COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, March 26, 2012
11:15 a.m.

PRESENT:
COUNCIL PRESIDENT DARRELL L. CLARKE
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BILLS 120164, 120165 and 120166
RESOLUTION 120167

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COUNCIL PRESIDENT CLARKE: Good morning. It appears we have a quorum, so we're going to start now.

This is a continuation of the hearing of the Committee of the Whole regarding Bills No. 120164, 120165, 120166 and Resolution No. 120167.

I would ask Ms. Lewis to please read the titles of the bills and resolution.

MS. LEWIS: Bill No. 120164, an ordinance to adopt a Capital Program for the six Fiscal Years 2013 to 1218 inclusive.

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

Bill No. 120166, an ordinance adopting the Operating Budget for Fiscal Year 2013.

Resolution No. 120167, a resolution providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal

Years 2013 through 2017, and incorporating proposed changes with respect to Fiscal Year 2012, which is to be submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") pursuant to the Intergovernmental Cooperation Agreement, authorized by an ordinance of this Council approved by the Mayor on January 3, 1992 (Bill No. 1563-A), by and between the City and the Authority.

COUNCIL PRESIDENT CLARKE:

Thank you.

We will continue the public hearing of the Committee of the Whole to consider various bills read by the Secretary. They constitute the proposed operating and capital spending measures for Fiscal 2013, a Capital Program and a forward-looking plan for Fiscal 2014 through Fiscal 2017.

Will the Administration please come up.

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(Witnesses approached witness table.)

COUNCIL PRESIDENT CLARKE: Good morning.

MR. GILLISON: Good morning. Good morning, Council President Clarke, members of City Council. I am Everett Gillison, Chief of Staff in the Office of the Mayor Michael Nutter, and on behalf of the Mayor, I am pleased to testimony on the Fiscal '13 proposed Operating Budget and the proposed Fiscal '13 through '17 Five Year Financial Plan. With me today are Rob Dubow, the City's Finance Director, and Rebecca Rhynhart, the City's Budget Director. Also a number of City officials are in the audience.

As the economy continues to struggle to recover from the worst downturn in decades, the Administration continues to stabilize the City's budget while making modest investments in our City's future. Although economic growth

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has been slower than originally anticipated across the country, the City's tax receipts have begun to show a modest increase over last year. Nevertheless, some of the taxes are growing at lower levels than projected in the Fiscal '12 through '16 Five Year Plan.

Fiscal '13 total tax revenues are projected to see slight growth with an increase of about $70 million, or about 2.8 percent over Fiscal Year '12's projections. However, total revenues in the proposed Fiscal '13 budget will only see a 0.5 percent growth, largely due to the combination of the tax growth previously mentioned with the elimination of several one-time revenue sources received during Fiscal Year '12. The largest of these one-time revenues were $34 million of state pension aid, $12.5 million from the Parametric Garage for amounts owed to the City and $11 million in amounts due related to Love Park

Garage. I'm also pleased to say that after several years of painful cuts, the Fiscal '13 budget includes only $2.2 million of cuts to departmental spending.

While the economy is slowly recovering, significant risks remain that could impact the City's financial stability. The City receives federal and state grants to support various programs and services across the City. This year, the City again has seen cuts in grant dollars it receives from the federal government, and the Governor has proposed significant cuts in the state budget which could greatly impact our departments and the non-profits that, in turn, use these funds to serve some of the City's most vulnerable residents.

The Governor's proposed Fiscal '13 budget would decrease funding by over $40 million for health and human services, supportive housing, behavioral health, and parks and recreation services. Reductions in funding for education and public library services are also proposed. The Governor's proposed budget would have severe consequences to City services, likely leading to an increase in the number of people with mental illnesses living on the streets and an increase in the prison census. Additionally, the cuts would jeopardize over $24 million of federal funds for HIV/AIDS programs due to the inability to meet requirements.

On the federal level, the Community Development Block Grant will be cut $7.8 million, or almost 17 percent, and HOME funds for Philadelphia will be cut by $6.1 million, or almost 42 percent.

In the proposed Fiscal '13 budget, total expenses increased by 99 million, or 2.8 percent. However, 75 million of this increase is due to rising pension costs, and 11 million is due to an increase in the health medical costs. In other words, nearly 90 percent of the

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increased expenses are mandatory obligations. The remaining 13 million represents a small 0.4 percent increase from Fiscal Year '12.

As with prior years, the largest costs in the City's budget are associated with City employees who design, manage and implement the programs and services that residents depend upon. The combined personal services and employee benefits categories account for $2.455 billion, or 68 percent of the total General Fund budget. Over 31 percent of the City's budget goes to pay for fringe benefits for our employees. Portions of these employee costs -- and in particular, pensions and healthcare -- have grown much more quickly than the City's revenues and other expenditures, which has meant that more and more of the City's budget has to be diverted to pay for employee benefits instead of to pay for services. Over the last five years, the employee benefits portion of the

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budget has grown by 9 percent while the remainder of the budget has decreased by 1 percent.

The rapidly escalating costs of pensions, combined with the fund's declining health -- it is now approximately 50 percent funded -- makes pensions perhaps the most significant financial challenge facing the City.

Even with these several changes to the pension system over the past few years, the City's pension costs have increased significantly. The deferrals that were made in Fiscal Year '10 and Fiscal Year '11, which provided budget relief during the severe economic downturn, are now due. The projected Fiscal Year '13 pension cost is $629 million, with a Five Year Plan high of $662 million projected in Fiscal Year '14. Although these costs decline in the following fiscal years, costs are still considerable, with projections in the 560 million to the 600 million dollar range.

