Councilman Greenlee says five minutes is five minutes real time. We're going to get started.

Good afternoon, everyone.

MS. WINKLER: Good afternoon.

COUNCILMAN JONES: State your name and please submit your testimony.

MS. WINKLER: Okay, great. My name is Nancy Winkler. I am the City Treasurer and thank you, Councilman Jones, Councilmen, for having us here today.

We have submitted our written testimony and I understand that you would like us to simply summarize.

COUNCILMAN JONES: You can take your time. There is not that many questions, so you might want to go ahead and do it and get it in.

MS. WINKLER: Okay. Go ahead and read it then?

COUNCILMAN GREENLEE: No.

COUNCILMAN JONES: No.

MS. WINKLER: Summarize, I am going to

summarize.

So, the City's Treasurer's office is responsible for the distribution of checks and electronic payments. The investment of bond funds and operating funds not needed for daily retirements. In addition, the office is responsible for new bond issuances for fundings and the management of over $8.7 billion of outstanding debt including debt issued for the General Fund, the Water Department, the Aviation Department and the Philadelphia Gas Works.

The Fiscal Year 2013 General Fund budget request is for $886,605 which represents no change from our Fiscal '12 estimated obligations, provides funding for the City Treasurer to accomplish these core responsibilities: The highlights of the fiscal '13 budget requests by proposed expenditures are as follows:

$745,937 in Class 100 funds representing 84.1 percent of the Office's proposed budget which funds 14 positions. There is $118,444 in Class 200 funds representing 13.4 percent of the Office's proposed budget and the combined Class 300 and 400 amount is $22,222 for supplies and equipment.

In Fiscal 2012 the Treasurer's Office supervised the issuance of $173 million of Tax and Revenue Anticipation Notes, TRANs, which we call the City's TRAN. $233.8 million of Airport Revenue Refunding Bonds. $88.8 million of Gas Work Revenue Bonds, refunding bonds, and $135 million of Water and Wastewater Revenue Bonds for new construction which was sold at the same time as $49.9 million of refunding bonds.

Highlighted below are some of the main accomplishments for the City Treasurer's office. We generated a total of $26 million of present value savings in three refunding transactions. I'll skip the details of that.

We worked on restructuring 12 different letters of credit, which was done from April 2011 through December of 2011. That produced significant annual recurring savings, better business terms, reduced the costs and the risks for the City. Longer terms, we have longer periods of time before the expiration of these facilities locking in these lower costs and reducing the costs of renewal. And we also diversified our exposure in several ways, one by bringing in more letter of credit banks, higher rated letter of credit banks, and staggering the expiration dates so we won't have as many letters of credit all expiring in such a narrow window of time.

The City has ratings of A2 from Moody's Investor Service and today S&P upgraded the City's bond rating --

COUNCILMAN JONES: We heard that. Congratulations.

MS. WINKLER: Thank you. Congratulations to everyone who is in here.

COUNCILMAN JONES: I am sorry to interrupt, but that's exciting.

MS. WINKLER: It's terrific. It's great.

Upgraded the City's rating from BBB flat to BBB plus with a positive outlook. And Fitch has maintained the A-minus rating that was in place prior to that.

During the fiscal crisis, City had been downgraded by Moody's from A1 to A2 and in December of 2009 Fitch downgraded the City from BBB plus to BBB and then Moody's -- sorry, Fitch undertook a revision to its rating system which led to an increase in the rating which was related to the change in their rating system and that went up to A-minus.

So, we are working as part of the team to maintain strong relationships with the rating agencies and also with investors. The City has, you know, a history of having had a financial control board and so it's very important for us to work closely to educate investors around what is going on in the City so that they can be comfortable in buying the City's bonds. We believe that the City's general fund rating effects not only the cost for general fund financed projects, but also impacts the borrowing costs for Water, PGW and Airport. So, when we get this increase it really should help all the other related borrowers, even though they're not secured with the General Fund in any way.

One of the other accomplishments this year was a competitive sale of the City's TRAN. That is the first time we sold the TRAN competitively in some time, at least ten years. We did it on the Internet. We received 34 separate bids totaling $1.7 billion in orders, which was ten times the size of the TRAN. The TRAN was $173 million, and that helped lower our annual borrowing costs for the TRAN.

I think I will skip past the rest of the written testimony and see if there are any questions.

COUNCILMAN JONES: Well, again, congratulations. We just got the news as well that that happened. We went from BBB to BBB plus with recommended rating.

And I was curious, what are the, if you had to name three factors that helped us to improve that rating, what were they as a municipality?

MS. WINKLER: I think it's hard to just name three, but I would like --

COUNCILMAN JONES: Well, you can take

liberty, but at least three.

MS. WINKLER: First of all, the very strong financial management of the City through this extended recessionary period, the severe downturn in finances which started in 2008, the City put a plan in place which required a very wide range of actions, management actions, legislative actions, City Council actions, state actions and that plan eliminated the deficit and in this year, as you know, the City ended with a fund balance of $92,000, which is basically no fund balance, but it's a slight positive fund balance on a budgetary basis, not a gap basis. So, that process that the City went through over several years and the ability of all the various stakeholders to come together to find a solution was very important, and it was important to see a trend.

It was also very important that the FY12 budget and the FY12 current projections included in the FY13 budget show a continued contribution to fund balance, fund balance being one of the key financial metrics for all of the rating agencies. So, that is extremely important. They will be looking to see that we actually do meet that projection.

COUNCILMAN JONES: I know our rating agencies aren't created equal, are some more equal than others. Is it better to have the A-minus versus the triple -- can you explain that to us out of the three?

MS. WINKLER: Well, the investors typically want to receive an interest rate on the bonds that they own commensurate with the lowest rating that's out there. And, so, for us the gap between the Moody's A2 and the BBB flat was costly to us because --

COUNCILMAN JONES: $26 million we saved last year, was it?

MS. WINKLER: No, that was just the refundings on other bond deals that we did last year, that has nothing to do with the potential ongoing value to the City of getting say into the A category. But it will be -- it should be millions of dollars to the City and all of its borrowers if the City could get into the A category because there is about 80 to 100 basis points, in other words, between .8 percent and

1 percent roughly incremental additional costs to being a BBB credit versus being a single A credit. And really this has changed very materially in the last few years. It used to not really cost the City very much to be a BBB credit because up until 2008 the City was able to buy bond insurance at fairly low cost and could just then access the markets with the bond insurance, which was AAA. And since the credit crisis, investors are drawing very major distinctions and demanding much higher rates because they don't rely on bond insurance anymore and they're really looking to the underlying rating.

COUNCILMAN JONES: How many bonds were refunded in FY12?

MS. WINKLER: I think it was roughly $372 million in bonds across three programs. I am correct apparently.

COUNCILMAN JONES: And what is the process by which the decision is made to refinance or refund?

MS. WINKLER: So, the City has a bond, has a debt policy, and the debt policy establishes a savings requirement so we don't do a refunding unless the bonds that we're refunding produce at least three percent savings. So, we have to be able to lower the City's cost at least three percent on a present value basis, and so that's the basic criteria we use.

I think these transactions actually generated savings in excess of three percent.

COUNCILMAN JONES: So, that's about $26 million?

MS. WINKLER: Yes.

COUNCILMAN JONES: Okay. So, once we started doing that, did you approach the rating agencies or did they contact you? What was the process that actually got us bumped up in those rating agencies?

MS. WINKLER: So, both Moody's and Fitch have just maintained the rating in this most recent ratings action, which is associated with another refunding we are doing. We are refunding the 2002 Neighborhood Transformation Initiative Bonds for Savings. So, about a year ago we went to S&P and said look at the City's plans, we appear to be able to be on track to eliminate the accumulated budgetary deficit and that's quite an accomplishment in this extremely difficult economic environment, we think you should consider upgrading us. And so they went back to Committee, this was last March, and the Committee agreed they would consider upgrading us and at that time they changed the rating from BBB flat to BBB with a positive outlook, and that enabled us to spend really the next year talking to them about what we're doing.

