COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE - BUDGET

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Room 400, City Hall
Philadelphia, Pennsylvania
Monday, March 26, 2007
10:25 a.m.

- - -

PRESENT:
COUNCIL PRESIDENT ANNA C. VERNA
COUNCILWOMAN JANNIE BLACKWELL
COUNCILWOMAN CAROL ANN CAMPBELL
COUNCILMAN DARRELL L. CLARKE
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM GREENLEE
COUNCILWOMAN DONNA REED MILLER
COUNCILMAN FRANK RIZZO

BILLS 070114, 070115, 070116
RESOLUTION 070128

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COUNCIL PRESIDENT VERNA: Good morning, everyone. This is the public hearing of the Committee of the Whole.

I would ask Mr. McPherson to please read the title of Bill No. 070128 and also --

MR. McPHERSON: The first department is the Department of Finance. The bill had already been read and a quorum had already been established on these bills.

COUNCIL PRESIDENT VERNA: Good morning. Please identify yourself for the record and proceed with your testimony.

MR. JANNETTI: Good morning, Council President Verna. I'm Vince Jannetti, Acting Director of Finance. Good morning, members of Council. On behalf of the employees of the Office of Director of Finance, I'm here to provide testimony on the Department's proposed FY08 Operating Budget request.

The Office of the Director of

Finance is comprised of six divisions: Executive Direction, the Office of Budget and Program Evaluation, Minority Business and Enterprise Council, the Accounting Bureau, the Office of Administrative Review and Risk Management. With me today are representatives from those divisions who are here to answer any questions.

The Office of the Director of Finance's FY08 budget request, all funds, totals 1.359 billion, an increase of $202 million over the current '07 estimated obligations. The largest single component of the budget is employee fringe benefits budgeted at 1.064 billion. This represents an increase of $82.5 million over the current FY07 projection.

The General Fund budget request is 1.1 billion. Of this amount, 951 million is in employee compensation and fringe benefits.

The Finance Office's budget

this year includes funding for the Inaugural Mayor's Fellowship program, called Destination Fellowship. Beginning in FY08, the City will host up to five post-graduate school fellows for a year-long placement in a City department. This fellowship is a new and exciting approach to attracting talented and energetic future leaders to the City.

The proposed FY08 budget anticipates 164 full-time positions in the Office of the Director of Finance.

Other significant elements of the Finance budget are legal services, which will increase by 1.3 million, from 35.4 to 36.7 million; the City's $35 million contribution to the School District; 22.5 million for Community College; and 34.1 million in indemnities, a decrease of 995,000 from FY07.

On March 22nd, Thursday, of 2007, Mercer Human Resources Consulting, the City's actuary, issued the Fiscal Year 2008 preliminary actual evaluation.

In this evaluation -- this evaluation will require some adjustment to the current Five-Year Financial Plan, while a total of five-year value of pensions is -- the five-year value of increased pensions is only $131,000 from that report, there are significant fluctuations from year to year. Prior to final Plan approval, we may need to adjust the pension estimates so that each fiscal year agrees with the most current actuarial projection.

This concludes my testimony on the FY08 Operating Budget for the Office of the Director of Finance, and I'd be happy to answer any questions you may have at this time.

COUNCIL PRESIDENT VERNA: Thank you very much.

Can you tell us why you are proposing to cut $1 million from the Philadelphia Community College in your FY08 budget?

MR. JANNETTI: That was to

bring the Community College back to the base funding amount.

COUNCIL PRESIDENT VERNA: I thought we gave them a little more money last year.

MR. JANNETTI: In the '07 budget, yes. But it's bringing '08 back to the prior level before the --

COUNCIL PRESIDENT VERNA: How prior?

MR. JANNETTI: $1 million.

COUNCIL PRESIDENT VERNA: What year? What are you taking it back to? '05 or '06?

MR. JANNETTI: '06. Yes, '06.

COUNCIL PRESIDENT VERNA: Well, why are you cutting it?

MR. JANNETTI: Pardon?

COUNCIL PRESIDENT VERNA: Why are you cutting it?

MR. JANNETTI: It's just what we decided to put -- I mean, what we put in the budget.

COUNCIL PRESIDENT VERNA:

That's a very good answer.

MR. JANNETTI: That's not a good answer.

COUNCIL PRESIDENT VERNA: Am I correct in assuming that the Finance Department prepares the proposed Operating Budget ordinance for FY08?

MR. JANNETTI: Yes, Councilwoman.

COUNCIL PRESIDENT VERNA: And you can't give us an explanation why Community College was cut by a million dollars?

MR. JANNETTI: Because of the challenges of the budget and the Five-Year Plan, all additions from '07 were reduced back to the '06 levels.

COUNCIL PRESIDENT VERNA: Mr. Jannetti, if you would go to Section 15 of the General Provisions, I was going to ask you to read it, but they're much too lengthy. I would like you to provide Council an explanation as to what each provision does, why you need it, what are the consequences if the provision is deleted and, on an average, how many times during a year do you use it.

MR. JANNETTI: Okay. We'll do that, Madam Chair.

COUNCIL PRESIDENT VERNA: Would you, please.

MR. JANNETTI: Yes, ma'am.

COUNCIL PRESIDENT VERNA: As I said, rather than take time here. I don't want you to read every one of the provisions now, but if you would send us that in writing, I'd appreciate it.

Mr. Jannetti, on Page 17 of the Budget and Brief, you are including $30 million in Line 81 of your revenue estimates for reimbursement of prior year expenditure. Will you explain for the record what this is.

MR. JANNETTI: I'm sorry, Madam Chair. What page was that?

COUNCIL PRESIDENT VERNA: Page 17 of the Budget and Brief. It's Line 81.

MR. JANNETTI: Yes, ma'am. That's the $30 million from the pay-as-you-go financing.

COUNCIL PRESIDENT VERNA: I beg your pardon?

MR. JANNETTI: That's the $30 million from the pay-as-you-go financing that was funded from the fund balance in the current year.

COUNCIL PRESIDENT VERNA: Go on.

MR. JANNETTI: The money will go unspent through the end of Fiscal '08 and will revert back to the fund balance.

COUNCIL PRESIDENT VERNA: Can you identify the relevant section of the Home Rule Charter that allows you to divert funds that were paid over to the Capital Projects Fund through the appropriation process as required by our Charter?

MR. JANNETTI: Madam Chair, that is something that the Law Department is looking at. We don't -- I don't have a legal opinion at this time. We do have an accounting procedure on these types of issues back at least ten years.

COUNCIL PRESIDENT VERNA: Doesn't the accounting have to be consistent with the Charter?

MR. JANNETTI: Yes, ma'am, it does.

COUNCIL PRESIDENT VERNA: And how is this consistent?

MR. JANNETTI: The Accounting Bureau's policies and procedures are made to uphold the City Charter and all ordinances, as well as all generally accepted accounting principles. Policies and procedures are designed to establish internal controls and, when followed, protect the assets of the City, as well as protect the employees. Policies and procedures promote adherence to all applicable laws as --

COUNCIL PRESIDENT VERNA: But shouldn't this be paid through appropriation power as required by the

Charter?

MR. JANNETTI: If the money is not encumbered, the appropriation lapses.

COUNCIL PRESIDENT VERNA: When do you anticipate to receive a legal opinion on this issue?

MR. JANNETTI: I don't know, Madam Chair. We've asked the Law Department for that. As soon as we get it, we'll forward it.

COUNCIL PRESIDENT VERNA: I do hope it's before we consider the budget.

On Page 9-20 of the detail, you're requesting $200,000 for the actuarial services for both FY07 and FY08. Can you tell us what services are provided, who provided those services for the current year and what work product have you received to date from them?

MR. JANNETTI: I believe that's the actuary for the municipal pension fund. I really don't know what this line item is. I'll have to check.

COUNCIL PRESIDENT VERNA:

Ms. Reed, do you know?

MS. REED: Dianne Reed, Budget Director.

The actuary provides a number of services, one of which is to tell the City on an actuarial basis what the minimum municipal payment needs to be in this fiscal year, as well as the estimate for the out years.

MR. JANNETTI: We'll have to get that for you.

COUNCIL PRESIDENT VERNA: Give us a breakdown on that, please.

MR. JANNETTI: Absolutely.

COUNCIL PRESIDENT VERNA: And can you update us on the City's MBE/WBE compliance status?

MR. JANNETTI: The Minority Business Council has prepared their report. It is in draft. We are reviewing it this week, and hopefully this week as soon as we can, we will issue a report.

COUNCIL PRESIDENT VERNA: And

we should be receiving a copy of that this week?

MR. JANNETTI: As soon as the review is done, yes, Madam President.

COUNCIL PRESIDENT VERNA: I have several other questions, but I see that my colleagues have their lights on.

Councilman Rizzo, are you ready to be recognized?

COUNCILMAN RIZZO: Thank you, Madam President.

Mr. Jannetti, I have memos that I have presented the President of City Council, who will be sending them through for the official written responses, but today there's two issues that I want to try to get again from the Budget Director or yourself. The first is the financial arrangement that the Police Commissioner mentioned was done between the Governor of the Commonwealth and the Mayor of the City of Philadelphia.

Even though the deal is done through those folks, I would think that the Finance Department would be involved in the actual numbers, because I'm looking at the Operating Budget and Brief and it indicates in Fiscal 2007 that we have received seven and a half million dollars from the Commonwealth to reimburse for patrolling the state highways. The Budget Director, I believe -- and I'm not quoting her -- indicated that this was for 18 months of past previous services. Is that correct?

MR. JANNETTI: That is correct, Councilman.

COUNCILMAN RIZZO: Could you give me the dates from, to?

MR. JANNETTI: The date is from July 1 of 2005 through December of '06, through December 31st of '06.

COUNCILMAN RIZZO: And we received the money in '07?

MR. JANNETTI: 7.5 million, yes.

I'm told we haven't gotten the money yet, the actual cash.

COUNCILMAN RIZZO: Turn to Page 20 of the Budget and Brief. Does that suggest that we received the money, under Reimbursement, Patrolling State Highways?

MR. JANNETTI: The estimate is that we were going to get the money.

COUNCILMAN RIZZO: It says "original budget, current estimate," and we have not received any of that?

MR. JANNETTI: As far as I am led to believe, yes, we have not yet received those funds.

COUNCILMAN RIZZO: When do you think we will receive it since that's the -- obviously if this is a deal between the Mayor and the Governor, I can understand that there's a big gray area about this money. Who do I talk to or how do we find out when we're going to get our money? Because the original deal was that the State Police were going to take over the patrol of the road.

MR. JANNETTI: Correct.

COUNCILMAN RIZZO: Then they

suggested that they'll phase in.

My concern is, if we're getting seven and a half million for prior service, who is paying us until they take over the entire patrol of the roadway? That is still taxpayers' money, which I want to go back at them and get paid for the phase-in rather than the takeover.

So we need to know a little bit about the seven and a half million dollars.

So reading this, are you telling me that this current estimate means that that's money that we have not yet received?

MS. REED: Councilman, we invoiced the state and we have received two purchase orders to confirm from the state that we will receive the money, but we do not have the money in hand.

COUNCILMAN RIZZO: Does that add up to seven and a half million?