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As a means of comparison, pension costs were approximately 206 million in Fiscal Year '03. That's a $423 million growth just in ten years.

The Administration is committed to having reasonable collective bargaining agreements. However, those agreements must have structural changes that provide long-term aid to the City. Among those necessary changes are modifications to the structure of health and welfare benefit funding as well as pension reform. The interest arbitration awards with the FOP, the IAFF and the recent Local 159 of the AFSCME District Council 33, which are the corrections officers, make the significant long-term reforms to the pensions. The correctional officer award includes a new hybrid pension plan, which combines a defined benefit component along with a defined contribution benefit with the City matching a portion of the employee's contributions to a 401(k)-like plan. In

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addition, the current Local 159 employees will contribute more to their pensions, an increase equivalent to about 1 percent of pay.

The proposed Five Year Plan also focuses on public safety for our citizens, resuming wage and business tax reductions, making it easier and less expensive for businesses in the City and making critical investments in our neighborhoods. As planned, in Fiscal Year '14 of the Five Year Plan, the wage tax cuts will resume, giving some financial relief to our citizens and helping Philadelphia businesses. Working with City Council, we have made several changes to the Business Income and Receipts Tax. These tax changes are intended to help small and medium-sized businesses and lower costs associated with starting a new business in order to stimulate new business formation and increase employment in Philadelphia. These measures, when combined with the

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wage tax reduction, equal a $160 million reduction in taxes for workers and businesses in Philadelphia over the lifetime of the Five Year Plan.

The Fiscal '13 proposed Operating Budget includes $18.6 million of new investments. The largest investment is $9 million for design work for a new police headquarters, City morgue and health offices co-located at 4601 Market Street. This is a consolidation which could provide needed facility upgrades while allowing the sale of existing City assets and revitalizing part of West Philadelphia in need of investment. The City will request $9 million from PICA for this one-time cost.

The Administration also proposes to invest $4.1 million in the Police Department. These additional funds will be used to hire nearly 400 new police officers by the end of Fiscal Year '13 to increase the uniform officer level to 6,500 and maintain it at that level, with expected levels of employee retirement.

A third proposed investment is $1.2 million for the Office of Supportive Housing for housing contracts to replace beds available at the Ridge Avenue Center which is closing.

The fourth proposed investment is $1.1 million in additional funding for the Office of Property Assessment. The additional funds will be used towards the complete overhaul of the property assessment system which is scheduled to be completed in the fall of 2012.

The City is in the process of completing the Actual Value Initiative, AVI, which involves reassessing every property in the City and setting assessed values at market rates to create a fair assessment system upon which to base property taxation. This will be the City's first full reassessment in decades and will ensure that every property owner has a fair, accurate and understandable assessment. As properties are now assessed at only a fraction, about 32 percent, of their actual value, the assessments have often not kept up with changes in value. This process will result in substantial increases in properties' assessed values. The Administration proposes several changes to ensure that property owners' tax burdens will not be significantly impacted. The Administration proposes several measures to temper the impact of the changes in assessment. Most importantly, the Administration proposes to dramatically reduce the tax millage rates when AVI is complete. The new rate will generate at least the amount of revenues needed to meet the property tax revenue projections in the Five Year Plan and will capture the net increase in property values that occurred during the years when the City was not doing comprehensive reassessments. The amount of revenue for the City anticipated to be generated from the property tax in Fiscal Year '13 is $491.5 million, which is the same amount as in Fiscal '12. The Administration has also proposed homestead relief for owner-occupied properties in the amount of $15,000 of assessed value per property, and smoothing the impact of the changes in assessment over the course of three years.

Other proposed key investments are $1 million for the Managing Director's Office to fund anti-violence initiatives across the City and $734,000 to fund a maintenance team in the Department of Public Property to prevent deferred maintenance -- to actually deal with the deferred maintenance issues that we have in our City buildings.

The proposed Five Year Plan projects wage tax revenues to grow at a relatively constant pace of 3.4 percent over the next few years before tapering off to 3.3 and 3.1 in the Fiscal Year '16

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and Fiscal Year '17, respectively. Sales tax is projected to grow to 5.5 percent in Fiscal Year '15 before tapering off to 5 percent in Fiscal Year '16 and 3.5 percent in Fiscal Year '17. The stronger growth of 5.5 percent sales tax in Fiscal Year '15 is based on the expectation that consumer spending has been restrained by a greater amount than wages by lack of consumer confidence, which will return after several years of economic recovery and lead to stronger sales growth. Business income and receipts tax is anticipated to increase 2.5 percent annually. Realty transfer tax is expected to have growth rates of 7.5 in Fiscal Year '13, ramping up to 9 percent from Fiscal Year '14 through Fiscal Year '16 before moderating to 3 percent growth in Fiscal Year '17. This level of transfer tax growth is significantly below the forecast by the City's revenue forecasting consultant and results in a projection of transfer tax revenues of

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$166 million by Fiscal Year '17. The forecast for transfer tax was lowered after discussions with key economists of the Philadelphia Federal Reserve. Even with projected strong growth for transfer tax revenues, the $166 million the Plan includes for Fiscal Year '17 is almost 70 million below the 234 million in transfer tax revenues collected in Fiscal Year '06.