We had a team here in December. That team came down for a full day. We spent the morning presenting the City's finances and having them meet some of the key departments. They met with the Revenue Commissioner, they met with Rich McKeithen to learn about what was going on with the re-valuation. They met with the prison's commissioner to learn about some of the cost savings and management changes that have been going on there. They met with the police commissioner and his team. Each one of these entities brought teams of people in.

They met with the mayor and his education officer and the pension folks, so they got a very rich understanding of the strength of the management of the City. Because, really, our pension funding and our fund balance are very, very weak, and so what our strategy was, was to argue that notwithstanding these extremely weak, you know, relative to other cities, relative to other cities with similar demographics to ours, we have various, you know, we have good management. And the other half of the day --

COUNCILMAN JONES: Say that again, I mean for the record, so we all hear that, comparable.

MS. WINKLER: Relative to other cites with similar demographics, we have very weak pension funding and very weak fund balance.

COUNCILMAN JONES: But we have --

MS. WINKLER: But we have very strong management, which --

COUNCILMAN JONES: That's Rob Dubow you mean?

MS. WINKLER: Yes, certainly it's Rob

Dubow, and really -- but it's across departments, there is lots of strong managers that have to manage in, you know, extremely tight budgetary circumstances.  And then we gave them an entire afternoon on the economy of the City.

COUNCILMAN JONES:  I am going to pass this on.  I have a number of questions that I'll defer until the next round, but, again, kudos because it meant real money to us to be upgraded and I think all of us, including this body, making grown up decisions in rough economic times managing our way through a recision says a lot.  We have a long way to go. I don't kid myself to think that we're out of the woods at all, but I am impressed that the needle is moving slightly in the right direction and it's reflected in our bond rating.

With that, I will recognize Councilman Green.

COUNCILMAN GREEN:  Thank you, Mr. Chair.

Good afternoon.

MS. WINKLER: Good afternoon.

COUNCILMAN GREEN: You mentioned that you gave the bond rating agencies a statement on the -- or spent a lot of time on the City's economy. What did you present to them?

MS. WINKLER: We took them on a tour of Center City and then we took them down to the Navy yard. And in Center City the presentation was coordinated with the Commerce Department with Alan Greenberger and his staff, with PIDC, with the Center City District, and with the University City District, Matt Bergheiser.

So, what we did is we put them on a bus and went around Center City. Then we went down to the -- we went along 95 down to the Navy yard, spent some time, went around the Navy yard, then went up to University City, went out there. Then we went over to a conference room at Comcast and had some businessmen speak about the business climate here and then Alan gave a power point presentation on the City's economy.

COUNCILMAN GREEN: Could you please

provide the power point presentation and any of the written materials to the Chair?

MS. WINKLER: Sure.

COUNCILMAN GREEN: Thank you.

MS. WINKLER: Actually, the power point presentation is so large that we don't actually -- do we have a file copy of it? Okay. It's extremely large. We might need to give you a flash disk.

COUNCILMAN GREEN: That's great. Any media is fine. Thank you.

COUNCILMAN JONES: Thank you, Councilman.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Mr. Chair.

Good afternoon, Ms. Winkler.

MS. WINKLER: Good afternoon.

COUNCILMAN GOODE: A few questions for the record.

Wells Fargo inherited our payroll deposits contract from Wachovia a year or two ago. When is that contract due to expire?

MS. WINKLER: That contract has one

more renewal on it. The renewal should be before you this spring. They're one year contracts which we can renew up to four times, so we have one more renewal which we would be bringing to you this spring and we would need it to become effective July 1, I believe, July 1.

COUNCILMAN GOODE: So, this time next year we will be anticipating a new contract?

MS. WINKLER: We will be running an RFP process to seek competitive proposals from the City's nine depositaries to propose for the payroll contract and we are exploring adding other City deposits as well?

COUNCILMAN GOODE: When will that RFP go out?

MS. WINKLER: We would like to have that RFP out within two months.

COUNCILMAN GOODE: Okay. And when will the renewal ordinance be submitted to Council?

MS. WINKLER: I'm sorry?

COUNCILMAN GOODE: When will the renewal ordinance be submitted to Council?

MS. WINKLER: We have initiated the process for that, but it's not prepared yet.

COUNCILMAN GOODE: Okay. And, lastly, when will the next disparity study be released.

MS. WINKLER: There is a draft of the disparity study which is under review. The first week of May.

COUNCILMAN GOODE: Thank you.

Thank you, Mr. Chairman.

COUNCILMAN JONES: Thank you, Councilman Goode.

Can I ask a quick question? What is the difference between bidding our bonds out and then underwriting them, and is there a potential savings in bidding them versus underwriting them?

MS. WINKLER: So, the difference is when we competitively bid, which is pretty rare for the City, we hire -- we have a financial advisor and our bond counsel and we just use them to structure the bonds, to pick the day of sale, and prepare all of the disclosure documents. We don't engage an underwriter. And we draft a notice of sale and we post that in the financial -- in the places where the bond underwriters know where to go and look and see, it's the bond buyer, Thompson Municipal. We post it there and give folks a couple of weeks to read our disclosure language and we tell them that on a day and at a time we will receive bids, we receive them by the Internet, and that we will award based on the lowest true interest cost, which is a methodology of calculating the entire cost taking in all the costs associated with the bond issue.

COUNCILMAN JONES: So, maybe four or five years ago we were in a poor position to get bonds and things like that, but has that improved because of the rating? Can we be a little more competitive at this point?

MS. WINKLER: So, I felt that the best way to start thinking and looking at doing a competitive sale would be to do something very straight forward, which is the TRAN.

The TRAN was a six month, a seven month obligation, investors could really get their arms around that and we knew that the City's liquidity had improved significantly.

In several years past, there weren't that many investors who were willing to buy the TRAN because the City's financial circumstances were uncertain and because of that very few people were willing to buy, so it wouldn't have been possible to sell the TRAN competitively, or it would have been maybe it could have happened, but it would have been probably risky and expensive. So, it was clear that there was big improvement. We were now in November/December of Fiscal '12, so about halfway through Fiscal '12, and so that seemed that would be a good way to get started with that. So, we took the bids in over the internet.

COUNCILMAN JONES: Madam Commissioner, how much does the City currently have in fixed rate debt?

MR. LANHAM: My name is Jim Lanham. I am Deputy City Treasurer.

General obligation bonds, there are different categories of fixed rate debt that we have. General obligation bonds we have about $1.9 billion. The total General Fund debt, that includes the Municipal Authority, paid the

Redevelopment Authority, is about $3.7 billion, and all in, including the Airport, Water, Gas Works debt is about $8.7 billion I believe.

MS. WINKLER: And then almost of the General Fund obligation, which is General Fund's supported obligation, the $3.5 billion of General Fund supported obligations, $100 million is General Funds, the General Fund debt, and then there is another $240 -- I believe it's $240 million of paid variable rate debt associated with the stadiums.

COUNCILMAN JONES: Letters of credit, those replaced and those renewed --

MS. WINKLER: Yes.

COUNCILMAN JONES: -- can you give us a sense of that universe?

MS. WINKLER: So, on the total amount of letters of credit that were replaced were -- the total dollar amount of the letters of credit that were replaced is not shown here, but I believe it was $960 million roughly. And what we did there was we ran competitive processes. We ran one process, which really was initiated before I got here on the stadium bonds because those were expiring first, and got bids, substantially lowered the cost, and then we put a package together for all of the remaining facilities that were expiring, for PGW, for Water, and for GO, and the only one that we didn't include in this solicitation was the Airport because PGW, Water and GO were all expiring within, I think it was within three weeks of one another, so from a timing perspective it made sense to put that in one solicitation. Of course people bid each one separately because their credit ratings are different and their credit characteristics are different.

So, we went, we took a team of people to New York, we invited all the banks in. We had about 50 people come to a conference room. We headlined up in New York and we did a three-hour credit presentation to the banks and I think that was important. When I was talking about investor outreach, that's the kind of thing we're trying to do and that I think also helped lower the cost.

COUNCILMAN JONES: What are the

minimum community reinvestment goals for each of these depositories that we deal with? Do you have any sense of that?