MS. REED: Yes, which actually is not the full amount requested. This is the amount that the state has decided to give us, to some degree. They just didn't fully fund the whole 5.6 plus 2.8.

COUNCILMAN RIZZO: So the paperwork that we have now comes out to seven and a half million dollars that we're expecting. And what did we invoice the state for?

MS. REED: Eighteen months of time. I haven't looked at that lately. I would think it would be 5.6 plus 2.8 is what we invoiced them for, but we'll have to check for you on that.

COUNCILMAN RIZZO: My bigger concern is, from December '06 until the total phase-in, where is the beef? Where's the money?

MS. REED: We had zeroed that out originally in the '07 plan. We put it back in for a half year starting January of '07 and for '08 to make sure that the streets were safe. That was the Mayor's choice. If we were able to invoice the state from that, that action would have to be initiated.

COUNCILMAN RIZZO: Well, I guess my question is -- and it's still an unanswered question -- why would the state pay us for 18 months, change the program as it was initially presented, that they were going to take over the roadway, and we still have 50 plus officers patrolling, no fewer officers even though they've started to take over the roadway? I just don't understand even the Mayor, how he can say, Forget it, you don't need to pay us. I just don't get that.

MS. REED: We had a letter from the Governor's Chief of Staff that obligated the state to pay for that, because the state had not yet taken over the service and on the basis of that, we invoiced them in agreement discussions between the City and the state.

The Mayor and the Governor talk all the time and there may be a solution in the works. We just haven't heard about it yet.

COUNCILMAN RIZZO: Well, I think we're going to need to hear about it.

I think that what we need to do is, President Verna, I would assume that we can request these documents and present them to the President of City Council, all the documents that we have associated with this entire transaction, because it isn't clear to me at all how we came to this deal. We don't have the money yet. We invoiced. They were supposed to take over the patrol. Now they're phasing it in, and we're talking maybe another year and a half before they take over that.

So I think we need to see, this Council, because I will not vote on this budget until I'm confident that we're getting what we're supposed to from the state, and I'm going to ask some of my colleagues to do the same thing that have an interest in this issue.

So I think we need to see the paper trail on exactly from the inception of the conversation, whether I have to do a resolution with subpoena power to get the Mayor's notes or copies of phone calls, whatever we are allowed to do by law to get the information, because I'm really tired, honestly, of being taken very casual, like, Well, the Mayor did it. This is money. The Finance Department is responsible for the money that this City is owed, and I think that that's the responsibility of the Finance Department and the other departments.

So this isn't going to go away, as far as I'm concerned. So I'm respectfully asking for all the documents associated with the takeover by the Pennsylvania State Police of the interstate highways in the County of Philadelphia. I'd like that forwarded to the Chair.

And on notice, I'm going to ask now that we re-call the Police

Department, the Finance Department, the Mayor's Chief of Staff and the Mayor and the Governor, if necessary, to get the answers to the questions, because we're talking big money here and we're talking about a city that's running out of money. We're talking about a School District -- if you sat through the meetings that we sat through, you'd know why I'm so concerned about a million here, a million there, five and a half million there, seven and a half million here. What's that cliche? It adds up to big money.

The other issue I want similarly answered is a program that, as you know -- and I was disappointed to hear still apparently is not totally under control -- is the Police reimbursable overtime program. I'd like to know how much money we wrote off, money that we paid police officers to work on overtime or on their days off which we never received.

I want, again, to feel

confident that we've got a program that is running the way it should, because if -- I don't want to hear that we get the money up front. All I know is there were five, maybe six million dollars -- and, again, that's part of the problem. Nobody will tell us the real number how much money. Everybody says, Well, that's the Law Department. Well, we'll get Romy Diaz over here.

We need to find out if we're going to continue with this program to allow police officers to work in their capacity for private sector whether the City is being reimbursed as the officers are being paid and what we really truly did to try to collect all of the millions of dollars that were on the street that allegedly were written off by either Revenue or the Law Department after they couldn't collect the money.

I would like to hear briefly about this program and how damaging it was to the City finances and what we're doing to make sure it's correct.

Nancy Kammerdeiner, are you the one Commissioner that's going to answer that?

COMMISSIONER KAMMERDEINER: Good morning. Nancy Kammerdeiner, Revenue Commissioner.

I'm not sure I can answer in full right this minute all of the things that you're raising about the past tense issues. I've gotten involved in this more recently in terms of having the Police reimbursement process go through the Revenue TIPS system, and there was a conversion of data last September to bring the process into TIPS. I only can start to address the numbers that come through us for billing. I was prepared today to talk a little bit about the process, but not some of those back numbers. I will have to get the numbers and address that.

COUNCILMAN RIZZO: Well, that's fair enough. I can't expect you to go back, but obviously we have a very -- we had a very significant issue which the Police Department and others acknowledge that was very troubling to many people, that we could allow that much money to be uncollected.

Let's talk about the future and then we'll talk about the past in writing. We can see exactly what we lost and what we possibly could have collected and didn't collect.

Let's talk about how the program works now and how confident you are that we have a process that works.

COMMISSIONER KAMMERDEINER: First off, as I've just mentioned, the basic work was done to bring the receivables into TIPS and bill them through the Revenue process for billing and collection. There is a front end that was developed for the Police Department with an Internet capability so that they can get the orders that come in from -- or the requests that come in from the outside via the Internet and process internally before they send the information to us. That part of the process is the Police Department's dealing with the staffing and the arrangements for approval and then actually verification that the work was done by the Police Department.

As with any new system, there are issues in terms of making sure everything works and that the things you thought would be there are there. We're in the process right now of making sure that everything that we thought would be there is there and identifying the things that now that we have this part of the process in place, we can see we'll make this work even more efficiently and effectively.

One of the things that had been missing before was project management oversight and support from MOIS to help coordinate between City systems. That is now very much a part of this process, and the Police Department and Revenue and MOIS are working together to do this evaluation of where we are today, identify the things we still need to do and to put those things in place.

I know that's not exactly what you wanted to hear, but I think we've made great steps and gone a significant portion of the way that we want to go already, but we have a few more things to do.

COUNCILMAN RIZZO: Commissioner, do you know how old this issue is?

COMMISSIONER KAMMERDEINER: Approximately, yes.

COUNCILMAN RIZZO: How many years?

COMMISSIONER KAMMERDEINER: It's been about three years, I believe.

COUNCILMAN RIZZO: Try four.

COMMISSIONER KAMMERDEINER: Four? Okay.

COUNCILMAN RIZZO: Do you think

a government should be able to get a program like this under control in less than, give you the benefit of the doubt, three years? It's a disgrace. I mean, what do the people listening and watching this proceeding think about a government that can't collect money that they're owed? It takes three years. Obviously nobody cared much about this, because I can't imagine -- we knock down neighborhoods of homes in months, spent millions and zillions of dollars on Operation Safe Streets. It got coordinated well. The technology people, everybody got together. But we have a program here that took three years and it's still not finished. That's a disgrace.

COMMISSIONER KAMMERDEINER: That doesn't mean that during this time funds weren't being collected, and I think the vast majority of what was being billed was being collected. I think it's a less than ten percent identification of payables that haven't been collected.

COUNCILMAN RIZZO: How do you know that?

COMMISSIONER KAMMERDEINER: From some of the things that I've seen. I don't have the numbers here in front of me, so I can't --

COUNCILMAN RIZZO: Commissioner, the first time I asked this question of the Police Department and other departments, I asked the question when I was hearing that we weren't getting our money. The answer to the question was, We have no problem. But a month later, all of a sudden, it turned into a $5 million plus problem.

I respect you and I believe you. If you tell me something -- you're one of the -- well, you're one of the many people that I believe around here.

COMMISSIONER KAMMERDEINER: Thank you.

COUNCILMAN RIZZO: But I can say this, that I am still not confident that we have a program that works, because I'm starting -- you think I'm bringing this up just because it's -- obviously I'm getting some information that we still have a problem, and Deputy Commissioner Gaittens the other week said that there are some unsolved issues that are -- three years? I mean, to me I'd be embarrassed. Not you. I'd be embarrassed if in three years we couldn't fix an accounting problem.

COMMISSIONER KAMMERDEINER: I can't address that directly, but I would say that we have identified a number of things we want to do to make it work even more effectively, but we've made great strides from what you were looking at three and four years ago.

COUNCILMAN RIZZO: Could you please tell me when -- because I'm going to write it down and hold you to it -- when do you really believe we'll have control like we have control of other revenue issues in the City of

Philadelphia?

COMMISSIONER KAMMERDEINER: I'm not sure what date to give you. I would say --

COUNCILMAN RIZZO: Another year, another two years, six months?

COMMISSIONER KAMMERDEINER: I'm hopeful that it will be completely under control within six months, but I don't know how long it will take to do some of the programming that's out there. That's why I'm hesitating to committing to a specific time.

COUNCILMAN RIZZO: Well, all I can say is that I hope you're right, that even without the technology and the IT systems and all the programs that you would like to have at this point. I don't want this to turn into another Project Ocean where $20 million is out the window and all of a sudden, we have something to manage the way our City is reimbursed for police officers that got paid to provide a service.

COMMISSIONER KAMMERDEINER: Let me come back to something I mentioned initially, and, that is, that MOIS, Police and Revenue are working together on this in order to identify what the remaining issues are and to solve the problems that are there, and I'm personally involved, as is Terry Phillis, and we're working directly with both the, I'll call it, the business side and the IT side of the house in the Police Department in terms of trying to make this work smoothly and effectively. And we're at that point that we've gathered information, but we don't yet have the projection on the timetable for correction, which is why I can't give you something more definitive.

COUNCILMAN RIZZO: Well, I'm going to call Mr. Phillis right after this hearing and ask him -- he seems like the kind of an executive that will get it done when he knows that he needs to get it done.

COMMISSIONER KAMMERDEINER: He actually indicated that he would be here for my testimony. We thought this might come up then, and he was going to be here to augment. So if we want him to come over now --

COUNCILMAN RIZZO: No. I don't think it's necessary to drag him over here. He's got lots of work to do. Other than the fact that we really have to fix this --

COMMISSIONER KAMMERDEINER: But he is personally involved in this, as am I, and we're committed to seeing that it is done effectively.

COUNCILMAN RIZZO: Good. And, again, I drug you into this, unfortunately. It's because you are who you are, and the Finance Department is who you are, but I really believe the burden is the Police Department. If they're paying their employees, they should make sure that the City gets reimbursed for the services that they provided, and I believe the point person should be the Police Department. And I think that you're there to support them, but I believe that if anyone is at fault here for not making sure this comes to a conclusion is the Police Department.

COMMISSIONER KAMMERDEINER: From my end --

COUNCILMAN RIZZO: That's no comment.

COMMISSIONER KAMMERDEINER: -- I'm committed to seeing that the revenue comes into the City. That's my job and so we're working to get that done.

COUNCILMAN RIZZO: That's good. And just to go back, I'd appreciate the information on how much money we've written off. I do want to go back. I want to see exactly how much money this program lost, because you need to know that.

COMMISSIONER KAMMERDEINER: Right.

COUNCILMAN RIZZO: And I hope

that --

COMMISSIONER KAMMERDEINER: That's part of the information that's being pulled together. I just don't have it in hand.