The proposed Fiscal Year '13 expenditures total $3.589 billion, increasing to 3.664 billion in Fiscal Year '17. While pensions and other employee benefits and debt service are projected to grow by over 6 percent over the life of the Plan, the rest of the budget remains flat.

The proposed Five Year Plan shows adequate fund balances for the life of the Plan, ending Fiscal Year '13 with a projected fund balance of 53 million, or 1.5 percent of revenues. In Fiscal Years 2014, '15, '16 and 2017, the Plan projects respective fund balances of 33.6, 22.7, 36.6 and 51.3 million dollars.

The Fiscal Year '13 Capital Budget and Fiscal Year '13 through Fiscal Year '18 Capital Program proposes various investments to our City-owned facilities. Twenty million dollars invested over two years for the design and redevelopment of JFK Plaza, also known as Love Park. This project will create accessible green space connecting the new Dilworth Plaza with a revitalized Benjamin Franklin Parkway. The City proposes over $6 million to upgrade several police stations and firehouses across the City in Fiscal Year '13. Capital funds will be leveraged with private sources and invested in library branch improvements. Two million dollars of proposed capital funding will be used for a fit-out of the new Health Center 2 in South Philadelphia, with $1 million budgeted in both Fiscal Year '13 and Fiscal Year '14.

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The new Health Center 2 will be built on the site of the current Health Center 2 and be paid for by the Children's Hospital of Philadelphia through a partnership between the City and CHOP.

I am proud of the accomplishments made by my fellow City employees over the past years. They have worked hard through a difficult time and have achieved a great deal. A few examples of such accomplishments: The Police Department has been effective in reducing crime throughout the City since Fiscal Year '08, and with the help of the new initiatives announced in January 2012, continues to keep our citizens safe.

The Fire Department continues to educate citizens on fire safety, providing residents with the tools they need to stay safe. The Department administered 1,184 fire safety programs at 162 schools and successfully installed 17,952 smoke alarms in Fiscal Year '11.

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The Department of Human Services continues to provide safety, permanency and well-being for children at risk of abuse, neglect and delinquency. The dependent out-of-state population significantly decreased by 69 percent from June 30th, 2008 to June 30th, 2011. The delinquent out-of-state population has also decreased by 83 percent. During the same period, Greenworks Philadelphia made great strides in making Philadelphia greener and more sustainable. Out of 151 initiatives set out for this Plan, 136 initiatives are either completed or are underway. And through a variety of anti-obesity and anti-smoking initiatives under the Health Department, Philadelphians are becoming healthier.

The Office of Economic Opportunity has expanded the OEO registry by 50 percent to 2,000 minority, women and disabled business enterprises, and continues to work with departments on participation goals.

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The Vacant Property, Windows and Door Court program launched by L&I has been very, very successful. This enforcement program targets blocks that are mostly occupied and aggressively seeks to ensure that owners ensure their properties have all windows and doors, to remove the blighting influences of properties that are not compliant.

Our Parks and Recreation Department, in conjunction with other partners, launched TreePhiladelphia, a yard tree giveaway of 4,000 free yard trees during the spring and fall tree planting seasons to Philadelphia property owners.

The City's recycling program has been successful, increasing from a recycling rate of only 8 percent in Fiscal Year '08 to 19 percent in Fiscal Year '11.

Finally, the Managing Director's Office has seen great success in Philly Rising. After the successes of

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the pilot neighborhood site at Hartranft, additional sites were launched in Haddington, Market East, Frankford, Point Breeze, Swampoodle/Allegheny West, Strawberry Mansion, Kensington and Elmwood. Vacant property demolitions, community cleanups, new after-school activities and several other examples of positive change, led by the community, contributed to promising results in the neighborhoods.

The proposed budget seeks to preserve the City's core services while making Philadelphia a safer, smarter, healthier, greener city where people want to live and do business while operating efficiently and effectively as a first class city.

Thank you for the opportunity to testify on behalf of the Administration regarding the Fiscal Year '13 proposed Operating Budget and proposed Fiscal Year '13 through '17 Five Year Financial and Strategic Plan. I

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have with me the senior officials of the Administration, and with their assistance as necessary, we will be happy to answer any questions you may have.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Mr. Gillison.

I see the board is heating up, so I'll fire off a few questions before we get to the members of the Committee of the Whole.

Just a couple of quick questions. In your testimony you talk about $11 million in amounts due to the Love Garage. Can you be a little more specific about that, please?

MS. RHYNHART: The 11 million is amounts held -- Rebecca Rhynhart, Budget Director. Apologies.

The 11 million were amounts held by the Parking Authority, and it came to our attention that according to the legal documents surrounding the way that the revenue is supposed to flow to

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the City's General Fund, that that money should have come over to the City. So the Parking Authority sent that money over.

So basically it was excess revenues from past years that were supposed to flow to the City's General Fund, and we researched it and then asked the Parking Authority to send it over, and they did.

COUNCIL PRESIDENT CLARKE: How did we discover that additional revenue? Was an analysis done or did we trip on it? How exactly did we find out about this $11 million?

MS. RHYNHART: I think that -- how did we find out about it? I had looked through some of the documents and then spoke to the Deputy Mayor for Transportation and we talked through it and then asked the Parking Authority to send it over.

COUNCIL PRESIDENT CLARKE: It was just that easy?

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MS. RHYNHART: It took a few months, but we got it done.