MS. WINKLER: So, now these letter of credit banks are not the depositories, they're different. The depositories are the banks in which we --

COUNCILMAN JONES: I'm sure, I get that, but do we have a minimum expectation from the banks that we place our money in based on the community reinvestment act?

MS. WINKLER: Are you speaking to me about the letter of credit banks or?

COUNCILMAN JONES: No, no, just the banks.

MS. WINKLER: I think they have to participate in our disparity study, but I am not sure we have a minimum.

COUNCILMAN JONES: This is on the line of Councilman Goode. I bet you if he is pressing his button right as I -- there you go. Would you -- do you want to --

COUNCILMAN GOODE: I will just elaborate on it.

The depository banks have to submit on an annual basis a statement of community investment goals. We cannot require them to have minimum goals because when Councilman Tasco introduced her (inaudible) or lending legislation, the state legislature barred us from passing that type of legislation. So, we are barred from passing any regulation that deals with their performance and basing our decisions based upon their performance and requiring certain things from them, but we are allowed to establish requirements for their authorization and that's what requires them to, one, submit annual community investment goals, and, two, submit a long-term strategic plan based upon an annual lending disparity study.

COUNCILMAN JONES: So, this legislative body can do nothing, but can the Treasurer through its discretion do anything to --

COUNCILMAN GOODE: This legislative body decides who is authorized. The Treasurer decides where to put the money in.

COUNCILMAN JONES: Okay. All right.

I'm going to stop on that and recognize Councilman Green.

COUNCILMAN GREEN: Thank you, Mr. Chairman.

In your -- it's great news on the upgrade -- but in your testimony you noted that Philadelphia's bond rating is on the low end of the spectrum for big cities in America.

Is there any city lower than Philadelphia?

MS. WINKLER: The City of Detroit is rated -- I'm not sure exactly what their rating is now because they have been having their rating drop on a fairly regular basis, and the date I have may be old, but they are in a non-investment grade status.

COUNCILMAN GREEN: So, there is one big city in America that has got a lower bond rating than us?

MS. WINKLER: If you look at some of the smaller City's, there are some smaller cities that have some, you know, lower ratings than us.

COUNCILMAN GREEN: But not big cities?

MS. WINKLER: No.

COUNCILMAN GREEN: What are the main factors that -- I'm sorry, you discussed that, it's the unfunded pension liability and lack of reserve fund.

So, to improve our bond rating further, what would that -- what does that look like?

MS. WINKLER: Well, I think the first step is to continue to make progress on building fund balance, and which is -- the City has very narrow liquidity now. We have really very, as you can imagine with a $92,000 fund balance, even when we -- if we, let's say, get to a 50 or 60 million dollar fund balance at the end of this fiscal year, that's still extraordinarily narrow liquidity for an entity of our size. It's only really a few days of operating cash for us, which is really very weak relative to our peers. Many of our peers carry between 10 and 20 percent of fund balances. So, I know often people talk about a minimum five percent. You know, I think it may be if we make some progress on the pension side, and here I am talking about not just funding but also bending the cost curve in some way through modifications to the benefits, those would be two major steps.

I also think getting through the actual value initiative exercise will be a major factor as well because it stabilizes the revenue, you know, a revenue source for the City.

COUNCILMAN GREEN: Has that been mentioned in meetings with the rating agencies?

MS. WINKLER: We have discussed all of these issues with the rating agencies, yes.

COUNCILMAN GREEN: Have they raised that as a concern?

MS. WINKLER: I'm sorry, which item?

COUNCILMAN GREEN: AVI.

MS. WINKLER: Yes. If you read the Fitch report, for example, they are concerned about the current situation, the risk exposure with the Steb as it stands now and the need to transition to a more reliable funding source and getting rid of that uncertainty.

COUNCILMAN GREEN: Will any one of

those three things improve our rating or is there a --

MS. WINKLER: I think it's -- at the end of the day what I think they're going to look to is a combination of things that stabilize the City and enable the City to have perhaps a little bit more financial flexibility then they have, the City has today. As you know, if we have even just a very small reduction in a revenue or an unanticipated expense, that creates immediate need to take action because there isn't any cushion to manage that.

COUNCILMAN GREEN: I mentioned this during the Capital Budget hearings last week, but I think the question is probably better directed to you as the Treasurer.

The Administration is proposing a commercial paid program for capital projects at the airport to borrow funds just in time and reduce interest costs. We noticed that in the capital borrowing we began last year with $200 million that we're borrowing and paying interest of five-plus percent on. We still have $143 million at the end of this year that we're paying five percent on. What do you think the pros and cons are of using a commercial paper program approach for capital budget, you know, for our regular capital budget to build up enough of a commercial paper balance to make it worth while to go borrow, we already owe the money?

MS. WINKLER: Well, it's a complicated thing to make a decision to implement a commercial paper program, I think, for the City because its credit rating is so low and, in fact, it has struggled a little bit at certain times with getting cost effective letters of credit, and you need a letter of credit to do a commercial paper program, that would be a prerequisite. We would want to feel confident that we were entering a period of stability for the City's finances where we would be able to maintain that program outstanding for some period of time.

Typically programs are authorized for between three and five years, so certainly having that liquidity improved for the City would be very important, and also having -- I think I would want to be in the A category from all three rating agencies, that's just a -- I mean, this is a very preliminary set of comments and I would want to go back and do more thinking about it.

In terms of size of a commercial paper program, I don't think you would want to run a program less than about $100 million. There is a lot of work involved and expense of putting a program together, so I don't think you would want to run one for less than $100 million.

And for the issuers who do use these programs, they typically are associated with entities that have large capital programs and fairly, you know, long-term plans that's pretty predictable. I think we seem to have -- I think we anticipated we were going to spend those capital dollars faster than we did, so in a way the value of the commercial paper would be that if we didn't, we weren't, you know, ready to spend as fast we wouldn't have incurred the debt until we're ready to spend.

COUNCILMAN GREEN: Right, yeah, it

would be a savings of, you know, last year --

MS. WINKLER: Yes.

COUNCILMAN GREEN: -- ten million dollars, which could be used for other things, right?

Okay, thanks, I look forward to continue to talk about that with you.

MS. WINKLER: Sure.

COUNCILMAN GREEN: On one of the professional services contracts -- oh, I'm sorry. Excuse me, Mr. Chair.

COUNCILMAN JONES: Councilman, you want to let -- you want to defer. Please proceed, Councilman Green.

COUNCILMAN GREEN: One of the professional services contracts in the Treasurer's budget is for Swap Management Consultant Services. Swaps have been much in the news this year, so perhaps this would be a good time to provide an overview of what they are, why they are used, and just sort of your general take on Swaps.

MS. WINKLER: Sure. So, the City has interest rate exchange contracts which are called Swaps. And essentially the City agrees to exchange payments with a third-party, a Swap counter party, typically these are large financial institutions, highly rated financial institutions, typically they're banks, and so the City associates this with a bond issue and in all of our cases they're associated with floating rate bonds, which the City has issued. These bonds typically have an interest rate which resets once a week and so as the rate will change each week depending on the short-term municipal market, and the City sought in all cases to have more budgetary certainty and so agreed to make a fixed rate payment which was designed to be similar to a long-term fixed rate on a fixed rate bond issue that we're more familiar with, and to receive a floating rate which was in most cases equal to SIFMA, which is a short-term seven-day floating interest rate, municipal interest rate.

COUNCILMAN GREEN: I am going to try to rephrase that to say essentially we enter into a contract where if interest rates went up we were protected against borrowing costs at a higher rate, and if interest rates went down we had decided that the rate we entered into the contract at was a rate we were willing to pay for some time in the future, and so we said, hey, we like this rate, we can manage this rate, we're going to lock into this rate now, so if it had gone up we would have made money on the hedge, we would have protected ourselves against an increase in rates. When it goes down, we have paid the rate that we signed up to pay in the beginning. Is that an accurate description of how a Swap works?