COUNCILMAN RIZZO: Based on what Commissioner Gaittens said, that new customers have to pay up front, I like that, but it would be good to know if somebody would ask me a question how much money did that program lose, I'd like to know. And I would like to get the information on the expressway patrol from the Budget Director and the Finance Director so we know exactly what kind of a deal we're getting. So far, all we're getting is a lot of talk from the Commonwealth of Pennsylvania. We got some patrol coming in, but I want to see the money.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman

Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Mr. Jannetti.

MR. JANNETTI: Good morning, sir.

COUNCILMAN GOODE: I have a series of questions for you. I think you can anticipate what most of them are. I'm expecting completely unsatisfactory answers, but I'm going to ask the questions anyway.

Let's start with last year when the Finance Department, Procurement Department and Minority Business Enterprise Council came before City Council at budget time. There was not a report available with regard to participation of disadvantaged businesses at the time; is that correct?

MS. REED: Dianne Reed, Budget Director.

Councilman, you're correct.

COUNCILMAN GOODE: And why was

that?

MS. REED: I cannot account for that.

MR. JANNETTI: I'm going to ask Carolyn Nichols from MBEC to come up.

COUNCILMAN GOODE: I don't believe she was Director last year.

MR. JANNETTI: I don't know why the report wasn't really done last year, Councilman.

COUNCILMAN GOODE: Well, to remind you, we were told that the report actually was done, was stuck on the second floor, and the report was released within the same week of budget testimony by the Finance Department, by the Procurement Department, by the Minority Business Enterprise Council, but the report was not available at the time at which we would question the Finance Department, the Procurement Department, Minority Business Enterprise Council.

MR. JANNETTI: I recall that, Councilman.

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COUNCILMAN GOODE: You released the report after you came before us to discuss the budget. Does that make any sense?

MR. JANNETTI: No, sir, it does not.

COUNCILMAN GOODE: And Council was fairly outraged last year over that. And so this year you come before us and tell us a report will be released later this week again. Is that a little bit suspicious?

MR. JANNETTI: It could be construed as that way, yes.

COUNCILMAN GOODE: Well, if it's not being released after budget testimony on purpose, then tell me why it's not being released.

MR. JANNETTI: It's not not being released on purpose. We ran into some technical difficulty with this, and I have personally put a lot of effort with a lot of people in Finance to get this thing done, people other than

Minority Business, people in Accounting, people in the Contracts Unit.

COUNCILMAN GOODE: Can you tell me the last time that the Finance Department, Procurement Department and Minority Business Enterprise Council presented budget testimony and actually had a report ready?

MR. JANNETTI: I do not know the answer to that, sir.

COUNCILMAN GOODE: So what's the purpose of our even receiving testimony from Minority Business Enterprise Council if we can't evaluate their work?

MR. JANNETTI: I understand.

COUNCILMAN GOODE: You understand, but what are you going to do about it? I mean, clearly Council was outraged last year over not getting the report and we knew the report last year was being hidden. This year I would think there would have been an extra effort to make sure the report was ready on time.

MR. JANNETTI: Councilman, there's not a day that has not gone by in the last month that I have not worked on this, met with people, tried to get this thing finished.

COUNCILMAN GOODE: Mr. Jannetti, you're familiar with the fact that Council has engaged Millennium 3 Management --

MR. JANNETTI: Yes, sir.

COUNCILMAN GOODE: -- regarding the implementation of the Charter change from last fall?

MR. JANNETTI: Yes.

COUNCILMAN GOODE: Millenium 3 Management sent a letter to me on February 13th related to a request for information they made to the Finance Department. I subsequently e-mailed you on February 14th about the information request. You e-mailed me back on February 16th regarding that information request, and how long did you tell me it was going to take?

MR. JANNETTI: I don't know exactly what I said. It was probably somewhere like four or five weeks.

COUNCILMAN GOODE: Actually, you said five to six weeks. That was five and a half weeks ago. When is the information going to be available?

MR. JANNETTI: As soon as the Mayor's Office has reviewed it, we will get it to you.

COUNCILMAN GOODE: It sounds similar to what was said last year about --

MR. JANNETTI: Councilman, you're absolutely correct. It does sound similar.

COUNCILMAN GOODE: We might as well just give up on having any confidence at all in this Administration with regard of the issue of minority participation. There's no need for us to even discuss with this Administration anymore. Can you see how we could take that opinion?

MR. JANNETTI: I do, Councilman.

COUNCILMAN GOODE: I look forward to the next Administration. Thank you.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Madam President.

Mr. Jannetti, Ms. Reed, if I could go back to the Community College issue the Council President raised. If I remember your answer basically was that there was basically cuts across the board. Is that basically right? I guess what I'm getting at is, obviously Community College, there was indication that there were some labors issues coming up, a contract, and there have been concern that the City has not really been meeting its obligation anyway, that we're well below the percentage that we're supposed to give. And I know you guys aren't just the sole decision-makers in this, but was there any consideration given to that, that we're already probably not doing what we should for Community College?

MS. REED: Councilman, this is Dianne Reed, Budget Director.

We have a Five-Year Plan that has to balance. Extra money was given in '07 and was given to several departments last year or several entities, and we have to roll them back this year in order for the Plan to balance.

We are not underfunding them by a funding formula. The funding formula that frequently gets mentioned, the one-third, one-third, one-third, has been superseded by the state and it's a much more ambiguous amount how much the state has to put in or anybody else, for that matter. The funding formulas are quite complex and some of it has to do with the State Higher Education funding formulas. But if we give that money to Community

College, we have to ask the question, Whose budget do we cut in order to give Community College more money. I mean, it's that tight. The parameters are that tight this year.

COUNCILMAN GREENLEE: I mean, was there consideration given, though, to the fact that there was a labor issue coming up that probably money was going to enter into that?

MS. REED: Councilman, no.

COUNCILMAN GREENLEE: Okay. That's the answer, I guess.

Just one more question on another issue. The pensions were mentioned. Obviously the budget was prepared before Council's bill that was passed here and the overriding of the Mayor's veto. Are there now discussions as far as any adjustments that may have to be made?

I guess, Mr. Jannetti, you're -- particularly with the Board of Pensions. What discussions, if any, has happened yet about that?

MR. JANNETTI: There is a formula for payments into the Pension Adjustment Fund. Part of the formula was adjusted by Council last week or two weeks ago. The other part of the formula is the five-year smoothing on the earnings.

COUNCILMAN GREENLEE: I'm sorry. The what?

MR. JANNETTI: The five-year smoothing on the earnings.

COUNCILMAN GREENLEE: Right.

MR. JANNETTI: Measured against the earnings assumption. And I don't believe that five-year smoothing -- that five-year number is over the earnings assumption.

COUNCILMAN GREENLEE: Is over the what? I'm sorry.

MR. JANNETTI: Is not over the earnings assumption, the eight and three-quarters.

COUNCILMAN GREENLEE: So does

that mean right now you don't have to make the adjustments? Is that what you mean?

MR. JANNETTI: From what I remember of the schedule, yes, sir, we do not.

COUNCILMAN GREENLEE: Okay. Thank you both.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

I just have a few more questions, Mr. Jannetti.

On Page 9-64 of the detail, you are requesting an increase of $629,000 in Minor Object Code 280. Why are these funds needed? I think we had 18,000 in '07 and it jumps to 647,000 for '08. Why the increase?

MR. JANNETTI: We have been consolidating the departmental insurance premiums out from the departments into Risk Management.

COUNCIL PRESIDENT VERNA: Can

you give us a breakdown on that, please?

MR. JANNETTI: Yes, ma'am.

COUNCIL PRESIDENT VERNA: Also, Mr. Jannetti, on Page 9-73 of the detail, you have increased legal services in FY07 above their adopted budget level by $1.1 million and then increased them again by $1.3 million in FY08. Will you explain the rationale for your increases and then explain for the record your rationale for cutting the District Attorneys while increasing the Defenders Association? I thought that in a courtroom you had a defender and you also had to have an Assistant DA. I don't understand your rationale in this at all.

MS. REED: Council President, Dianne Reed.

The Defenders Association contract adjustment in '07 included support for their health benefit costs. We did an analysis with the Personnel Department of their costs and found them to be not out of line with the kinds of premiums that the City is able to negotiate with providers for non-reps, and so on the basis of that and aside from the fact that they are fully funded by the City, they don't have other funding, we agreed to pay for that.

In addition, as we've discussed a couple of times, we did add two paralegals to their budget in order to step up the number of petitions for early release that were processed, and they've been able to follow through for that.

One of the elements that was not in their contract, which the FJD had requested assistance with, was the addition of additional courtrooms for processing this year, and the contract with the City does stipulate the number of courtrooms that the Defenders Association will cover, and we had to adjust the contract to accommodate that need at the First Judicial District.

COUNCIL PRESIDENT VERNA: I just find that very upsetting.

Are there any other questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you both very much.

And the next department will be?

MR. McPHERSON: The Department of Revenue.

COUNCIL PRESIDENT VERNA: Good morning. Please identify yourself for the record and proceed with your testimony.

COMMISSIONER KAMMERDEINER: Good morning, President Verna and members of City Council. I am Nancy Kammerdeiner, Revenue Commissioner. With me this morning is Marlene Duley, Deputy Revenue Commissioner for the Water Revenue Bureau.

I believe you have my written testimony, so I'll just highlight a few of the key points for the record.

The Department of Revenue is

requesting $17.7 million from the General Fund for Fiscal '08. This will fund 271 full-time and two part-time positions, as well as the other supporting costs for the tax side of the Department.

We're requesting $2,475,000 in the Grants Revenue Fund. This will cover funding for collection agency payments, which are contingency fees not paid unless there are actual collections, and for two Productivity Bank loan initiatives. These are loans we've applied for during Fiscal '07 which we hope to have approved, and the funding here allows for the transfer of the loan amounts if they're approved.

In the Water Fund, we're seeking an appropriation totalling $21.8 million that will cover 274 full-time and six part-time positions, as well as supporting costs for that area of the Department, including funding for an integrated voice response system and predictive dialer for the Call Center, a postage rate increase and the costs associated with maintenance for the new billing system.

Several years ago the Department made great strides using technology when it developed the integrated tax system TIPS. Now the technology advances that we're making and advances which have a significant impact on our operations are in the E-government area. This involves both payment and service. You'll find more about these initiatives in my written testimony, as well as some other things in the written testimony that may come up also during questions.

This concludes my quick overview, and we're available to answer any questions that you might have.

COUNCIL PRESIDENT VERNA: Thank you very much, Commissioner.

In the Brief, it indicates that the total amount of receivables that the City has outstanding is somewhere in the vicinity, I believe, of over $707 million. Would you describe for us the various collection initiatives you use within the Department to collect these outstanding receivables? Seven hundred and seven million dollars sounds like an awful lot of money to me.

COMMISSIONER KAMMERDEINER: First of all, a significant portion of that would be real estate tax, and as you may or may not know, real estate receivables go back over 20 years because liens have a 20-year life, and now we actually revive those liens for an additional 20 years to make them legally collectible at the time the property transfers. And so that means we're keeping liabilities on the books for a significant period of time, particularly for real estate tax. And that's a big part of it.

And, also, depending upon when in time those numbers were identified with business privilege tax in particular, we bill on a cycle basis after all the returns are processed. So once we're doing that, we start to bring those numbers down more dramatically. And so it's kind of hard to say. I'd have to look at the number you're drawing to say exactly when that was pulled and what the status would be.