COUNCIL PRESIDENT CLARKE: Is there a possibility with a full analysis that we may identify or discover or trip over additional revenues that are owed the City of Philadelphia?

MS. RHYNHART: No. We got the bank statement, so the full amount was --

COUNCIL PRESIDENT CLARKE: I'm sorry?

MS. RHYNHART: I mean, that is the full amount that was being held, so that was transferred over --

COUNCIL PRESIDENT CLARKE: But my question is, it appears that there was not a full analysis of all of the revenues associated with the Parking Authority and the agreement. It sounds like we kind of just stumbled over this. Was this based on a full analysis of the entire agreement between the Parking Authority and the City?

MS. RHYNHART: Yes. We did

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look -- I definitely did look through it in some detail, so I think that is the money that was there.

COUNCIL PRESIDENT CLARKE: Okay.

In your testimony, Mr. Gillison, you also reference substantial spikes in pension costs and from the low 2.2 -- I'm sorry; 206 million in FY03. You talk about more than a $400 million growth over the last ten years.

Is that pretty much attributed to the investment strategy, the downturn in the market or had anything to do with employees, production? I mean, what exactly -- that's a significant increase.

I guess what I'm trying to find out, is this something that the national economy as it relates to pensions was responsible for or was it something that we were doing in the City of Philadelphia?

MR. DUBOW: Rob Dubow, Finance

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Director.

There are a number of things that led to that spike. Part of it is what happened with the economy in 2008. You've seen pension funds across the country take substantial hits because of what happened that year, and that resulted in increased payments to make up for losses in the market.

We also have some underlying issues with our fund. We have more retirees than active members. So that makes it hard to meet our requirements.

And, I mean, I think -- so the answer to your question is yes, but it's one of a handful of factors.

COUNCIL PRESIDENT CLARKE: I'm going to ask you to forward to the Chair -- I guess which I am now the Chair.

MR. DUBOW: Yes, you are.

COUNCIL PRESIDENT CLARKE: -- in very specific terms, because that's a significant number, and obviously pensions and the whole pension reform is a significant issue, and we just want to get a clear understanding of where the problem lies, if there's some things that we've done as it relates to some of our investment strategy that we can be doing differently. Understandably, the national economy is what it is. So that obviously has an impact. Can you just kind of talk about --

MR. DUBOW: Sure. And I don't think it was our investment strategy, because if you look at how we did compared to other funds across the nation, we did pretty well, and we can show you what percentiles we ranked in. I mean, I'd say we're always looking at our investment strategy to make sure that we're doing as well as we can. We just brought in a new investment general consultant for the pension fund, who will be looking at our asset allocation to see whether there's a better way to do it, and we will get you more information on

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that.

COUNCIL PRESIDENT CLARKE:

Okay. Thank you.

Sticking with pensions for a minute, as a layperson, which I am as it relates to pensions, you hear about individuals who have had investments in their 401(k)'s and all you hear about in this whole economic morass is, I lost my 401(k), I lost my 401(k). And in the proposed strategy as it relates to some of the municipal workers' pensions, we're asking them to go into a 401(k)-like plan, as you reference it in your testimony.

Is that proposal or could it conceivably put in the future, in the event that we have some more challenges as it relates to the national economy, put at risk some of the pensioners' funds? Because it appeared that during the course of this national challenge that we've had, those individuals who had the traditional municipal pension plans

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were a little more stable than some of the 401(k)'s that are prevalent in the private sector.

MR. DUBOW: What we're proposing is actually a combination of a defined benefit and 401(k)-like plan. So employees wouldn't have just the 401(k). They'd have standard defined benefit portion too.

But adding the 401(k) portion would definitely mean that we were sharing some of the risk of the market with employees. I mean, one of the ways we would try to mitigate that is to have advisors to help them, the same way we do with our deferred compensation plan.

COUNCIL PRESIDENT CLARKE: Advisors to help the municipal workers?

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: And that will be paid out of what?

MR. DUBOW: The pension fund has a contract with a firm that does that now, and I think the way we've talked

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about doing it is having them also help with the 401(k).

COUNCIL PRESIDENT CLARKE: So with that response, are you suggesting that some of the investments on 401(k) plans on the private sector weren't done adequately? I mean, what will be different?

MR. DUBOW: No, I'm not suggesting that. I don't know enough about the details of how they advised their employees in those plans, but what I am saying is that for our plan, we would want to make sure that we were giving employees advice so that they had the best knowledge of investment options. But there's definitely more risk for employees.

COUNCIL PRESIDENT CLARKE: That's my point. So I'm saying --

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: We understand. We acknowledge that we're asking the employees to enter into a more

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risky plan.

MR. DUBOW: No, I'm not saying a risky plan. There's more risk than there is now. Right now City taxpayers are assuming all of the risk of what happens in the market. When you go to a hybrid plan, some of that risk is shifted to the beneficiaries.

COUNCIL PRESIDENT CLARKE: So it's more risk to the employee?

MR. DUBOW: Yeah. We're shifting some of the risk from the City, from the taxpayers, to the employees.

COUNCIL PRESIDENT CLARKE: I just want to get an acknowledgement that there is a difference.

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: It's significant.

MR. DUBOW: It's a conscious decision.

COUNCIL PRESIDENT CLARKE: Okay. A couple more and I'm going to turn it over to members of Council.