MS. WINKLER: I agree with that, and I would just say that there is one major distinction to draw between a fixed Swap rate contract which would go to the final maturity of the bonds, and a fixed rate in the cash or municipal market. And the difference is in the cash and municipal market typically the City would get, as would most municipal issuers, a ten-year par call. In other words, we would have an option that we would own, that we could exercise at any time after ten years to redeem those bonds at par, in other words, not to pay a premium or any extra redemption costs, just redeem them in a par. And when these bonds that we refund, all of those had embedded in them at the time they were originally issued that optionality. And the City Swaps, while you could have put an option on the Swaps and you still could if you were to do Swaps, none of them had that option. Instead the City took a slightly lower fixed rate and did not include an option to terminate the Swap at par.

COUNCILMAN GREEN: Which we could have done?

MS. WINKLER: Yes, it would have been possible, yes.

COUNCILMAN GREEN: Okay. So, is there anything inherently evil about Swaps? Are they a good management tool? What is your general position on the tool that is a Swap that is used by municipalities, counties and states?

MS. WINKLER: Yes, the Swap market is a very, very large global market. It's a very liquid market. And because it is large and global and liquid, it was very attractive to municipalities because they could get funding rates that not just because of giving up their call option, but also just because of the way capital is accessed. It was a way to access the taxable market effectively, which is a global market, at lower costs. And because we were buying bond insurance, we could homogenize our credit, and instead of borrowing in what is really a more constrained municipal market, borrow in a global market. So, it was viewed as cost effective. The problem really with the Swaps were that the underlying variable rate bonds and the letters of credit and bond insurance associated with those bonds did not perform and that was a big problem. And, so, to do the Swaps and get the benefit you have to feel confident about that underlying variable rate market and the letters of credit market that you would need to have performed going forward.

COUNCILMAN GREEN: Thank you.

COUNCILMAN JONES: Thank you, Councilman.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Mr. Chairman.

The timeline or the description that you gave relative to the Swaps and their dynamic and their predictability is true in an economy that's performing, correct, an economy that has not gone through what the U.S. economy has gone through in the last three years?

MS. WINKLER: Right. What I was, I suppose, trying to suggest is that you would need to be comfortable that the City could withstand another shock like we just experienced and that's --

COUNCILMAN KENNEY: In your opinion, what was the primary cause for the economy's collapse in that period of time?

MS. WINKLER: The global credit bubble.

COUNCILMAN KENNEY: Okay. And in your opinion did the banking policies of the institutions that we entered the Swaps, engaged into the Swaps with, did that in any way contribute to the economy's collapse, the way in which their credit practices, their lending practices, their banking practices in general?

MS. WINKLER: Sure. I mean, the mortgage -- the mortgage market became a very different market where large mortgages were securitized and became -- that became a funding source that then led people to borrow beyond their means and the banking industry was willing to package them up in certain ways that would sort of allow this credit to be advanced to folks who really couldn't afford, and that was really what drove -- a key factor in the bubble.

COUNCILMAN KENNEY: That key factor, how did it affect the dynamic of the Swap relationship between the City, the School District -- well, if you want to speak about the City only -- and those institutions that we entered into this arrangement with?

MS. WINKLER: Well, it effected it in a number of different ways. One, the bond insurance companies and the letter of credit banks that were providing liquidity and credit to the variable rate bonds, many of those entities were exposed to the credit bubble in various ways. So, they were exposed by owning the derivatives, by being a broker with the derivatives, and as a result, as their credit and liquidity collapsed, the market lost confidence that the securities that they were providing and liquidity to wouldn't perform.

COUNCILMAN KENNEY: So, it's nothing that the City did or the School District did to effect the negative position we were in relative to the Swap arrangement? We didn't, I mean, the City didn't --

MS. WINKLER: No.

COUNCILMAN KENNEY: -- misbehave or do anything that --

MS. WINKLER: No. No, the City performed under its contract as it agreed to perform when it entered into the contract.

COUNCILMAN KENNEY: And as if you were dealing with your physician or your lawyer or anyone else in a profession, you would expect the appropriate care and attention be made to the way in which they conduct their business, their medical profession or their law practice.

I mean --

MS. WINKLER: Well, when we entered into the contracts, typically we entered into a contract with a subsidiary of these institutions which they typically would create which was a Swap entity.

COUNCILMAN KENNEY: But not a separate entity, it's a --

MS. WINKLER: They were --

COUNCILMAN KENNEY: -- a part. It's a derivative of, subsidiary of the main institution.

MS. WINKLER: Yes, they were separately capitalized and they had their own ratings. So, we weren't really -- so, if you -- you can imagine we didn't enter into an agreement with name a bank, we entered into an agreement with a Swap subsidiary.

COUNCILMAN KENNEY: But we entered into those arrangements what year?

MS. WINKLER: I am sorry?

COUNCILMAN KENNEY: What year did we enter into those arrangements?

MS. WINKLER: Oh, there were various

years.

COUNCILMAN KENNEY: But all of the arrangements were made prior to the collapse?

MS. WINKLER: Yes.

COUNCILMAN KENNEY: Okay. Do you feel that those institutions have any responsibility to the people they do business with to do so in a way that keeps the relationship, you know, a fair relationship?

I mean, my point is if I conduct -- if I take your money or I enter into a contract with you and I do things that create havoc in a particular business and you, because you entered into that with us, are paying penalties as a result of it, don't they have some responsibility for their practices that led us to this situation?

MS. WINKLER: I guess --

COUNCILMAN KENNEY: Or could they, could they be responsible?

MS. WINKLER: I guess if you -- I guess -- the contracts really don't have anything -- any provisions in those contracts that give us, as I understand it, that would give us a right to go back and say you mismanaged your business in such a way that caused us, you know, to suffer higher costs. And where we, I think suffered most of our higher costs, were in having to -- we lost access to as much liquidity as we needed for these letters of credit so we had to terminate them, but what had happened is interest rates had fallen so we did borrow at lower costs, and while we had to make a termination payment, we actually mitigated a lot of the, you know, the costs by being able to access the municipal market at lower rates.

COUNCILMAN KENNEY: Okay. I mean, I want to come back at some --

MS. WINKLER: Do I think people should be -- do I think the banking industry needs reform and more regulation to avoid this sort of behavior in the future, yes.

COUNCILMAN KENNEY: But the past behavior caused us the problems, some of the problems that we're dealing with both on the City side and School District side. And to make it worse, and this is just besides that, when they failed the taxpayer bailed them out.

MS. WINKLER: The U.S. taxpayers.

COUNCILMAN KENNEY: No one went to jail, everybody got their bonuses as usual, and we bailed them out but the School District is laying off nurses and library aides and teachers because of this arrangement that ultimately the cause of the economy's collapse was their bad banking practices.

Does that have any validity? Would we expect them to act in a way that would not cause the collapse of the national economy?

MS. WINKLER: We would hope that our banking industry would not be so irresponsible.

COUNCILMAN KENNEY: And, again, I don't necessarily think the advice to do the Swaps were bad. I mean, we were acting -- when we were approving things like that we were acting on I think sound advice for the moment, but no one anticipated how badly they were behaving to put the economy where it was that made that advice probably something we shouldn't have followed in hindsight. Okay.

MS. WINKLER: You know, it's

interesting, because I think at some point the --

COUNCILMAN KENNEY: Well, put it this way, if you went in to have your leg amputated and the doctor amputated the wrong leg, that's a bad medical practice.

MS. WINKLER: It is.

COUNCILMAN KENNEY: And I think that what they were doing over those years was as bad as anything in medical malpractice or legal malpractice. It's basically banking malpractice. And I would hope, we're having discussions, I'm sure you're aware of, potential of trying to address that in some way.

Thank you.

MS. WINKLER: I understand.

COUNCILMAN JONES: The greatest armed robbery without a gun in the history of the country, but what are we going to do?

Sue them, that might be a remedy.

The Chair recognizes Councilman Green.

COUNCILMAN GREEN: Thank you.

I guess we all have a claim against

the money-centered banks for lower values of property and everybody, we should just resolve all of this in Court.