The other thing I would mention, the enforcement in terms of collection on delinquent accounts transfers to the Law Department after 90 days. We work with them and have their concurrence in having collection agencies work beyond that time period for collecting receivables, but the official action in terms of enforcement in court and some of the other collection initiatives really come from the Law Department.

COUNCIL PRESIDENT VERNA: I would think that with real estate being at an all-time high, people certainly would not want to be losing their properties.

COMMISSIONER KAMMERDEINER: One would think that. However, there are a number of properties in the City that haven't had payment in over 20 years on their taxes, which means that they've been abandoned. Those amounts, those receivable amounts, continue to grow on the property during that time period, and there in many cases will not be a viable owner to pay or someone who is going to be able to pay the amounts that are due at this point in time.

COUNCIL PRESIDENT VERNA: Does anybody track the owner of the abandoned properties?

COMMISSIONER KAMMERDEINER: We do. In some cases, the owner died without heirs, and so the only way you can really clear the title on those properties is to go either through sheriff's sale or condemnation, both of which are expensive processes for small parcels, but it is something that is done on a regular basis in terms of clearing title on some of those properties.

There is a contract that the Law Department has with an outside firm to assist in collections, and they've had a fairly high degree of success in terms of bringing in people who had not been forthcoming on what we billed or tried to collect from them, and so we have had a significant increase in collection of prior year receivables as a result of that contract.

COUNCIL PRESIDENT VERNA: What are the circumstances that determines when an account is turned over to a collection agency?

COMMISSIONER KAMMERDEINER: With the exception of the real estate tax, the collection agencies that we have in Revenue, the referrals go on a staged basis depending upon the dollar amount. If they're over, I believe it's, $10,000, they go directly to the Law Department for legal enforcement action in court, but the lower-dollar amounts are referred to a collection agency just on a straight basis just because therein the time has come for them to be referred out. The collection agencies have 120 days to collect, and once they come back to us, those receivables that are referred to Law or any additional follow-up collection activity and municipal court filings --

COUNCIL PRESIDENT VERNA: What collection agency do we use?

COMMISSIONER KAMMERDEINER: Right now we have two, Revenue Collection Bureau and NCO.

COUNCIL PRESIDENT VERNA: Can you tell us what role does the Revenue Department have in determining the Mayor's revenue estimates?

COMMISSIONER KAMMERDEINER: We have a unit within Revenue that does forecasting, works with our database to identify detailed information about accounts and to use that data for projection purposes. We work then very closely with the Budget Bureau in the development of their estimates for the taxes for the coming year.

COUNCIL PRESIDENT VERNA: Thank you very much.

The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Madam President.

Commissioner, real kind of operational question here. I know we've heard over the years complaints and I understand it has improved, but we still hear them. Folks go over to Municipal Services Building in the public service concourse there, particularly ones that want to start small businesses, maybe get zoning, that kind of thing. And I know a lot of this is L&I, but that they're in line here, they're in line there trying to get their tax ID number and all that. I understand there has been some improvements there, but do you try to coordinate with L&I to try to make this as much as a smooth process as you can?

COMMISSIONER KAMMERDEINER: We do as much as we can on that, but one thing I would recommend or suggest is that someone who wants to get a tax account and a business privilege license can do that on line, and by submitting the information on line, the information goes directly to Revenue and to L&I, and we provide our business tax account number by return e-mail, which is within usually seconds, and if not seconds, within minutes of when they put in their request to us.

The actual license, of course, has to be paid for. If they pay for it on line with a credit card, then that information feeds to L&I for the actual issuance of the paper license. They can download a coupon and mail in a payment if they don't want to use a credit card.

I can't account for how long it takes L&I to handle their side of the process, but ours is very rapid if it's done by e-mail -- I mean, excuse me, by on line.

We also accept applications by fax and will turn those around relatively quickly. That avoids the problem of having to come in and wait in line, because particularly at this time of the year when we have a lot of people coming in for tax payer assistance and for payment agreements, the wait for seeing someone in person can be protracted, but they can have very quick service by doing it on line or by fax.

COUNCILMAN GREENLEE: Have you seen a lot of people use that service yet or are they aware of it?

COMMISSIONER KAMMERDEINER: Yes. It's used very heavily and we have a lot of practitioners in particular who at this time of the year are doing tax returns for people who aren't registered with us, don't have a tax account number, and they've been very happy with the quick turnaround. It let's them go ahead and complete a return for someone, and it also means that then they know that that return will be processed against the right account. It won't sit at our end while we wait to issue an account in order to process the tax return.

So, yes, it is very useful and has been well received.

I would also say that we try to get that word up through tax practitioners, because usually someone setting up a new business is working with an accountant or a tax attorney in terms of the issues relating to the set-up of that business. So we try to get information out to them about it as well.

I believe it's also on our forms, on our tax forms. And those forms are also available via the Internet.

A new activity this year, you can now file a BPT-EZ return on line and a net profit tax EZ return on line and have everything handled on line, including your payment if you want to make a credit card payment.

COUNCILMAN GREENLEE: Maybe that's why I'm not hearing as many complaints. That sounds good.

COMMISSIONER KAMMERDEINER: It's out there and available, and we've gotten some thank-you's from people who have used it. It's not yet as widely used as some of the other things. It wasn't available yet when our returns were printed. We just said watch for it, but a number of people have been using that facility. And it will help us at the back end. We are sure we get things with the proper mathematical calculations and that we can read the numbers that are on our return, often a problem with a handwritten return.

COUNCILMAN GREENLEE: Thank you.

Ms. Duley, if I could just ask you, with Water Revenue have you seen an increase in -- how should I put this -- a decrease in the necessity to turn off? Have there been more agreements coming in? Are you seeing more cooperation on that or about the same?

COMMISSIONER KAMMERDEINER: Let me quickly say and then let Marlene can add to it, but we're in the process of sending out shut-off notices right now, because, as you know, the moratorium ends and we start doing shut-offs on April 1st, and she has some recent statistics on shut-off notices. And I would say no, they're not down.

COUNCILMAN GREENLEE: They are not down. All right.

COMMISSIONER KAMMERDEINER: Go ahead.

DEPUTY COMMISSIONER DULEY: I would agree, they're not down.

COMMISSIONER KAMMERDEINER: Identify yourself for the record.

DEPUTY COMMISSIONER DULEY: Marlene Duley.

No. They're about what they've

been in the past. We're up about 2,000. When I look at the trend for the last couple years, we're normally sending around 50,000 first notices out. So it has not significantly gone down or up. It's about the same.

COUNCILMAN GREENLEE: Okay. Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you.

Commissioner, we've been talking about this for a lot of years and I've done some homework on the utilization of credit cards to pay bills. The Revenue Department accepts credit cards.

COMMISSIONER KAMMERDEINER: Yes.

COUNCILMAN RIZZO: For real estate taxes?

COMMISSIONER KAMMERDEINER: Yes.

COUNCILMAN RIZZO: But there's a significant fee associated with it.

COMMISSIONER KAMMERDEINER: There's a convenience fee associated with processing a credit card, yes.

COUNCILMAN RIZZO: Well, it's more than a convenience fee. Isn't it a percentage?

COMMISSIONER KAMMERDEINER: It's called a convenience fee.

COUNCILMAN RIZZO: But if our job is to collect money, why don't we make it as easy as humanly possible?

A major corporation, I talked to them, that is world wide, uses credit cards for their customers to pay significant bills, and they indicate that since they went that route, they get their money. There's very little receivables because people want to make sure that they get their insurance paid.

I just can't imagine. If you

want to make it convenient, charge the customer what it actually costs the City and get your money.

COMMISSIONER KAMMERDEINER: That is what it costs the City, because that's the convenience fee charged by the credit card company and the processor. None of that comes to the City.

COUNCILMAN RIZZO: The processor. Do we need to have a processor?

COMMISSIONER KAMMERDEINER: Yes.

COUNCILMAN RIZZO: Can't we be a processor?

COMMISSIONER KAMMERDEINER: They have the relationships both with the banks and with the credit card companies, and when we tried to do some of it ourselves, we had significant issues in dealing with it. It is a much smoother and more effective process when you have someone who does only that and concentrates their efforts on that.

COUNCILMAN RIZZO: Okay. Could you do me a service, please. Could you revisit this issue to see if there's anything that's changed in the last few years. I know if my water is going to be turned off or my gas is going to be turned off -- and the gas company is another issue. I'll be dealing with them -- if I have a credit card, I'm going to use it. But I think the strategy that government has is that the convenience fee isn't going to be turned from a person not paying their bill. I would love us to be able to accept credit cards for many of the services.

How about a person that wants to pay for a permit? Can they use a credit card?

COMMISSIONER KAMMERDEINER: Many of the L&I permits are also available for credit card use. There is indeed a fee that is attached to that as well that is to cover the cost of servicing it.

I agree with you in large measure on that. There have been several of the things that I've wanted to try to have the convenience fee paid for by us. It means an appropriation. We would have to have appropriations where we would be able to predict what it is we needed to pay.

With taxes it's far more difficult, because you don't know the size of the bill that someone is going to pay. When you're dealing with something that has a set fee, you can establish a set amount and predict approximately how many transactions you would be processing and be able to come up with an appropriation.

I don't know whether the person paying a real estate tax bill will be paying a thousand-dollar bill or a 20-thousand-dollar bill and so to have the appropriate amount of money in an appropriation to cover those fees is difficult.

We talked about it recently. We are revisiting the whole ePayPhilly process. It's something that we're at that contractual point where we need to be updating and renewing this. In fact, I think we have a meeting either this week or next to talk about some of these issues. We've been involved in looking at what we need on a going-forward basis for what's called ePayPhilly that includes all of these different payments.

COUNCILMAN RIZZO: I'll go back through my notes and give you possibly the name of a contact that I spoke with that indicated that since they don't charge a convenience fee, that they have gotten paid early. People want their airline points. People want their reward points.

COMMISSIONER KAMMERDEINER: I'm aware of similar situations. One that has been cited to me that is a government example, the State of Arizona had charged a convenience fee for renewal of driver's licenses on line with a credit card payment, had very little activity with it. They started to absorb that convenience fee and went to about a 75 percent on line renewal rate with the credit card payment.

So it can work and it can work effectively when you have something like that. It's going to be far more difficult with taxes where the dollar amounts are unknown at the outset.

One of the things that I would like to see us put in -- I thought it was going to be in for this tax season and it's not because of some legal issues getting it in place, but that's called eCheck where you would make your payment from your checking account electronically, and that means that you have the money in your account as opposed to someone who is using the credit card to stage a payment plan. But eCheck is a far less expensive process, and even if we charge someone for it, it's a lesser amount than they would pay if they were using a credit card.

COUNCILMAN RIZZO: I think it's impressive, and I'll end it, where government keeps pace with the private sector when it comes to those kinds of relationships, and it's a shame that ten years down the road we still don't get it, that making it easy for a person to pay their bill can have a benefit. And I bet if you analyze it -- this particular company does it and they have analyzed it and it has been a big win for them, because they're getting paid.