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Just quick, on the Page 11-12 of the Plan, when you talked about the growth in transfer tax, you talked about the conservative nature forecasting in prior years and then you talk about a relatively significant bump up in, I guess, '13 and '14 of 7.5 and 9 percent growth rate. Why are we projecting those growths? Something on the horizon as relates to housing starts or sales?

MS. RHYNHART: Our consultant, IHS Global Insight, gave us a forecast that actually had stronger growth than this 7 and a half and 9 percent. They forecast that there is going to be a rebound in the housing market, that the pent-up demand that has existed in this area and in the nation -- but their forecasts are specific to Philadelphia -- that there's been pent-up sales for so long, that that's going to start to happen, that properties are going to start to sell and then values are going to start to rise, and there's what I would consider significant increases built in there.

So we took those projections -- and they were double digit growth projections from IHS Global Insight -- to the economists over at the Federal Reserve Bank of Philadelphia, because I had the same question that you probably have, which is, wow, this looks aggressive. The economists at the Fed thought that close to 10 percent or a little under 10 percent, what we have in this plan, was reasonable. And if you think about it, we're at such a lower base now -- I mean, back in '06, we had almost 235 million of transfer tax collected and now we have about 116 million. So even that growth of 7 and a half and in ramping up to 9 percent for several years only gets us to about 165, 166 million. So we're still not close to where we were, but there is an expectation from economists that there's going to be a rebound in the local

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market.

COUNCIL PRESIDENT CLARKE: Is that nationally or is it specific to Philadelphia?

MS. RHYNHART: This is specific to the City of Philadelphia, but I think nationally there are some similar forecasts, but it really depends on region.

COUNCIL PRESIDENT CLARKE: Can you tell us here who those economists are that are projecting?

MS. RHYNHART: Well, the economists that we met with, you mean?

COUNCIL PRESIDENT CLARKE: Yeah. I just need to know who has this --

MS. RHYNHART: The economists --

COUNCIL PRESIDENT CLARKE: There are a lot of people out there that would like to know from an investment perspective why we think that we're going to get a bump up in real estate starts

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and sales and things of that nature.

MS. RHYNHART: Right. I mean, I think it's from our consultant, IHS Global Insight, and then the meetings that we had with the economists at the Federal Reserve Bank of Philadelphia. And there was a consistent viewpoint that we would see that type of growth. So that's why we felt comfortable putting it into the Plan.

COUNCIL PRESIDENT CLARKE: Okay. One last question, kind of relates to something in my district. I guess you call it district prerogative.

Real quick. On the Ridge Shelter, an additional 1.2 million, Office of Supportive Housing to replace beds that are no longer available at the Ridge Shelter. Is there a timeline on the possibility or do we have specific --

MS. RHYNHART: My understanding is that it's June 30th.

COUNCIL PRESIDENT CLARKE: Pardon me?

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MS. RHYNHART: My understanding is that the Ridge Center is closing on June 30th.

COUNCIL PRESIDENT CLARKE: And we have adequate providers to contract with to replace the beds that we lose at that facility?

MS. RHYNHART: The Office of Supportive Housing is working on that. They could probably comment more specifically on that if you'd like a more specific answer, but that is what the funding is for.

COUNCIL PRESIDENT CLARKE: It's a sensitive issue.

MS. RHYNHART: I understand.

COUNCIL PRESIDENT CLARKE: And I want to make sure that -- we had a number of extensions at the facility and what I want to make sure personally is that individuals are located in a way that it is clearly the standards that we establish in the City of Philadelphia, not simply warehousing people so we can

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close the facility.

MS. RHYNHART: Right.

COUNCIL PRESIDENT CLARKE: I'd like to get a sense if in fact we're going to be able to meet that timeframe or will I be asked to extend it an additional year at the particular facility.

MS. RHYNHART: My understanding is that we're on track for June 30th.

COUNCIL PRESIDENT CLARKE: Okay. All right. Thank you.

I'm going to let my colleagues -- the board is heating up again.

First round, Councilmembers, we want to do five minutes first round, and then hopefully we'll shift to three minutes. Is that okay? And I understand we have a new timer. We no longer have the eggbeater timer. More electronic model. Thank you.

Councilman Greenlee.

COUNCILMAN GREENLEE: Thank

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you, Mr. President.

Good morning, everyone.

(Good morning.)

COUNCILMAN GREENLEE: First, Mr. Gillison, near the beginning of your testimony, you talk about some of the taxes are growing at lower levels than projected in last year's Five Year Plan. Could someone be a little bit more specific? I assume from the testimony and the conversation that transfer tax is one of those, but could you get a little more specific on that.

MS. RHYNHART: In Fiscal '12 actually in terms of the taxes that -- I'm sorry. Was your question what taxes are going --

COUNCILMAN GREENLEE: Well, it says some of the taxes are growing at lower levels than projected in last year's Five Year Plan. When you say "some," can you be a little bit more --

MS. RHYNHART: Oh, sure. Right now the wage tax is coming in below

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projections. We had projected in Fiscal '12 that it would be at 3.4 percent growth rate. We had to lower that to 2.2 percent, and we still need some strong growth to hit that number in Fiscal '12. The sales tax we had to take down the growth projection as well. The transfer tax, we had to take that down.

So the one tax that came in better than projected was the business privilege tax, and that's based -- the majority of that tax is from corporate profits, and there was a good year.

MR. DUBOW: That was in FY12.

MS. RHYNHART: In FY12, right.