Let's see here. I have one final question. I guess that I am just curious, based on your experience before you were City Treasurer, at PFM and I don't know where you were before that, I know you did a lot of consulting for municipalities and counties and states and other people and I just wondered if you had to identify the top three or five finance-related best practices that you proposed in other jurisdictions or saw in places or advised them to adopt that we don't have, what would they be and sort of what would you propose? And if you don't want to do that off the top of your head, I am happy for you to think about that and provide it to Chair, but I would love your thoughts about that.

MS. WINKLER: Sure. I would be happy to provide something.

COUNCILMAN GREEN: Thank you.

COUNCILMAN JONES: Are there any other questions for the Treasurer, and, if not, thank you very much. You may go.

MS. WINKLER: Thank you.

COUNCILMAN JONES: All right. Right on time.

Board of Pensions and Retirement, would they please approach the table.

COUNCIL PRESIDENT CLARKE: Good afternoon.

MR. BIELLI: Good afternoon Council President Clarke, members of Council.

My name is Francis Bielli. I am the Executive Director of the Board of Pensions. With me is CIO Sumit Handa. Also with me is our executive team, Leontyne Freeman, Teresa Gray, Shamika Taliaferro and Mark Murphy along with Deputy CIO Rhonda McNavish.

If you would like, I will just dispense with the testimony and go right to questions. Let me know how you want to proceed.

COUNCIL PRESIDENT CLARKE: Just summarize. I don't think I have ever heard anybody say that. I have been here for 12 years.

MR. BIELLI: I know you've had a long day.

COUNCIL PRESIDENT CLARKE: A person that eager to hear the questions from the City Council of Philadelphia. You're to be commended.

MR. BIELLI: The Board of Pensions and Retirement has submitted a budget request for Fiscal Year 2013 for $8,776,000 which is the same as the Board's estimated obligations for Fiscal Year '12.

Staffing for the 2013 budget contains funding for 77 positions that service more than 64,000 participants. This is two fewer positions than was budgeted for last year. The demographics of our staff are included in the testimony. The OEO goals, we did not meet our OEO goals and that is something that the Diversity Subcommittee of the Board is working on. The Board does take that very seriously. I should note that assets under management, which are not reflected in this testimony, are at 22.4 percent, although when it's reported to OEO it's the amount of fees that are paid which currently through the second quarter of the current fiscal year are at 17.06 percent.

The investment return for the most recent year, fiscal year completed by actuarial evaluation was 19.4 percent, along with additional factors that resulted in the pension fund being funded at approximately 50 percent, specifically 49.7 percent, which was an increase from the 47 percent of last year which was an increase over the 45 percent from two years ago.

The assumption rate, the Board also voted to reduce the assumption rate from 8.15 percent to 8.10 percent.

I think that's really all of the highlights, all of the summary, and we would be glad to answer any questions.

COUNCIL PRESIDENT CLARKE: Great. Thank you.

Couple of quick questions. In your testimony you talk about the percents of the plan increasing from 47 percent to 50 percent at the end of FY11 and over the past two years the percentage has increased from 45 to 50, and actually I thought I heard in Mr. Dubow's testimony earlier that it was dipping below 50.

What are the projections for this fiscal year, maybe I misheard them?

MR. BIELLI: It's 49.7. When this --

COUNCIL PRESIDENT CLARKE: 49.

MR. BIELLI: That's correct. Specific when the final actuarial report came out it was 49.7. The preliminary assumption we had was 50 percent. So, it is 49.7 as of June 30th, 2011.

COUNCIL PRESIDENT CLARKE: Okay. So, I guess that's what Mr. Dubow referenced.

Let me go over a question with respect to return. You talked about in your testimony again the testimony states the Pension Fund returned 19.4 for Fiscal Year ending June 30, 2011.

MR. BIELLI: That's correct.

COUNCIL PRESIDENT CLARKE: And was there anything that was done to achieve such a favorable rate that was somewhat higher than anticipated?

MR. BIELLI: I think Sumit would answer that question, but I think that return is in line with other bundled pension funds in general.

MR. HANDA: Right. I think the way that our asset allocation study was, and as a result the way that we allocated capital, it benefited from a rising market. If you look at 2011, fiscal 2011 June 30th, the market was very, very strong, obviously the second half of the year the markets did sell off. So, but at fiscal 2011 the markets were strong so we benefited from that. And our asset allocation was structured to capture that benefit.

COUNCIL PRESIDENT CLARKE: Okay.

Getting back to, what do we anticipate the number of retirees being in the upcoming fiscal year? Do we have a set number based on -- do we pretty much base it on DROP or other factors?

MR. BIELLI: No, the number of retirees has been steadily increasing over the years. I guess you would call our Pension Fund a mature pension fund, where you have more people receiving benefits, i.e. retirees than active employees, those paying in contributions to the fund.

COUNCIL PRESIDENT CLARKE: Sounds like Social Security, right?

MR. BIELLI: Yes. I think all of the similar programs, whether it be Social Security, Medicare, they're all in similar situations.

But the benefits have, again, we're over 34,000 people right now receiving one form of benefit or another. According to the Actuarial Report, as of July 2011, we had 26,600-and-some active employees. So, again, a very mature pension plan.

COUNCIL PRESIDENT CLARKE: How much of that, and maybe none, but would ultimately to a degree be offset by the current employees, particularly the ones over the last ten years having a less favorable pension plan?

Back in the old days like when a guy like me got in it in that great plan everybody wishes they were in.

MR. BIELLI: You and I both, that's plan 1967, yes, exactly.

COUNCIL PRESIDENT CLARKE: Great plan.

MR. BIELLI: In the Actuarial Report, it's interesting that you mention that, because on page 29 of the Actuarial Report it does have a breakdown of the funding percentage for each particular plan both in Plan 67 and in Plan 87. So, in Plan 67, which is, for example, the old Municipal Plan is funded at 43.2 percent, the old police plan 36.2, the old fire plan 36.9, for those of us who get the less generous benefits in the 1987 plan, the funding percentages for the municipal plan are 81.5, for the police plan 84.6, for the fire plan 84.6, but unfortunately you can't forget about the people who are currently receiving benefits or soon to receive benefits, but the Actuarial Report does actually break down the funding percentages per plan.

COUNCIL PRESIDENT CLARKE: Okay. So, it's just so many more that are currently under the pension program. Okay.

Thank you. I am going to turn it over. We have a number of colleagues who are interested in asking questions, so I would like to recognize Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Mr. President.

And you're right, that is a great retirement.

COUNCIL PRESIDENT CLARKE: It's a great plan.

COUNCILMAN GREENLEE: We are very lucky.

Good afternoon.

MR. BIELLI: Good afternoon.

COUNCILMAN GREENLEE: Just a bit of a follow-up to what the Council President was talking about with retirement. You mentioned your testimony, I have a feeling this is a typo, because you say from the period July 1st, 2011 to February there were 490 DROP applications and 625 enrollments.

MR. BIELLI: Remember, in the old DROP system people could apply, but then it would take a longer period of time to enroll. We could have received their applications in the prior period of time.

COUNCILMAN GREENLEE: Okay, so they could have applied before that. I got it.

MR. BIELLI: That's correct.

I read that also. I read it over a couple of times, I said boy this doesn't look right, but an explanation was warranted.

COUNCILMAN GREENLEE: Okay. I gotcha. And I assume that earlier period where there was a lot more applications than enrollments, was that around the time that there was the concern that the change in the program or the possible elimination, is that what you would probably attribute that to?

MR. BIELLI: There was. There was, you saw the articles in the paper, it was back in August of last year, where there was talk of ending the DROP and so on and so forth.

COUNCILMAN GREENLEE: We were well aware of that.

MR. BIELLI: We did get a very large amount of applications.

COUNCILMAN GREENLEE: And just lastly on that. Is there any kind of projection of what you expect for the next -- for the rest of this year, for this year?

MR. BIELLI: I can provide to the

Chair, I actually have a -- because I think I heard this question asked in the five-year questioning and testimony about the number of firemen and police anticipated to retire via DROP -- so we actually worked up a chart which has 2012 through, well, you're going to laugh, 2028.