COMMISSIONER KAMMERDEINER: We have some of the information that would help us make that analysis. One of the things that governments, by and large, have said over time is that we don't want all taxpayers to pay for services only used by a few. What happens, though, with something like this is, the more and more taxpayers you have who are using the services, then the more appropriate it is for those fees to be paid out of the general revenues, and as you can start to see some of the other costs coming down, you can start to justify it. Early on we weren't able to justify it. I think as we gather more information, we'll be in a position to justify if not a complete absorption of the fee, at least some way to absorb portions of it.

COUNCILMAN RIZZO: Terrific. I'm pleased to hear that they're --

COMMISSIONER KAMMERDEINER: We're really looking at it.

COUNCILMAN RIZZO: -- still continuing to look at that. Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Revenue Commissioner.

COMMISSIONER KAMMERDEINER: Good morning.

COUNCILMAN GOODE: I actually have two questions on behalf of Councilwoman Reynolds Brown, who could not be here. The first is, Councilwoman Brown's office was recently contacted by a constituent who pays their real estate tax in February. For the last few years the City has not cashed their check or credited their account until about May. This would seem to be a lost opportunity to earn interest income. Can you comment on that and why we don't deposit monies owed to the City immediately? As of last Thursday, the check had not been cashed as well.

COMMISSIONER KAMMERDEINER: I don't know that particular case, of course, but when we have the situation where a check isn't deposited or cashed for a long period of time, almost every instance I find that the person who submitted the payment didn't include our scannable coupon and the payment had to sit to the side for a person to go through and generate a bill that we could scan so that we could properly record the payment to the account of the person who was making the payment. And I can't say that that's the case here, but more often than not that's been the issue.

COUNCILMAN GOODE: So if Councilwoman Brown's office gets you the name of that constituent, you can check on that?

COMMISSIONER KAMMERDEINER: The name and preferably on that the address or the account number for the account, and we can see whether we've received it or find out what the situation is with it.

COUNCILMAN RIZZO: Point of information.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: It's interesting. I think I've had this conversation with you before.

COMMISSIONER KAMMERDEINER: Yes.

COUNCILMAN RIZZO: And the particular individual that paid a significant dollar amount in real estate tax in one particular cycle, it was three, four weeks before the check was cashed, and you indicated that you get a volume of mail. That individual's check this cycle was cashed in three days.

COMMISSIONER KAMMERDEINER: So sometimes --

COUNCILMAN RIZZO: So I just wanted you to know.

COMMISSIONER KAMMERDEINER: The difference may very well have been that the first time, for whatever reason, that coupon may not have been readable or it may not have been included. We had to print a bill in order to process it. And this time the full coupon was probably there and it processed timely.

COUNCILMAN RIZZO: That wasn't

it at all, Commissioner. It was that I asked you the question and you were looking for that one particular payment.

COMMISSIONER KAMMERDEINER: Not this time around.

COUNCILMAN RIZZO: Thank you, Councilman Goode.

COUNCIL PRESIDENT VERNA: Councilman Goode.

COUNCILMAN GOODE: The second issue is, Councilwoman Brown's office has been working with Clay Studio, who is a non-profit organization in Old City that promotes ceramic art and they sometimes display artists from outside the City and those artists are now being sought after for tax situations. Are you familiar with this?

COMMISSIONER KAMMERDEINER: I'm familiar with it and have it with my technical staff to research the entire issue to see what options might be available there. We don't have a de minimis rule in terms of whether someone is in business or not in business in Philadelphia, and so one of the issues will be whether the artists in question here who have works on consignment at the Clay Studio or any other gallery or studio in Philadelphia are really in business here or they're not in business here. And so it is a very difficult issue to deal with and we are addressing it and don't have a full resolution on it at this moment.

COUNCILMAN GOODE: So you will update the Councilwoman's office?

COMMISSIONER KAMMERDEINER: We'll be working with the Councilwoman's office after we have a little bit more information on it. And this is something we probably will be sitting down with the Law Department on in terms of legal interpretation and whether there are things we can do.

I think the issues that are coming up for the Clay Studio are in part coming up as a result of a contract that the Law Department has with a collection agent, a co-counsel, and so we need to be on the same page with this in order to deal with the issues. But we are addressing it and hope fairly soon to have some guidance in terms of how this can and should be handled.

COUNCILMAN GOODE: Okay. Thank you, Commissioner.

COMMISSIONER KAMMERDEINER: You're welcome.

COUNCILMAN GOODE: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

Good morning.

COMMISSIONER KAMMERDEINER: Good morning.

COUNCILMAN CLARKE: My annual questioning about non-utilization tax.

Where are we?

COMMISSIONER KAMMERDEINER: Probably the same place we've been all along.

COUNCILMAN CLARKE: So I guess you've just made the decision that you're not going to do it?

COMMISSIONER KAMMERDEINER: We have not had the court remove the order on the stay on collecting on that tax.

COUNCILMAN CLARKE: Because you didn't ask.

COMMISSIONER KAMMERDEINER: I guess I haven't asked, no. I have not asked. I don't know if the Law Department has done anything with it.

COUNCILMAN CLARKE: Just tell me you're not going to do it. Just say, Councilman, stop asking me every year, because I'm not doing it. I'm the Revenue Commissioner. And then we can just go on our separate ways.

COMMISSIONER KAMMERDEINER: I think a lot of the other things that are happening in that whole marketplace make it a very difficult thing to put into effect, but we should probably talk about it again.

COUNCILMAN CLARKE: Why is it difficult?

COMMISSIONER KAMMERDEINER: Well, first off, the implementation on it is difficult in terms of what properties are not being utilized.

COUNCILMAN CLARKE: Commissioner, see, you're getting ready to insult my intelligence. We had that conversation for the last two years.

COMMISSIONER KAMMERDEINER: And I still don't have a database that I can work from.

COUNCILMAN CLARKE: Last year we had MOIS here. We had people from the Office of Housing. They indicated that the software is capable of now determining to probably a 99 percent certainty that that property is vacant.

COMMISSIONER KAMMERDEINER: And

L&I is still working with MOIS in terms of identifying a vacancy indicator that will go in the system. We had conversations as recently as about a week ago about some of the data from Revenue that feeds into their identification of vacancy. And so I don't think they have everything as in place as they thought they would by this point in time.

COUNCILMAN CLARKE: Commissioner, I can go in my office right now and go on the computer based on the information that was submitted as a result of a relationship with the University of Pennsylvania and determine that a property is vacant.

COMMISSIONER KAMMERDEINER: On a one-by-one property basis perhaps. I just know that MOIS is still working on the issues relating to vacancy and property utilization and do not yet feel that they have a complete stable listing that's appropriate to be used.

I'll talk with them again and

see whether they think that what they have now with the additional information that they just requested from us both in terms of tax liens, real estate tax liens, and water liens will get them to the point that they can reliably give --

COUNCILMAN CLARKE: I was told that they could do that last year. They sat right here and said that they could determine that there's no water connection, no water service, no electrical service, no gas service.

COMMISSIONER KAMMERDEINER: They don't have all of it in place.

COUNCILMAN CLARKE: Commissioner, they said that last year.

COMMISSIONER KAMMERDEINER: I can only tell you that it's just been recently that they've asked us for the data. So I know that they don't have it all in place. And they were still talking with PECO and PGW about getting their data. So I can only tell you that as recently as a few weeks ago they did not have all of it in place.

COUNCILMAN CLARKE: Madam President, I'm assuming we're going to do callbacks?

COUNCIL PRESIDENT VERNA: Yes.

COUNCILMAN CLARKE: When we do callbacks, can I have the Revenue Commissioner, License and Inspection Commissioner, Kevin Hanna from OH.

Who else do I need to have there?

COMMISSIONER KAMMERDEINER: MOIS.

COUNCILMAN CLARKE: And MOIS and the Law Department, since you say that they didn't act or nobody asked them to act to withdraw.

COMMISSIONER KAMMERDEINER: I don't know if anybody did. They may have taken in that at this point.

COUNCIL PRESIDENT VERNA: I'll be happy to do that.

COUNCILMAN CLARKE: All right. Because either before I leave or you leave or maybe we both survive the next Administration and come back for four more years, this is something that we need to do. I mean, you have -- particularly you mentioned today's market. I have to think that the property values going up as dramatically as they are, the ability for people to move properties and get them back on line is much more enhanced, but they continue to sit on vacant properties, create blighting conditions, speculating in neighborhoods. And I think that we need to be in a position to impose an additional penalty on these people who continue to allow these properties to blight our neighborhoods, because there's no reason for, given the significant change in the market and the value in some of these communities, for people to be allowed to continue to sit on these vacant properties with no real sense of urgency to do something with them.

So we have the callback. I

guess basically what I'm trying to do is give you time to talk to the pertinent parties so when you all come back at the same time, we get to the bottom of it.

COMMISSIONER KAMMERDEINER: Okay.

COUNCILMAN CLARKE: Thank you. Thank you, Commissioner.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Councilman DiCicco, did you want to be notified -- recognized?

COUNCILMAN DiCICCO: Thank you. It's a new question. Somewhat of my annual question.

On the issue of real estate tax collections, I believe we spoke about this last year. I have a summer home at Ventnor in New Jersey and my real estate taxes are collected quarterly. Once a year I am sent a bill, an invoice, with four coupons on it, no return envelope. I have to supply the envelope, which is not a big deal.

Wouldn't it make more sense for us to collect quarterly because we get a cash flow sooner rather than later?

COMMISSIONER KAMMERDEINER: Actually, we'd get it later. Right now we get the payment at he beginning of the year for the entire year, and if we did quarterly payments, they would either have to be made starting the year before so that they ended in March of the tax year or we would have some of the payment come in later than we currently get it. So that is an issue and a problem in terms of switching from our current annual payment to a quarterly payment.

Plus, we have a significant portion of our population that has a mortgage escrow account. The mortgage companies pay us in February to take advantage of the one percent discount, and if we were dealing with quarterly payments, I would suspect that most of them would want to go to quarterly payments to us as well instead of getting all of that at one time in the early part of the year.

We've looked at it. We know that with so many other things, we went to monthly billing on water in order to minimize the impact of a quarterly bill. So surely the annual real estate bill, which is significantly higher, we would benefit from going to -- the individuals would benefit, the individual taxpayers would benefit --

COUNCILMAN DiCICCO: Much more user-friendly.

COMMISSIONER KAMMERDEINER: -- from being able to spread it out.

We've looked at that on a number of occasions and run into the problem of budget years. If you had four quarterly payments in the tax year, two of them would be in the next budget year. And making the transition from one to the other would either mean advance on the advanced payment by paying in the prior year or a way to bridge into the next budget year the first time through. After you do it, it would be regularized. It's the problem of getting there. And we haven't had the luxury of extra funds available to provide that kind of bridge.

COUNCILMAN DiCICCO: But if we were able to get there, would it make sense then?

COMMISSIONER KAMMERDEINER: It could make sense for the individuals. We'd have some issues we'd have to look at in terms of how we would handle it logistically. It would mean four billings instead of one for anyone who opted to go into the installment payment.

COUNCILMAN DiCICCO: But in New Jersey, there is no -- I mean, you could pay it off all at once if you choose, but it's basically left to the individual to make that decision.