MR. DUBOW: I mean FY11 and we're assuming it continues.

MS. RHYNHART: That's right. That's right.

MR. DUBOW: So we haven't seen those collections yet for '12.

MS. RHYNHART: That's a good point that Rob makes, good clarification.

COUNCILMAN GREENLEE: So the

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business privilege has been the most successful?

MS. RHYNHART: In '11 we had a good year, yes.

MR. DUBOW: But in '12 we get those collections at the end of April, so we haven't seen them for '12, but we're assuming based on what happened in '11 that '12 will be good.

COUNCILMAN GREENLEE: I just wanted a little bit more specifics as far as what "some" were.

I have a feeling a whole lot of people might have questions about AVI, so I'll start out. Obviously one of the big concerns is the timing of all this obviously. Could you just comment on that a little bit as far as when you think figures will be in vis-a-vis when we have to do what we have to do, that kind of thing.

MR. DUBOW: Right. So based on the schedule that we're on now, we think that we will have new assessments in the

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fall, probably in September. And that obviously creates an issue for the tax setting since that has to happen during this budget process. So that's why we've made the suggestion of setting the target revenue amount that would then lead us to a millage rate after we got the assessments.

COUNCILMAN GREENLEE: After? Will there be -- when will you have some numbers in that we can at least use, I guess, as examples around the City so we can kind of get a feel for where this is going?

MR. DUBOW: I think what we can put together for you, which is probably the best proxy we can do now, is look at average sales in neighborhoods and how that compares to assessed values in those neighborhoods. They won't be -- it won't be completely consistent because there are other factors that go into assessments, but that might give a good sense, and we can probably do that over

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the course of the next couple of weeks.

COUNCILMAN GREENLEE: And will they be pretty widespread around the City?

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: Because I that's a concern too.

MR. DUBOW: I think they'll be widespread around the City and widespread even within blocks, because I think there's just been a variety of how assessments have been done.

COUNCILMAN GREENLEE: And, lastly, the programs to try to help people, the smoothing, the homestead, I know that has to be approved. We have to get approval from Harrisburg, correct?

MR. DUBOW: For the homestead exemption.

COUNCILMAN GREENLEE: For the homestead anyway. Where does that stand? Because we keep hearing different things, that it looks like it's going to happen, then we hear a more negative response.

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What would be your opinion now?

MR. DUBOW: The homestead exemption was passed in the Senate and is now over in the House.

COUNCILMAN GREENLEE: Does it look promising over there, would you say?

MR. DUBOW: I don't --

COUNCILMAN GREENLEE: You don't want to speculate?

MR. DUBOW: Right.

COUNCILMAN GREENLEE: All right.

MR. DUBOW: Yes. We don't want to speculate.

COUNCILMAN GREENLEE: All right.

He's been around long enough not to speculate. I understand.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Councilman Green.

COUNCILMAN GREEN: Thank you, Mr. President.

Good -- I guess we're still

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morning. Good morning, for four more minutes.

MR. DUBOW: Good morning.

COUNCILMAN GREEN: I noticed during the testimony, Mr. Gillison, you changed from the text where you said the property tax for the City portion in FY13 is 491.5 million to what you said, which is the property tax in FY13 is at least 491.5 million.

What is the upper limit above that number that we could collect by accident or through negligence?

MR. DUBOW: I may characterize it differently from negligence, but the current portion that we have in the budget is 458 and then there's 33 million in prior year. The two variables that could change that are collection rate and the number of appeals. We assume I think it's about 960 million in assessed value lost through appeals and an 87 and a half percent collection rate. To the extent that appeals are different from that or

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the collection rate is different, the number will shift.

COUNCILMAN GREEN: And it could shift up or down?

MR. DUBOW: That's correct.

COUNCILMAN GREEN: Could it shift up or down -- when you take the bill that you sent as a whole, could it shift up or down more than $25 million?

MR. DUBOW: I haven't --

COUNCILMAN GREEN: Have you stress-tested the formula that you sent to City Council?

MR. DUBOW: I haven't said, Okay, what if appeal losses are 200 million. It would be easy enough to do that. We can put that in.

COUNCILMAN GREEN: Don't you think we ought to know what the upper and lower bounds are of the tax that we could collect from that formulaic approach for planning purposes?

MR. DUBOW: Yeah. We can do those stress tests for you.

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COUNCILMAN GREEN: But the stress tests were not done. So you don't within the Administration know what happens if collections are 80 percent because more people appeal or collections are 90 percent because people pay even though they're appealing, as required?

MR. DUBOW: Well, we have --

COUNCILMAN GREEN: You've got no internal analysis on that?

MR. DUBOW: The appeals and the collection factors are actually -- you kind of conflated them there. We are assuming that there'll be a big uptick in appeals. That's what we built in. Obviously that number will change if we're not right about that. We can do that analysis for you. I don't have that with me.

COUNCILMAN GREEN: But today the number is not stress-tested, so it's not even necessarily at least. It could be higher or lower, and there's no determination in the Administration of

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what the upper and lower limits or bounds are of the potential change from 491.5 million; is that correct?

MR. DUBOW: That's correct. The number, as I said, could change.

COUNCILMAN GREEN: Thank you.

So it seems to me sort of an irresponsible place to start. Would you be surprised if I told you that the actual upper limit in the bill the way the Administration has sent this bill to us of collections for just City side, not including School District, is $1.4 billion we could collect accidentally or negligently?