Remember before you enacted the new legislation people were permitted to put a DROP start date somewhere out into the future, so some people did that. We have one person with a DROP start date of 2028. Now, I won't comment on that, but, no, we do have the figures. We have the high mark is 2015 where there is going to be 980 City employees retiring and I have a breakdown per plan of who is going to be retiring during those periods of time. I would be glad to provide that to the Chair.

COUNCILMAN GREENLEE: That would be great if you could do that. Okay. Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair recognizes Councilman

Goode.

COUNCILMAN GOODE: Thank you, Mr. President. Good afternoon.

MR. BIELLI: Good afternoon.

COUNCILMAN GOODE: Tell me how your diversity goal is determined. What is your goal setting process?

MR. BIELLI: The goal setting process was actually -- we know there was the 25 percent goal -- but we did meet with Angela Dowd, both this past year and the year before, and because our percentage was on the lower end we determined that the first goal would be 15 percent. We obviously with 12.96 did not meet that goal.

COUNCILMAN GOODE: I am asking how did you determine -- how did you arrive at that number?

MR. BIELLI: It's in conjunction with OEO because the percentage was on the lower end we decided that that was a good starting point.

COUNCILMAN GOODE: What is the number based upon?

MR. BIELLI: It was based upon an

aspirational goal of 15 percent to start with.

COUNCILMAN GOODE: Where did the 15 percent number come from?

MR. BIELLI: That was something that was recommended by OEO.

COUNCILMAN GOODE: Based upon what?

MR. BIELLI: I think you'd have to ask her.

COUNCILMAN GOODE: So, based upon the work that you do, you're familiar with the services that you procure, you know the market is out there, so are there available qualified disadvantage firms out there?

MR. BIELLI: We did a study on a program called eVestment which actually gives the number of diversity managers available, we started -- we looked at the universe of managers and created a filter to get the universe of managers that have a two-year track record and active product with at least 60 million of assets under management. The reason we picked two years is because we have an Opportunity Fund which reduces the requirements of being in the large pension fund to give people an opportunity. That Opportunity Fund started out at $80 million in 1999, it's now up to over $200 million, and 90-plus percent of that Opportunity Fund is WMBE companies. So, when we ran this filter the total percentage of firms that were minority firms were 13.4 percent of the whole universe of firms, and 7.7 percent of all of the products, the investment products that were out there, so we did run that search. We find because the assets are measured by fees, the availability of diversity managers in the areas that warrant the large fees, hedge funds and private equity, are very, very scant as far as the universe is concerned. So, we have worked with our consultant in private equity, we currently have a new consultant, and we have stressed the importance of bringing managers to the Board for the Board to consider that are diversity managers. So, we really are working to increase that and the Board is conscious of that.

In fact, we met a couple of months ago in order to increase the participation in our minority brokerage program which just recently exceeded 25 percent. So, we are continuing in those areas, but I would say that it's a very, very small universe, 13.4 percent of the potential firms we do business with that would fall under those diversity headings.

COUNCILMAN GOODE: I appreciate everything you said.

I think you're probably the first department to come here that actually told us you did an availability study, which is how it's supposed to be done.

There is a disparity study done on behalf of the City on an annual basis that has a wealth of information, it seems that for the most part the information is not being used, so I appreciate the fact you did do an availability study because disparity exists when availability doesn't match utilization. But on the issue of utilization if you have identified qualified disadvantaged firms, you can choose to give them more work.

MR. BIELLI: Well, that's correct.

And we have firms, for example, Geneva Capital is a firm that started in our opportunity fund managing $10 million and then graduated up to, I'll call it the big fund, they're now managing $30 million for us. And we have had companies like that in the past that get their start in the Opportunity Fund. In addition, for minority and women-owned firms we also have relaxed criteria for the larger funds, putting aside the Opportunity Fund, the standard criteria is five years of managing a tax exempt institutional assets, for the relaxed criteria it's three years. We also have standard restrictions on percent of assets managed by the firm and assets invested in a particular product, 10 and 20 percent, that is relaxed to 25 percent and 60 percent. In order for firms that don't have a lot of business, don't have a lot of opportunity, we understand that the assets they're managing for us will be a larger piece of their entire portfolio.

COUNCILMAN GOODE: The Opportunity Fund was created when?

MR. BIELLI: 1999 at $80 million and it's now --

COUNCILMAN GOODE: And it expanded

when?

MR. BIELLI: It's well up over $200 million now.

MR. HANDA: It's at $233 million.

COUNCILMAN GOODE: When was the last time it was expanded?

MR. HANDA: As of December of 2010 FIS Group was added as the second opportunity fund manager and there are plans to continue to expand it as we speak.

COUNCILMAN GOODE: Okay. Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Henon.

COUNCILMAN HENON: Thank you, Mr. President.

Good afternoon.

MR. BIELLI: How are you.

COUNCILMAN HENON: Certainly your level of details are impressive, so thanks for coming in this afternoon.

I have a few questions with regards to the rise of the level of funding.

MR. BIELLI: Yes.

COUNCILMAN HENON: The plans being funded.

Correct me if I'm wrong, you said two years ago you were at 45 percent?

MR. BIELLI: That's correct.

COUNCILMAN HENON: Last year 47 percent?

MR. BIELLI: Correct.

COUNCILMAN HENON: And you're just shy of 50 percent --

MR. BIELLI: 49.7.

COUNCILMAN HENON: -- for the end of this fiscal year?

MR. BIELLI: That's right.

COUNCILMAN HENON: That's outstanding.

What would contribute to that? I know you had mentioned several things a short while ago.

Is it because of you've made better investments in your process in investment managers or how you invest or how you're structured? So, is it the investments, is it the market, and are there any other underlying factors that can contribute to having a, let's just say, a metered move, the needle move, significantly like that? Would it be in addition to the low cost of the union workforce as far as the contributions are concerned from 2009 to the present? Would that be a contributing factor as well?

MR. BIELLI: I think all of those things it's fair to say are contributing factors. The investment return obviously is a large contributing factor. And I would be glad to provide a copy of the Actuarial Report for you to look at or glad to sit down and explain to anyone who wants to get the details, but the actuary makes certain assumptions such as payroll growth, number of active employees, so on and so forth. When they are lower than his assumptions are, then it results in a reduction of liabilities and an increase in funding ratio. So, yes, certainly the fact that the active participation decreased by 4.5 percent certainly had an effect. The payroll growth being only one percent, versus his assumed 3.5 percent payroll growth, certainly was a contributing factor as was the investment return.

COUNCILMAN HENON: So, I don't know if it was -- we've had some several long days here this week and a few last week, so things kind of run into each other.

I had asked a question about with regarding to the deferred contribution payment, the MMO with the City, so we had a deferment and we're starting to make partial and full payments, was it last year and this year, is that correct, or this year and next year?

MR. BIELLI: Next year and the following year.

COUNCILMAN HENON: And the following year. All right. My question was over the length of the five-year plan would the needle move in a positive direction as we're headed now as far as it being a better funding, and the answer I had, well the answer that was given to me, was, no, it's not. So, are you saying that over the last two years we moved almost five percent, so what is that dollar value I think that we could compare to over the last -- how we moved five percent in dollar value and the additional, you know, contributions that are being made to basically no movement?

MR. BIELLI: But there will be --

COUNCILMAN HENON: Unless I'm misunderstanding it. I don't want to tell you here today that I fully understand the process.

MR. BIELLI: If I can try to clarify what you're asking, if you're asking that when the City pays back the amount that they deferred over the next couple of years will that have an effect on moving the needle, and I believe the answer is no because the amounts deferred plus the interest that is going to be paid are considered an asset of the fund. It's like loaning money to someone, you know you will it get it back and you'll get it with interest, so that's already counted in because of your actuary evaluation.

COUNCILMAN HENON: I mean, because we're amortized, you're amortized over 30 years or 25 more years --

MR. BIELLI: There is a ten-year

smoothing.  So, for example, in 2008-2009 the loss to the fund was substantial, it was $1.2 billion, but you're not measuring that all at once.  Up through the date of his evaluation only 30 percent of that loss had been realized, so it's smoothed out over a ten-year period. So, the gains of the fund are not actually realized immediately, neither are the losses.