COMMISSIONER KAMMERDEINER: Right. That's what I'm saying, we would have additional mailings to the people who would choose. Because we know from our experience if you send out the four coupons like you said you get from the New Jersey entity that you're dealing with, most of our people would come to us and want an additional coupon when the time came. They seem not to hold on to those coupons very well. So we would find it more effective to send them a bill for them to pay at that point. It means additional billing and postage that we don't currently have, because right now we send one and we'd have to send four.

COUNCILMAN DiCICCO: But the only additional postage and mailing would be if the person didn't pay.

COMMISSIONER KAMMERDEINER: For that segment.

COUNCILMAN DiCICCO: Yeah, for that segment.

COMMISSIONER KAMMERDEINER: Right. But that could be 100,000 or 200,000 payers. So it could be a large number.

COUNCILMAN DiCICCO: I mean, I would think that most -- it's a lot easier as a taxpayer for me to break it up quarterly than getting hit at the end of the year with the full --

COMMISSIONER KAMMERDEINER: Well, in this case, it's not the end of the year. It's the beginning of the year, which is what most people lose sight of.

COUNCILMAN DiCICCO: What I mean is not in one lump payment. It's easier for me to spread it out four times a year. If it's $4,000, it's a thousand, thousand, thousand, four times a thousand, as opposed to coming up with the full $4,000 once a year. It's the same principle with the water bills. We thought we'd make it easier to spread it out monthly as opposed to quarterly, or I think at one time --

COMMISSIONER KAMMERDEINER: I understand and I appreciate that from an individual. From the standpoint of the City in getting all of those funds now at the beginning of the year, the challenge is for the budget and the cash flow in terms of having that money coming in at a later date. And I don't think many taxpayers would be very happy with paying in -- I'll just use this year as the example -- in 2007 for their 2008 tax when they've already paid their 2007 bill. Again, it's the transition problem doing it the first time.

COUNCILMAN DiCICCO: Right. Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Commissioner, I can't tell you how this $707 million or thereabouts bothers me in delinquent real estate taxes, and I know you indicated that some of them are maybe 20 years old. Why would we not do something about those properties, have them put up for sheriff's sale? How many are put up for sheriff's sale because of delinquency?

COMMISSIONER KAMMERDEINER: I don't know what the numbers are now. They had been about 100 a month, but I'm not sure where we're standing right at this point. The actual sheriff's sale process is managed by the Law Department. But the number that are put up for sheriff's sale and the number that actually go to sale are different because there are collections during the notice periods coming up front, and so I'd have to get their numbers to give you something more exact.

But it is approximately 100 a month that start the process, that go through the title search, the notices to owners, and a significant amount of payment comes in on those properties to stay the sheriff's sale. And the pipeline for those sheriff's sales through the Prothonotary's Office and the courts and the Sheriff's Office itself is fairly narrow. They can't handle too many more properties.

COUNCIL PRESIDENT VERNA: So would you say that some individuals will pay when it's indicated that the sheriff's sale is going to occur?

COMMISSIONER KAMMERDEINER: That's right.

COUNCIL PRESIDENT VERNA: And that's the last you hear from them?

COMMISSIONER KAMMERDEINER: And then they don't pay until we sheriff their property again, yes.

COUNCIL PRESIDENT VERNA: The entire system is wrong, that we should be looking at a delinquency rate of over $700 million. I think it's sad.

COMMISSIONER KAMMERDEINER: The 700 I don't believe is all real estate tax, or is that only a real estate tax number that you were quoting to me? I'm not sure.

COUNCIL PRESIDENT VERNA: It's the aggregate.

COMMISSIONER KAMMERDEINER: Okay. I'll get some additional information for you on the breakdown of the various taxes and some of the things that are happening with it as a back-up.

COUNCIL PRESIDENT VERNA: I don't care what kind of taxes there are. We should be doing something more than we're doing.

Councilman DiCicco.

COUNCILMAN DiCICCO: Thank you.

What portion of the $707 million is directly related to the real estate tax?

COMMISSIONER KAMMERDEINER: I'm going to have to look at what Councilwoman Verna is referring to for the date and time on that, but I would say probably at least half of it is real estate.

COUNCILMAN DiCICCO: I've been told it's in the vicinity of about 500 million.

COMMISSIONER KAMMERDEINER:

It's close to that, yeah.

COUNCIL PRESIDENT VERNA: I believe that's in the annual report, Commissioner, if you wanted to look at that on Page 30.

COMMISSIONER KAMMERDEINER: When you're saying the "annual report," you mean the Budget and Brief or are you talking about the capper?

COUNCIL PRESIDENT VERNA: The City's annual report.

COMMISSIONER KAMMERDEINER: Okay. I'll look at that and then provide some additional background for you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much, Commissioner.

COMMISSIONER KAMMERDEINER: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

MR. McPHERSON: City Treasurer's Office.

COUNCIL PRESIDENT VERNA: Good morning. Please identify yourself for the record and proceed with your testimony.

MR. NACCHIO: Sure. It's a pleasure to be before you again for another budget season.

Good morning, Madam President and members of City Council. I am John Nacchio, the City Treasurer for Philadelphia. I appreciate this opportunity to testify before you about the FY2008 Operating Budget appropriations requested for this office.

The total requested for FY2008 budget appropriation of 770,304 is an increase of $9,753 from FY2007. The FY2008 highlights by proposed expenditures are as follows: The Class 100 personnel projected expenditure of

$672,992 is the largest part of this budget and represents 87 percent of the Treasurer's Office proposed budget. This includes 13 positions, two of which re-establish the financial management and analysis positions previously funded prior to FY2005. The Class 200 amount is 73,088, and the combined Class 300 and 400 amount is $24,224 resulting in no change from the FY2007 budget and estimated obligations.

In FY2006, City Council enacted legislation that is moving the Office in a new direction to address economic issues of community reinvestment and disparities in lending practices. In FY2007, the City Treasurer's Office will, for the first time, commission an annual study examining the City's authorized depositories listed in Chapter 19-200 of The Philadelphia City Code. This study is in recognition that the lending practices of financial institutions have a measurable impact on the City's tax base, quality of life and overall economic viability and competitiveness in the region and world economy.

Further, in FY2007, City Council approved new legislation to establish an RFQ/RFP process for the payroll accounts of the City. The legislation requires that the City enter into a contract process for these accounts. The contracts must be approved by City Council by ordinance. The establishing of an RFP/RFQ process is underway in FY2007.

I remind you that under the City Charter, the City Treasurer's Office primary function is to provide treasury management for the City's cash. The treasury management function has two principal components. One is the administration of cash collected by the Revenue Department for deposit and then distributed electronically to disbursement accounts to cover daily payments issued by the City either by check or ACH or other electronic transmissions. The second practice of the City of Philadelphia is not to keep cash -- excuse me. The second function is to maximize returns and to grow the cash base of the deposits. The investment practices of the City of Philadelphia and the City Treasurer is not to keep cash that is not required for payments on deposit at banks where yields are usually low, but rather to place these funds in investments within the authorized limits set by Chapter 19 of the Code and established in the City's Investment Policy. This practice both preserves the principal and adds to the bottom line with cash as additional interest revenue to the City.

Operationally, each year the Treasurer's Office oversees the disbursement of over millions of payments to approximately 30,000 employees, 33,000 pensioners, 19,000 vendors, 9,800 election workers, 3,800 foster parents.

Also, the Treasurer's staff manually initiates electronic payments of approximately 6,000 wire transfers and manages the coordination of over 900,000 Automatic Clearing House, ACH, payments. The office also monitors the related back-room processing and reconciling of about 100 bank accounts associated with the multi-layer and tiers of banking transactions that result in about three billion book entries and the related list of itemized cost elements associated. In addition, oversight is provided for 30 investment portfolios representing approximately 1.5 billion of investments, involving daily market trading. The City holds these investments in segregated trust accounts for funds resulting from the issuance of general obligation and revenue bonds. These trust accounts require daily investment analysis and direction by the Treasurer's Office to provide liquidity for cash disbursement and maximizing the return.

As a special point, I highlight the City's voluntary enrollment of direct deposit of pay programs in both the active employee payroll and pension payroll system continues to grow. By way of a breakdown, 74 percent of our active employees participate in the City's direct deposit program, as do over 80 percent of our pensioners.

Similarly, the Automated Clearing House, ACH, payment program for City vendors was implemented in June 2000. This program is similar to the City's direct deposit of pay program, except that the City makes direct deposit payments to vendor accounts electronically rather than printing and mailing paper checks. The number enrolled has steadily increased each year and now there are over about 1,300 vendors who participate in this program.

In FY2007, the City Treasurer's Office has continued to migrate to a new platform of up-to-date banking technologies. This includes Internet online banking, increasing use of electronic transactions, organizing bank accounts into recognizable client clusters, and employing and deploying to all City departments modern banking technology. In addition, a special initiative for departmental banking, which is not under the City Treasurer, was the formation of a user group called M-BUC's. This user group approach involves over 150 employees and has been helpful to understand banking relationships and to provide a platform to inform and exchange with departments the best practices for their individual banking needs and provide guidance on fraud and theft protection.

In FY2007, I particularly point to the contributions made by MOIS, the Mayor's Office of Information Services, for new computer programs for standardizing processes that has resulted in new designs of payroll and vendor checks. Standardizing electronic files transmitted to banks and financial institutions and improving the uniform printing of checks by adopting new standardized formats has increased fraud prevention and added to more effective and efficient operations.

The Office of the City Treasurer continues to advocate that all paper checks be minimized as a method of payment as a long-term objective. This is both for a modern effective process that is consistent with national objectives and for the City's continuity of government plan for emergency preparedness in the event of a catastrophic event. The preference for direct deposit and ACH enrollment has been encouraged through education and promotion of the message that is the most simple, safe and secure form of payment.

This concludes my written testimony, and I'll be happy to take any questions.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Mr. Nacchio.

MR. NACCHIO: Good morning.

COUNCILMAN GOODE: I note in your testimony -- and actually I was already aware of it -- that you have put two more lending studies under contract.

MR. NACCHIO: That's correct.

COUNCILMAN GOODE: Can you tell me when those lending studies will be completed?

MR. NACCHIO: We're on an aggressive schedule with 2005 and 2006, and both studies are to be completed right now by the end of December of this year.

COUNCILMAN GOODE: I'm assuming the 2005 study will be completed before that.

MR. NACCHIO: Yes. Hopefully --

COUNCILMAN GOODE: When is the 2005 supposed to be completed?

MR. NACCHIO: We're looking for by June of this year. Hopefully by May, but June is where we're targeting.

COUNCILMAN GOODE: And when did the contractor go under contract?

MR. NACCHIO: Excuse me, sir?

COUNCILMAN GOODE: When did the contractor go under contract for this?

MR. NACCHIO: The contract was actually signed just about, I think, three weeks ago. I think it was three weeks ago.

COUNCILMAN GOODE: So beginning of March?

MR. NACCHIO: Yes.

COUNCILMAN GOODE: And --

MR. NACCHIO: I would say we had a great kick-off with the team. I'm really excited, enthusiastic about the team that's been put in place and I think that we should get a very good product.

COUNCILMAN GOODE: And while the National Community Reinvestment Coalition was not selected, are the two studies expected to conform to the two previous studies done by NCRC?

MR. NACCHIO: One of the requests that we made was that there be a continuity between the NCRC studies and the new studies. So they've examined those two studies and hopefully we can get some continuity between them.