MR. DUBOW: You're assuming --

COUNCILMAN GREEN: Instead of 491 million.

MR. DUBOW: You're assuming 100 percent collection?

COUNCILMAN GREEN: I'm saying that's assuming 100 percent collection, but --

MR. DUBOW: I don't think

that's a reasonable assumption.

COUNCILMAN GREEN: Okay. So if you look at the second savings clause, it collects, assuming that the -- we have two savings clauses in this bill for background. There's one savings clause that provides a different matter if the state won't accept -- the courts won't accept a certified appraisal, market appraisal. There's another savings clause if the concept of the formulaic approach proposed by the Administration is invalid. What it says is that the tax rate will be 1 percent of the fair market value of the actual value.

If that savings clause goes into effect and the value is as the Administration testified before PICA the other day $100 to $140 billion or three to four times the current aggregate market value of property in the City is the overall aggregate market value, 1 percent of that number three to four times is 1 billion to 1.4 billion dollars

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that we could accidentally or negligently collect from the citizens.

When you apply that to the School District side, under state law, we would never be able to take that money back, and that would be about $2 billion that would go to the School District from the current 690-some million, close to $700 million.

MR. DUBOW: So the quadrupling of values, which is what we talked about last week, is just an estimate. We don't know. That's one of the reasons that we can't set a millage rate. It could be more than that; it could be less than that. That's the way -- that's why we structured it the way that we have. And, again, you need to build in things like appeal losses and the collection factor to get to your number.

COUNCILMAN GREEN: The savings clause specifically says that it's 1 percent of the value. You said to PICA that the value was three to four times.

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The value is not two times and you don't think the value is seven times. You chose a number and you put it in a bill and you sent it to us, and, that is, that we will collect 1 percent of the market value for the City. Based on your own words to PICA, that is a billion to a billion four compared to $491 million.

MR. DUBOW: Again, we don't know where it's going to come out. That's why we've actually designed a bill that has a target revenues number.

COUNCILMAN GREEN: I'm talking about the savings clause. Mr. Dubow, the savings clause, how much would we collect if the savings clause goes into effect based on your own analysis?

MR. DUBOW: Well, again, we don't know where it's going to come out. That's the issue and that's the reason we're proposing to do it the way we're proposing to do it.

COUNCILMAN GREEN: What is the math on the savings clause? How much

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will we collect under the savings clause under Section 3 if we collect 1 percent of the assessed value? How much will we collect?

MR. DUBOW: Depends --

COUNCILMAN GREEN: Simple question.

MR. DUBOW: Right.

COUNCILMAN GREEN: Call it an 87 percent collection rate. Make the same assumptions you're making for everything else. One percent of the aggregate value is a billion to a billion four. Eighty-seven percent of that is something less.

MR. DUBOW: That's --

COUNCILMAN GREEN: It's at least double the $491 million, taking every other assumption that you used in the formulaic approach as constant.

COUNCIL PRESIDENT CLARKE: Councilman, why don't we give Mr. Dubow time to think about that one.

MR. DUBOW: It's the same

answer. We don't know where it's going to come out.

COUNCILMAN GREEN: It's a simple -- Mr. --

COUNCIL PRESIDENT CLARKE: That was actually a nice way of saying that the five minutes are up.

COUNCILMAN GREEN: Mr. President, I appreciate that. The question is simple. I'll restate it and we'll see what the Administration gets back.

How much, assuming all your other assumptions are true with respect to the formulaic approach, will we collect if the formulaic approach is illegal and Clause 3 of the savings clause goes into effect?

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you,

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Mr. President.

Good morning, Mr. Gillison, Mr. Dubow, Ms. Rhynhart.

The first question is real simple. Should we take the Five Year Financial Plan at face value? Are the numbers real?

MR. DUBOW: That's not a simple question. But I guess the simple answer would be yes, although I sense that's leading to something else.

COUNCILMAN GOODE: Absolutely. Class 200 allocations have dropped from actual expenditures of over 1.1 billion in Fiscal Year '11 to roughly 760 million over the course of the Five Year Plan, including a drop this year. That's about a 32 percent drop, about $350 million, but the budget has not decreased. Expenditures over the Five Year Plan in terms of general operating, general fund budget has not decreased. Therefore, if you've cut contracts and leases by $350 million, where did the money go? How do you explain that?

MR. DUBOW: So the biggest reason for that decrease is shifting Department of Human Services from the General Fund to the Grants Fund. So it's not a real cut. It's a shift, in large part, from General to Grants.

COUNCILMAN GOODE: Can you be specific in terms of dollar amounts? Because some of it is a shift.

MR. DUBOW: Some of it is a shift, right.

MS. RHYNHART: Yeah. The vast majority is the transfer of the DHS over to the Grants Fund. We can provide -- we have a spreadsheet if you want --

COUNCILMAN GOODE: I'm actually asking of the $350 million what was shifted, how was it shifted and what was shifted, more specifically, within the General Fund budget.

MR. DUBOW: The biggest increase in the General Fund budget is going to be pension costs. I mean,

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that's where you see the run-up, and a lot of that -- part of that --

COUNCILMAN GOODE: I get that, and I'm getting there, but I just want you to actually quantify it before I get there.

MS. RHYNHART: Are you asking for a quantification of the amount of the DHS transfer, the move from the General Fund to the Grants?