COUNCILMAN HENON:  Okay, because of the ten-year smoothing.

MR. BIELLI:  Ten-year smoothing, that's correct.

COUNCILMAN HENON:  Good then, you answered that question, because I was just unclear on how, you know, how it could move it percentage wise quickly like that and now I can realize it.

I have some retirement questions, but I will defer to the next round.

COUNCIL PRESIDENT CLARKE:  Thank you.

The Chair recognizes Councilman Green.

COUNCILMAN GREEN:  Thank you, Mr. President.

The city-wide Business Application

Initiative identified by OIT as Admin Modernization Phase I, Workforce Management, HR, Payroll, TA Benefits, does this project include modernization of the pension benefit calculation system?

MR. BIELLI: Possibly. I don't know yet.

COUNCILMAN GREEN: So, you haven't been involved in that?

MR. BIELLI: We have been involved. We are not with the first group with HR and payroll, however, the OIT is aware that --

COUNCILMAN GREEN: So, you're not in Phase I?

MR. BIELLI: We are not in Phase I directly, but we are involved in the planning sessions and the meetings that will be coming up with the vendors because the data, that HR data, payroll data, we need that to be integrated with our system somehow. We rely on that data. So, there is a possibility we still may be involved, but as of now I am not sure. I think that's something that's still up in the air.

MR. DUBOW: I think the idea is actually to get pensions involved because of all the things that Fran just said, it's so integral to the whole continuum.

COUNCILMAN GREEN: So, there will be automatic calculation of pension benefits.

MR. BIELLI: The calculation, I think we talked about this last year, the calculation aspect has largely been eliminated as an issue. We have created templates through existing Microsoft software to Microsoft Excel to do the actual calculations, however, it's the inputting of the data that is time consuming.

COUNCILMAN GREEN: It's not just the inputting of the data, it's there is no audit trail between what was in the main frame and what is put in the spreadsheet which could result in someone getting far more or far less, probably far more has happened in the past more than far less. I am confident it doesn't happen anymore today, but there is still no connection audit trail between an Excel spreadsheet and the main calculation.

MR. BIELLI: Well, no, the calculation

template that we have is actually printed out, put in the imaging file, which is an electronic file, and the data is put onto the system. So, the data is all on the system.

COUNCILMAN GREEN: I understand, but nobody goes back and rechecks the calculation every time.

MR. BIELLI: That's correct. It's not integrated with the payroll and HR and that would be helpful.

COUNCILMAN GREEN: Right.

What would be an amount of money needed to significantly impact the funding ratio of the pension system?

MR. BIELLI: I think I'll have to defer to Mr. Dubow on that.

MR. DUBOW: So, we are now 50 percent funded because our unfunded liability is, what, four-and-a-half, 4.7 billion, which has that I guess every 10 percent is probably like one-and-a-quarter billion around, so, and I'd think you'd want to get to at least 70 percent, so you'd probably, you know, need at least a couple of billion dollars to really --

COUNCILMAN GREEN: To have an impact on how much the City has to contribute from the General Fund to significantly lower the amount the City has to contribute from the General Fund, it would take a couple billion.

MR. DUBOW: Well, I'm sorry, I was answering a different question. I was actually answering to get to the 70 percent funding level, which is probably kind of a minimum of where you would want to be. To reduce, and I guess it also depends on what you think of as significantly reduce it, but I'm not -- I'd probably have to go back and get calculations from the actuary to see, you know, what would it take to reduce the contribution by ten million, what would it take to reduce it by 20. Is that the kind of question you're asking?

COUNCILMAN GREEN: Yeah, both from a perspective of what we could add to there through asset sales, for example, and with respect to the extension of retirement age or increased City-side contributions on an annual basis of one percent, two percent, three percent.

MR. DUBOW: So, one is kind of like a big lump sum payment, annual increases or a change in retirement age, are those three things --

COUNCILMAN GREEN: Yeah. I mean, what's the, you know -- or said another way what is the perfect storm for us to sort of get to a happy place. Is there one, you know?

MR. DUBOW: I guess it depends on happy place for whom, but yes there is a way to get there.

COUNCILMAN GREEN: I won't try to get you to do that.

One last question.

COUNCIL PRESIDENT CLARKE: Promise?

COUNCILMAN GREEN: It's a four part question.

MR. DUBOW: Each part is seven minutes.

COUNCIL PRESIDENT CLARKE: Now that's a veteran move.

COUNCILMAN GREEN: The Class 200 spending, how much is unencumbered, and all contracts over $50,000, do you have that information available with you today that we have been asking of every department?

MR. BIELLI: We do have it. Would you like that now?

COUNCILMAN GREEN: If you have it, just provide it to the Chair and we'll see if we need to do call backs on it and I have a few other small questions that I'll submit.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Real quick, let me ask a question with respect to fund managers and how do we go about selecting fund managers for a portfolio?

MR. HANDA: Well, it depends on whether it's the public securities or whether or not it's for alternative assets. If we go through the public securities, meaning public equities or bonds, it will go through an RFP process and we would issue an RFP seeking, for example, a high yield manager, which we currently have one outstanding, an RFP outstanding right now for that, and they would apply, and staff along with the consultant would do independent checks on those managers that applied and then we would vet them and obviously go through a subcommittee and that subcommittee would make a decision on whether or not to hire that manager.

For the alternative assets there is no RFP process. Staff, along with their consultants in perspective areas, whether it be private equity, real estate or hedge funds, we meet with managers all the time, we look at the both qualitative and quantitative backgrounds on whether someone is suitable for the plan and we make a determination on whether or not to present it to the Board, and the Board obviously has the final authority on whether or not to hire or to hire any manager.

COUNCIL PRESIDENT CLARKE: Is there some formerly established criteria or is it just at the call of the one staff and subsequently the Board, or do you -- what level of flexibility do you have as it relates to fund managers?

Well, there is some flexibility, however, we do require sort of a GIPS, which is sort of a track record, if you will, that's required of managers whether it be on the public side in terms of the equity or fixed income. On the alternative sides there is also criteria, depending on the asset class, whether it be private equity, real estate and hedge funds, I can provide all the information in great detail for you if you're interested, but there are criteria. However, there is flexibility in terms of selection in the alternative space as well.

COUNCIL PRESIDENT CLARKE: Okay. Is there like a ratio in terms of the level of worth of the fund/manager that would be required before it's given serious consideration?

MR. HANDA: Generally speaking, we would like the manager to have approximately anywhere between -- excluding the Opportunity Fund -- but generally we like the manager to have at least $250 million of assets, generally, again, speaking at least five year track record. Generally speaking, again, I can break it down for you by sector as well, excuse me, by asset class as well.

COUNCIL PRESIDENT CLARKE: So, I wouldn't -- if you were to provide information I wouldn't see anything as low as 150 million dollars, 125?

MR. HANDA: There is flexibility, and as Fran alluded to earlier, when we look at MWBE there is some flexibility there, also in the Opportunity Fund there is some flexibility of managers having at least $100 million.

COUNCIL PRESIDENT CLARKE: Only with WBE or MBE?

MR. HANDA: That's correct, however, there are other -- we are flexible even on the hedge fund side. There is no really set number per se. We would like to have certainly a three to five year sort of track record along with at least I think $100 million as well.

You also have to keep in mind it's not easy -- the cost of compliance these days is also quite expensive.

COUNCIL PRESIDENT CLARKE: Right.

MR. HANDA: So, a lot of managers, you know, they're ramping up, it's also challenging for them at that time, and also from our point of view it creates a risk as well.

COUNCIL PRESIDENT CLARKE: Right.

MR. HANDA: Something we have to be cognizant of before we were to look at someone under that level. It doesn't mean we won't, generally we avoid it.

COUNCIL PRESIDENT CLARKE: Okay. Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Good afternoon, gentlemen. I just have one question which is a follow-up.

I just want to go on record too and say thank you for your due diligence with regards to availability of firms that may have the capacity. And so the number you gave, that's nationwide, correct?