COUNCILMAN GOODE: Are there any changes you know of to the studies?

MR. NACCHIO: The approach to the study most likely will be slightly different in presentation. One of the points that we brought out was to have clarity so that they would be more informative to Council, the Administration and to the public. So the format resulting is intended to be more user-friendly in statistical presentation, and hopefully that will be what the product will present.

COUNCILMAN GOODE: Can you be more specific?

MR. NACCHIO: Well, there will be more charts and more captions of summary, data that will present the information so that you and I and the public can understand it a lot better.

COUNCILMAN GOODE: I get it. Thank you.

When will the RFQ/RFP for payroll deposits be completed?

MR. NACCHIO: Right now we have a process in place. I've been meeting with MOIS, the Finance Department, and it appears that we've gathered enough of the information. As I pointed out before, I don't totally have the resources to keep this on a quick schedule, but we have been making process in terms of that. Hopefully in this year when the RFI goes out to the depositories, we could also ask them information about their interest in payroll and their capability. And that RFP/RFQ process most likely at this time probably couldn't begin before the fall of September, I would think.

COUNCILMAN GOODE: Why is that?

MR. NACCHIO: Just because, as I stated, resources in my office to support that activity of developing the complexity in developing the RFP is not there. I have two vacancies in the administrative area and I haven't been able to use consulting services. So there's a lot of technical aspects in the payroll process having to do with file transmissions, fraud prevention, et cetera, which are currently in place which we would need to preserve in our new bank accounts, and we want to make sure that we don't miss any of those points.

COUNCILMAN GOODE: Well, my question of when is not really answered then, because you've consistently told me that late spring, maybe over the summer, now you're pushing it back to fall. What is the actual answer to the question of when? Is there a target in mind and a specific month in mind in which you would like to release an RFP/RFQ?

MR. NACCHIO: In last year's testimony and other testimony on other bills, I had made the effort that we would still move towards the July target that was said originally in the bill and to get a process in place, and the indication of, again, the complexities in the payroll -- one discussion I was having with MOIS in particular is trying to get that technical piece separated from the banking part so that in the future that the selection of the bank is not connected to the technologies in transmitting files so that we would be universal. Actually, that would also preserve our continuity of government in case of a catastrophe, because as 9/11 proved out, having it in the --

COUNCILMAN GOODE: Mr. Nacchio, the original bill had the date of July

1st, 2007 in it.

MR. NACCHIO: Yes.

COUNCILMAN GOODE: I took that date out so that it would be flexible, and I'm still being flexible, but how close to July 1st are you going to be able to come?

MR. NACCHIO: Well, again, my target is between that July and September to get the RFP out. I would think that even the process of selecting the bank and getting the contract before Council --

COUNCILMAN GOODE: My question is really just when the RFP/RFQ is going out. So you're saying between July and September you should get an RFP/RFQ out?

MR. NACCHIO: Still targeting for that point in time, yes, sir.

COUNCILMAN GOODE: Thank you.

The other question, which is somewhat related to this, when will the City be ready to divest funds from Wachovia?

MR. NACCHIO: Excuse me?

COUNCILMAN GOODE: When will the City be ready to divest funds from Wachovia?

MR. NACCHIO: When the legislation is approved and we'd have to work on a plan if they're removed as a depository to move forward on moving the deposit process to another institution that's on the list.

COUNCILMAN GOODE: The legislation is eligible for a vote on Thursday.

MR. NACCHIO: Yes.

COUNCILMAN GOODE: You're aware of that?

MR. NACCHIO: Yes.

COUNCILMAN GOODE: So what happens if we pass it on Thursday?

MR. NACCHIO: The resources available to actually move it in a timely fashion upon it being passed by Council and signed by the Mayor are unlikely to be in place. Just the banking community itself setting up accounts usually takes about three months and the programming probably as much as six months. So I would have great difficulty in saying that the City could comply immediately if that were to occur.

COUNCILMAN GOODE: So my question originally was when will the City be ready to divest funds from Wachovia. I need a date.

MR. NACCHIO: I can't answer that part. I can only answer that upon the approval of the legislation, that we would make the --

COUNCILMAN GOODE: So six months from Thursday?

MR. NACCHIO: It would take at least that long as long as the City was able to mobilize the resources to have that happen.

COUNCILMAN GOODE: I'm going to ask you a similar question. I introduced --

MR. NACCHIO: I want to say,

the serious matter of being the custodian of the City funds is that if we should just drop the services of Wachovia on a certain date, all of the things connected to them have to be reconnected somewhere else, and to do that with surety and confidence and not miss anything would be an assist to the City as opposed to anything that would be in reaction to the bank itself.

The City of Philadelphia on a daily basis, the deposits -- there are a lot of electronic connections from the state.

COUNCILMAN GOODE: Mr. Nacchio, I introduced this bill 14 months ago, on February 2nd, 2006. Is it fair to say that the Administration was not going to be able to pass it?

MR. NACCHIO: Well, I will say that as the City Treasurer I've examined on an almost weekly basis what our prepared plan would be for this and made others in the Administration and other departments aware of the pieces that would need to be changed.

COUNCILMAN GOODE: But I introduced the bill on February 2nd, 2006. At what point did the Administration start preparing to divest funds from Wachovia?

MR. NACCHIO: To my knowledge, the Administration has not prepared any plans to move or divest from Wachovia.

COUNCILMAN GOODE: So you're waiting for us to pass the bill before you're prepared to move the money?

MR. NACCHIO: I would say that's on the Administration's side. On the City Treasurer's side, again, I have examined all of the implications and we have a basic understanding of what needs to be done and how we would have to move forward. But the resources to actually do it in a real-time basis, I don't really see them in place.

COUNCILMAN GOODE: Well, let me ask this question a different way, then, since you separate yourself from the Administration in your comments. At what point since February 2nd, 2006 did you start preparing to divest funds from Wachovia?

MR. NACCHIO: I would say almost immediately. It was my responsibility to understand what the implications were, and I have been examining all those. Even to the daily pick-ups with the pick-up of the deposit with companies like Brinx, et cetera, what would happen if we moved to another bank and how that pick-up would occur.

COUNCILMAN GOODE: And in previous testimony, you've said that you would be ready because that legislation originally had a July 1st, 2007 date as well and you said that you were aiming to be ready by July 1st, 2007. At what point, assuming that this bill is going to be passed, will you be ready?

MR. NACCHIO: The best I can answer is that getting the accounts in place at other institutions usually from their own requirements with the Patriot Act and the processing usually takes one to three months to assemble those, and the programs -- my experience with MOIS has been similar in changing some of the processing. It usually takes that kind of time frame to do it in a secure manner.

So at the best effort, if this were at the top of everyone's list during that period, it would have to be within that three- to six-month period.

COUNCILMAN GOODE: Mr. Nacchio, in previous testimony, you informed us that prior Administrations chose Wachovia and its predecessors as the holder of payroll deposits simply because they were the largest and prior Administrations dating back decades ago thought that they were the only ones capable of handling the deposits. Since that time, it has changed. There are several banks in town that probably can handle that, but it seems that what was a -- I won't call it a contract, but arrangement for Wachovia to handle payroll accounts and to handle other investment business used to be at the sole discretion of the Treasurer's Office and/or Finance Department and the Mayor's Office, and they chose Wachovia for arbitrary reasons and its predecessors for arbitrary reasons and chose Wachovia simply because they wanted to choose Wachovia.

The continued statement that it's going to be very hard to move the money, it seems that the Administration, the Finance Department and possibly the Treasurer's Office is saying we can't move the money. Are you saying we can't move the money or are you saying you don't know when?

MR. NACCHIO: In reflection of your question, I believe the City's decision to go with Wachovia was because of its decision to go with First Union, which was prior CoreStates and PNB, et cetera. So the series of decisions was always based on the size of the bank matching the institution of the government. And certainly we know that there's a history of banking in Philadelphia which actually was established as the first bank of the country here, and that process, in and of itself, made Philadelphia very rich in its banking history, and the continuity of that banking was the hometown bank matching the government's size. And you're correct that in recent years the explosion of banks that have come to the City of Philadelphia is unbelievable. I'm really proud as a Philadelphian to see so many bank names coming to Philadelphia because they're interested in Philadelphia.

COUNCILMAN GOODE: And not to cut you off, but I'll be introducing a bill on Thursday to add Citibank to the list of City depositories as well.

MR. NACCHIO: Okay. Yes. And

Citibank is another one that's going to be joining the community in Philadelphia. So the number of banks in doing banking in Philadelphia has increased.

Yes to the answer about the question about payroll. There are now banks that will be able to handle that portion of our banking business. Certainly Wachovia still, in my opinion, has a footprint which satisfies the City employee best because of its distribution through the City as opposed to Citibank or the recent addition of Sovereign Bank.

COUNCILMAN GOODE: But that's not true in comparison to Citizens Bank, which has more branches than Wachovia.

MR. NACCHIO: Again, it's a technicality. I understand that Citizens because they have ATMs at like Acmes, et cetera, that their branching services is considered as part of that. So that's how the numbers were reflective, is their distribution through the community is through that ATM network. That's what I understand. But if they're equal --

COUNCILMAN GOODE: You understand that through where?

MR. NACCHIO: From both banks.

COUNCILMAN GOODE: NCRC as part of its study actually studied the branching patterns and actually dealt with the number of branches for all the City depositories, and the numbers just show that Citizens Bank actually has more branches and there are some others that are fairly close to Wachovia's branching pattern. Not that Wachovia doesn't have a good branching pattern, but Wachovia does not have the only branching pattern that could serve the City, not to mention that particularly in the case of the payroll deposits legislation, it calls for the authorization or the possible authorization of more than one bank. So there's nothing to suggest that, for example, the payroll deposits couldn't be done at PNC and Citizens or some combination of other banks that couldn't fulfill the same purposes as having Wachovia because of branching patterns. In fact, if we choose to have payroll deposits through more than one bank, then we're actually expanding the branching patterns for our employees and pensioners in a way. So, in fact, whether Wachovia has the most amount of banks or not, we still probably should be looking at other banks as well to further expand the branching patterns.

MR. NACCHIO: It's one of the things that I've included in the request for information from banks, is their establishment of branches throughout the City. Although it's not any part of the compliance for the City Code, it is important in terms of putting them in context. I will take a look at Citizens' information banking.

COUNCILMAN GOODE: Let me run through --

MR. NACCHIO: But I just want to make this important part: The City has chosen a bank like Wachovia because of the services it has provided over the years and its predecessors, and there has never been a dissatisfaction with those services.

COUNCILMAN GOODE: That's not what you said five minutes ago. Five minutes ago you said that you chose Wachovia because its predecessor was First Union and its predecessor was CoreStates and its predecessor was -- you said that they inherited the account. You've said that in previous testimony. You didn't say you chose Wachovia because it was the best or because you weren't dissatisfied. You said you chose it because it inherited the account. You've already said it for the record there has never been competition. You never looked at the capacity of other banks that do the job. You never looked at the capacity of combinations of other banks to do the job.

MR. NACCHIO: To my knowledge,

the City has never had a problem with the predecessor banks in terms of processing the payroll. And there's been a complex layer or tier of technologies that have been related to that processing that must be executed on the days prior to the processing of the payroll, which require --

COUNCILMAN GOODE: Mr. Nacchio, let me run through the list of City depositories, excluding Wachovia.

MR. NACCHIO: Okay.

COUNCILMAN GOODE: PNC, Citizens, Commerce, United Bank, Mellon Bank, Bank of America, Advance Bank, Republic Bank, as of this Thursday I believe Sovereign Bank and we're looking to add Citibank. Do you really mean to tell me that we have to do business with Wachovia or that it's just difficult to transfer the money?

MR. NACCHIO: Well, there's two parts again. It's the technology attached to payroll processing for direct deposit and the secure processing of the files that go --

COUNCILMAN GOODE: Let me ask a different question. Can we do it? I know you don't want to do it. It's clear that you don't want to do it.

MR. NACCHIO: That's correct.

COUNCILMAN GOODE: Can we do it?

MR. NACCHIO: That's because the City is satisfied with the services.

Yes, it can be done, but it cannot be done in the immediate state.

COUNCILMAN GOODE: And you don't seek to do it, so we're going to have to make you do it if we want to do it?

MR. NACCHIO: Well, I just want to say it's not technically possible for it to be done immediately. It needs to take some time, because that's just the way the process is established even with the bank.

COUNCILMAN GOODE: So are you

preparing to do it or not?

MR. NACCHIO: The level of --

COUNCILMAN GOODE: If you can't tell me on the record that you're preparing to do it by a certain date, I have no choice other than to run the bill to make you do it or to make you prepare to do it.

MR. NACCHIO: Okay. The best response to that is, the only preparation I can do is in terms of planning of what would happen if.

COUNCILMAN GOODE: So your position and the Administration's position is quite simply that we don't want to do it, we don't think it needs to be done, we've given some thought to it, but we're not going to actually give you a date and time in which we can say we'll be ready to do it if it needs to be done?

MR. NACCHIO: I believe the Administration is on record saying that the resources aren't available in this Administration to be able to make a move of this kind prior to December.

COUNCILMAN GOODE: That's the first time you will have said that.

MR. NACCHIO: I thought the Administration was on record saying that.

COUNCILMAN GOODE: I don't think so. I don't think the Administration has been on record on this matter at all, but let me say this: If you're looking for where to get the money, just eliminate the Minority Business Enterprise Council.

MR. NACCHIO: Excuse me, sir?

COUNCILMAN GOODE: If you're looking for where to get the money, eliminate the Minority Business Enterprise Council.

MR. NACCHIO: Well, I want to say with the payroll accounts, there's probably like a $200,000 or more charge that would be incurred if we went to another bank, and covering that expense is not budgeted anywhere. So if we move to a bank that is not holding other accounts of the City, there's a difficulty in how that will be funded.

Also, if the main depository goes to another bank, too, it's the processing capability of that bank and whether the connections that we have to those Wachovia accounts can be reconnected in a timely way.

I will say that the State of Pennsylvania, I believe we're the third or fourth or second vendor of the State of Pennsylvania and a number of the row offices at the state have our bank account number. That will require every City department that has a relationship with them to change that processing. So you have like DHS, which has like a hundred million dollars or so coming in. If that gets -- I don't want to say gets lost in the mail, but it gets lost in the electronic mail if that's not followed through in that process.

COUNCILMAN GOODE: Mr. Nacchio, I'm very clear. There's no need for any further questions, no need for any further answers. What it comes down to, if you can't give me a date -- at one point you said six months. If you can't give me a date, then I'll have to provide the date for you.

MR. NACCHIO: Right. I'm going to say if you provide the date -- because I certainly don't have the total resources to implement what it is that needs to be done.

COUNCILMAN GOODE: I will provide the date for you.

MR. NACCHIO: Okay.

COUNCILMAN GOODE: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam President.

I have been a customer of Wachovia for a long time and I've never had a problem with my pay. That's just a point that --

MR. NACCHIO: Are you on direct deposit, Councilman?

COUNCILMAN RIZZO: Direct deposit.

MR. NACCHIO: Very good.

COUNCILMAN RIZZO: It comes in Friday. I've never had a problem with it ever. And it's interesting, of all the years I've been in this job, I've gotten a lot of communication from City employees about different things. I have never once, all the banks, I've never heard a complaint about people not getting paid on time. So I think you guys do a great job over there. Maybe City Council is treated differently, but I've never had a problem, and I hope the same experience that I have, the Water Department, the Police Department and all of the departments have as good an experience with the scheduled payday. I mean, in 12 years almost, bang, it's every other Friday like clock work. And I don't mean to say that has anything to do with Wachovia or any of the banks that people choose to get their direct deposits. But that interests me. A lot of the corporations around town -- and I know a couple personally -- that you have no option, you must sign up. If you're a new employee, you have to go to direct deposit. There is no paper check.

Are we there yet with that? I mean, shouldn't that be a prerequisite to employment, that you must direct deposit?

MR. NACCHIO: For the last several years, I've explored that through the City government, and what I've been getting back is that we can't mandate it, and that's one of the reasons we haven't moved forward with that as a requirement for City employees. But the State of Pennsylvania, the federal government, they have required it, and the State of Pennsylvania the way they kind of got around it was, they required it but didn't mandate it and then the people could opt out, which made it more difficult, which means you got almost 100 percent participation.

Is it the best way to go? As you said, corporations, et cetera, find it to be the most cost-efficient, effective way to deliver the pay. It is the best way in the case of an emergency when we can't print checks and we can't distribute them, that electronically the processing can continue so that wherever you are, whatever happens to the municipal government, whatever, it can still happen. And that's what happened in 9/11. There were corporations which were actually out of business, but the payroll was still paid.

COUNCILMAN RIZZO: Well, I think you should ask the Law Department again. I mean, 20 years ago there were reasons certain people didn't want the money to go directly into their account. They wanted to have, I guess, more control.

Correct me if I'm wrong. Do you have to be a customer of a certain bank to get direct deposit or can you direct deposit even one that's not a depository?

MR. NACCHIO: Absolutely not. You can be the customer of any bank in any part of the country. It doesn't have to be a bank; it can be a financial institution, like a credit union. Actually, probably the credit union has the lion's share of our direct deposits. It can also be with like a broker, like Merrill Lynch, et cetera. So as long as it's an account where a deposit can occur, you can sign up.

COUNCILMAN RIZZO: Terrific. Would you ask the Law Department, because that might be a good way to transition into this, that new employees, that they're highly encouraged to go to direct deposit?

MR. NACCHIO: And that's

exactly what we do. We try to teach all the HR people as soon as a new employee signs up, that they're handed a direct deposit slip so that they can sign up.

Pensioners are our favorite, because any pensioner who comes into the office who had lost a check in the mail, they're willing to sign up, and that's why pensioners are actually the higher percentage than employees over the years, because of that fact.

COUNCILMAN RIZZO: Well, don't intentionally hold their paychecks up for a couple days.

MR. NACCHIO: We never do that.

COUNCILMAN RIZZO: I know.

MR. NACCHIO: In fact, when you talk about service, we do pride ourself in the fact that the execution of that clock-work process has been in place and it's been working efficiently, effectively, and we can turn around payments. And recently with Positive Pay, which is a feature that we sent to the bank and issue file, which has the payee's name, the check number and the dollar amount, we can actually turn around replacement checks in a quicker time, because we know the information is there.

COUNCILMAN RIZZO: And it's definitely a savings to the City, correct, direct deposit?

MR. NACCHIO: It's savings not only in the fact that we can actually save money, but it's a time savings that you can devote to something else that you need to devote your time to.

COUNCILMAN RIZZO: Could you ask the Law Department to give you some input on whether going forward you can actually mandate direct deposit and provide the response to the Chair? Because I think that would be very supportive of you. I can't imagine that corporations that I know that -- you don't have any choice. You have to bring in -- maybe that's part of the problem.

Sometimes the people that ask you to sign up ask you some complicated questions with the routing number, what's the batch number, what's the XYZ code. I think all you need to bring in is a check, void a check and all the information is right on the check that your folks need to establish direct deposit, right?

MR. NACCHIO: That's correct. Early on I believe that even myself, I was suspicious of the fact that the City would be holding information about my bank account and that somehow someone would get access to it. But to my knowledge, we haven't had that problem. And certainly the way the program has been working, even if your account has changed and the ACH payment, which is the direct deposit, bounces, we issue a paper check probably within 24 hours to 48 hours so that you don't lose out that way either for whatever reason.

COUNCILMAN RIZZO: So I think that would be a good lead-in for the future to see what we can do especially with new hires to get them to go the direct deposit route, and maybe at that same time somebody says, Look, I'm a young guy, I don't have a checking account. Well, there's a great time to establish one. I'm sure we have like the credit union that would work with them to get them signed up.

MR. NACCHIO: Well, Councilman, even for the unbanked, there's things like debit cards. You can actually deposit to a debit card, too. There's other possibilities for people who have credit problems who don't have bank accounts. Although sometimes people talk about spouses, they don't want them to know about their deposits, but those are like inside kind of relation kind of reasons why people haven't signed up. But even the banks that we have worked with, they would work with the unbanked to set up those accounts. So we could get 100 percent participation.

COUNCILMAN RIZZO: I only need one more minute.

The -- again, I don't know the technical name. Maybe you can tell me, because someone asked the question to me. When a person's pay is taken each pay period for support or whatever, I don't know what they call that. The courts take money from --

MR. NACCHIO: Child support?

COUNCILMAN RIZZO: Child support. Is there an expense to the City for that service? Is that an expense to you to deal with some of those mandates where money is taken out of their pay?

MR. NACCHIO: Well, recently -- I believe that's Skidoo (ph), and there is additional processing that they've required. Actually, just like the rest of the federal and state governments, they're moving towards electronic processing. So, yeah, they've asked for new programs. Is it more cost? It's probably just a change in process. Yeah, we do have to account for it and manage it separately.

COUNCILMAN RIZZO: Am I hearing you say you do that manually?

MR. NACCHIO: Well, we print out lists that are kind of like mailed. They've requested for it to be electronically. That's been --

COUNCILMAN RIZZO: Not done yet?

MR. NACCHIO: They've mandated it. Now it has to be seen.

COUNCILMAN RIZZO: Well, Mr. Phillis seems like he's willing to do a lot of great stuff.

MR. NACCHIO: He's a great gentleman.

COUNCILMAN RIZZO: He's refreshing. Maybe that's another "Mr. Phillis project" for you to take on since he's open to -- and seriously, he said something to me that was very important, that when you look at this globally, how it can affect this department, it might benefit you but it could affect two, three, four other departments and really realize some cost savings. And so maybe you could hit him with that one again --

MR. NACCHIO: Okay.

COUNCILMAN RIZZO: -- to see if you can get that automated, because that sounds like -- there's still departments in this City that have index cards. I haven't seen one of those in a long time, but I bet you have some over there.

MR. NACCHIO: Yes.

COUNCILMAN RIZZO: Okay.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing no one, thank you very much.

MR. NACCHIO: Thanks.

COUNCIL PRESIDENT VERNA: This Committee will stand in recess until tomorrow, Tuesday, March the 27th at 10:00 a.m.

Thank you very much.

(Committee of the Whole adjourned at 12:25 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on March 26, 2007, and that this is a true and correct transcript of same.

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MICHELE L. MURPHY
RPR-Notary Public

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