MR. BIELLI: That's correct.

COUNCILWOMAN BROWN: Okay. And, so, the flip side of that is that a number of departments have come before us and are using firms that are not local. There are dozens and dozens of that type of firm that's local. So, if that's the other reality we're reckoning here with. So, in your case, what type of -- how do you go about alerting professionals that there are opportunities in this department?

MR. BIELLI: OEO gets all of our RFPs. Also, we send them to various Chambers of Commerce throughout Philadelphia, the African American Chamber of Commerce, the Pennsylvania Chamber of Commerce, the Philadelphia Chamber of Commerce. I think there is about six or seven Chambers of Commerce that we send notice of a pending RFP to.

COUNCILWOMAN BROWN: I see.

MR. BIELLI: We also do have a percentage of local investment managers. We had 13.02 percent as of February of our investment managers are local managers. So, we do track that and we are part of the Diversity Subcommittee that I mentioned met a couple of months ago.

COUNCILWOMAN BROWN: Yes.

MR. BIELLI: Part of what we did talk about was trying to also increase the percentage of local managers that receive business with the Pension Fund. We realize that's an important issue. We all live in the same city.

COUNCILWOMAN BROWN: Yes, yes, yes.

MR. BIELLI: We understand that's an important issue.

COUNCILWOMAN BROWN: Well, you need to know how much we appreciate hearing that from where you sit. And further, your leadership in figuring out how you create opportunity for local companies is to be commendable as well.

MR. BIELLI: Thank you.

COUNCILWOMAN BROWN: So, we ask that you share that with your comrades throughout the various departments because it's doable if leadership makes it so.

MR. BIELLI: And I would just add that I appreciate those comments, they're very kind, but the Board is very cognizant of that also, and, you know, we make sure that we give the Board the tools that they need to understand what is going on because you're right, someone may not realize what's out there, what's available, and, you know, boards are not in the every day flow of the work, so to speak, and I mean we meet once a month, we're in contact much more frequently, but it's my responsibility, it's our responsibility to make sure they have the information that we need. We've seen that in the City with other boards that don't get the information they need and we see what happens. So, we're very cognizant of that and we try to make sure they have all the tools they need in order to make informed decisions.

STOP COUNCILWOMAN BROWN: Okay. Well, know that we thank you very, very much.

MR. BIELLI: Thanks. I appreciate it.

COUNCILWOMAN BROWN: Yes. Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Councilman Henon.

COUNCILMAN HENON: Thank you, Mr. President.

I wanted to follow-up, sir, if you would, you had mentioned earlier, which, you know, I can't echo enough of the complements being thrown in your direction about coming here prepared with some breakdowns, you know, that you can provide to the Chair in addition to because I didn't get all what you had broken down, could you provide a list to the Chair at your convenience the eligible retirement, folks who are eligible, the number? I don't need to know who, the number of eligible retirements, you know, for the five year -- for the next coming five years in the plan and who has entered into the program, in the retirement program, on a yearly basis and what department? So, those who are eligible and those who have entered into the program listed by department.

MR. BIELLI: So, those who are retirement age ?

COUNCILMAN HENON: Correct.

MR. BIELLI: And have not necessarily come in to retire. Are you talking about DROP or are you talking about -- because until someone comes in to retire --

COUNCILMAN HENON: DROP whatever we are calling it these days.

MR. BIELLI: Let's put DROP aside for

a second.

When someone signs up for DROP, we know that they're going to retire within the maximum of four years. When someone doesn't enter DROP, they could come in tomorrow to the HR person, resign, the HR person makes an appointment with our counselor, so I don't know until they actually do that, but I can tell you who is of eligible retirement age. We can run those.

COUNCILMAN HENON: That's what I'm asking for, eligibility, and those who are in the retirement program, whether it's DROP, PLOP, you know, who had signed up, all right, and completed, you know, the seminars and said hey look, this is my retirement date, you know, years out so we get a snapshot of attrition, you know, the need for, you know, workers in different departments, you know, for planning ahead.

MR. BIELLI: We will be glad to do that.

COUNCILMAN HENON: For the next five years. If you could provide that to the Chair, thank you, I'd appreciate that.

And speaking of which, I touched on a little bit, is there a plan, and I don't know, I guess that would be the Administration, or is there a retirement plan for this natural attrition or do we plan on replacing some of these folks in the departments throughout the City or is this just the natural attrition process that the City experiences.

MR. BIELLI: Mr. Dubow will answer that, but we do work in conjunction with the Administration to provide all of the DROP numbers so they can have an idea of what is coming down the road.

COUNCILMAN HENON: Only because, you know, we might want to compare it to the quality service that the departments offer.

MR. DUBOW: Yep. So, there is a significant amount of planning going on in the Administration of how to handle the large number of retirements that are coming down the next four or five years.

And, for example, the police department, you know, the last time there were

900 officers in DROP over the next five years, so we are putting into place an aggressive hiring process to make sure we don't see a big drop off in the number of officers. And we're doing something similar in fire.

We looked at it, I mean across the board, and where we see big hits to the departments, we're trying to make sure we plan for that. Actually even in my department there are a number of senior people who are leaving, so we're in the process of figuring out how to replace them, how to make sure we don't have gaps.

COUNCILMAN HENON: That's right. And I am glad to hear you have a plan.

If you do have a plan policy, I don't know if it's written or not, but, you know, it would be great if there was one available for us to take a look at, but that was the initial intent of early retirement is to properly plan management wise for the natural attrition and folks retiring. So, is that correct?

MR. DUBOW: That's correct.

COUNCILMAN HENON: Okay. Good.

Over the last four years as far as retirement goes, can you provide a list to the Chair of the amount of workforce and those retired in the last four years so we -- the last four years, I am using four years arbitrarily because of terms, you know, of -- well, elected service here, so in the last four years broken out by year the amount of people who have dropped or retired.

MR. BIELLI: Yes.

In fact, in case some of these type of questions came up, I have a chart which actually goes all the way back to 1990 which shows the number of people receiving retirement benefits. Back in 1990, 28,470; today it's 34,208. Some people ask questions why their liability is increasing. Well, we have more people retiring and with life spans being longer, people are receiving benefits for longer periods of time.

So, I can absolutely give you those numbers on a year by year basis going all the way back to 1990.

COUNCILMAN HENON: Okay. That would

be wonderful if you just provide it to the Chair, I'd appreciate it.

Thank you for coming in.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Mr. Chairman.

Just out of curiosity, since the issue of PLOP came up. Are people actually entering PLOP.

MR. BIELLI: About four people have entered PLOP.

And just as a little background, unlike DROP, you don't have to sign up for PLOP in advance. You make that decision when you come to your retirement interview with the counselor. So, maybe someone who maybe doesn't have the best health, maybe someone who is a little older and doesn't want to hang in there for four more years, they might be the type of people that would go in to PLOP and that's basically where we see it. Unfortunately, the people who have entered PLOP have had health issues, so this is their opportunity to get some sort of payment and then have their continuing monthly pension payment actuarially reduced so the Pension Fund is not out that money in the long run. So, that's what we have seen to this point.

COUNCILMAN GOODE: Thank you.

MR. BIELLI: And we do also make sure we advise people who inquire about PLOP because if they are on the younger side, especially if they're going to live another 20, 30 years, we want them to realize the ramifications of their decision because that two, three, four hundred dollars, whatever the actuary reduction is in their monthly benefit, we want to make sure they're making a well-informed decision.

COUNCILMAN GOODE: Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Any other questions of these witnesses?

(No response.)

COUNCIL PRESIDENT CLARKE: There being

none, the Committee of the Whole will stand in recess until Monday 10 a.m. April 9th.

Thank you.

(Committee of the Whole recessed at 4:41 p.m.)

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

I, ERICA CRAGER HEARN, Professional Court Reporter and Notary Public, do hereby certify that the foregoing is a true and accurate transcript of the stenographic notes taken by me in the aforementioned matter.

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DATE: APRIL 8, 2012 ____________________________

ERICA CRAGER HEARN