COUNCILMAN GOODE: The question I'm asking is, you cut from Fiscal Year '11 actual expenditures to this fiscal year and throughout the Five Year Plan, you've cut Class 200 by about 350 million. It's about a 32 percent cut. Some of that may be DHS; other is not. I'm asking you to just quantify and itemize where the money went.

MR. DUBOW: Right. So in total from the '11 actual to the '13 budget, there's about a $200 million decrease in spending, right, from 3.78 billion to 3.58 billion. Most of the reduction is in contracts and most of that is the DHS shift. But there's about a $200 million increase in the benefits line, and most of that is in pensions. And if you hold on one second, let me find the exact number on the pensions increase.

COUNCILMAN GOODE: I'll just skip to the second question, because I've done all that.

So you're budgeting more money for benefits but not wages?

MR. DUBOW: Yeah. Pensions is a $140 million increase.

COUNCILMAN GOODE: And it's safe to say that around $190 million in benefit costs increased by the end of the Plan. Is that the Administration's preferred way to budget it? In other words, are you trying to fund wage increases through savings and benefits?

MR. DUBOW: Yes. That's our proposal in our collective bargaining agreements.

COUNCILMAN GOODE: But that's

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not what's reflected in the Plan. In the Five Year Plan, the wage numbers are flat and the benefits numbers go up by about 190 million.

MR. DUBOW: That's right. And what we're trying to get to but what's not in place now is collective bargaining agreements that we're --

COUNCILMAN GOODE: So these numbers are not real?

MR. DUBOW: They're real based on the agreements we have in place now.

COUNCILMAN GOODE: So let me ask you a different question, then. So you can pay for a $190 million increase in benefits over the Five Year Plan?

MR. DUBOW: Well, the Plan -- yes. The Plan assumes those increases.

COUNCILMAN GOODE: So it's paid for?

MR. DUBOW: Most of it is pension costs and most of that comes from --

COUNCILMAN GOODE: So a $350

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million cut in Class 200, that allows for a $190 million increase in wages and/or benefits, but right now it's a $190 million increase in benefits; is that correct?

MR. DUBOW: No, because the shift of obligations to the Grants Fund also took revenues over to the Grants Fund. It didn't give us the ability to spend more money.

COUNCILMAN GOODE: I'm looking at the Five Year Plan, looking at the numbers. I see that the wage numbers are flat. The benefit numbers increase by $190 million.

MR. DUBOW: Right.

COUNCILMAN GOODE: The Class 200 is cut, and the bottom line in terms of overall General Fund budget doesn't move dramatically, so how am I reading that wrong?

MR. DUBOW: So what's happening is that pension costs and benefit costs are going up, which eats up pretty much

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any increase in revenue that we're getting.

COUNCILMAN GOODE: The question I'm asking is --

MR. DUBOW: But the total -- I think I might get you the answer. But the total doesn't go up because of -- the total in the General Fund doesn't go up because of the shift to the Grants Fund. If you saw both of them together, you would see an increase of the combination.

COUNCILMAN GOODE: The question is, at the end of the day, you can afford to spend $190 million on benefits by the end of the Plan and your Plan says that it's paid for; is that correct?

MR. DUBOW: This Plan pays for that, but that's where all the increases go to, so --

COUNCILMAN GOODE: Okay.

MR. DUBOW: -- the ability to do other investments --

COUNCILMAN GOODE: I just wanted to put it on the record that

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there's a $190 million increase in benefits over the five years and that you say it's paid for in this Plan, but that money can be spent for wages and/or benefits.

MR. DUBOW: Yeah, but to use it to pay for wages, we have to figure out a way to reduce our pension costs.

COUNCILMAN GOODE: I get that because $190 million is paid for in terms of increases.

MR. DUBOW: Right. If we could reduce our pension costs by $190 million in the next five years, we could use that to pay for other things.

COUNCILMAN GOODE: But there's $190 million that's already paid for under the Plan?

MR. DUBOW: Yes.

COUNCILMAN GOODE: Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE:

Thank you, Councilman.

The Chair recognizes Councilman

Jones.

COUNCILMAN JONES: Thank you, Mr. President. It is really good to see you up front in control of things this year.

Good morning.

(Good morning.)

COUNCILMAN JONES: We realize in this body and throughout this building that there have been draconian budget cuts at the federal level. There will continue to be those cuts in the next fiscal year. There have been draconian, horrible projected budget cuts at the state level, which will have rippling impacts throughout every department in the City of Philadelphia, and your office has been very good at briefing us as to the potential impacts of those cuts.

One of the things as my colleague talked about the possibility of the real estate equalization, I call it, and others call it revenues for the School Board, whatever you choose to call

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it, before we go look at that, I think it is imperative that we look at revenues that are still on the table to be collected. And one of the things that our staff looked at was that there are somewhere in the neighborhood of 28,445,000 delinquent taxes owed the City of Philadelphia by property owners. And in particular, what struck me as interesting as we looked at that was the fact that many of those owners of properties that are delinquent aren't your usual suspects in the sense that they are held in low- and moderate-income neighborhoods. Some of these property owners are in some of the upwardly mobile up and coming neighborhoods.

Another interesting fact was that many of these individuals -- and we did the research on them -- came from out of state, meaning that they own the property, they were absentee landlords delinquent on their properties here in the City of Philadelphia, but in a

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sampling that we did, looked at some of the properties that they held elsewhere and are current on their taxes.

I don't understand that kind of logic, that they would be disrespectful to the City of Philadelphia, but I want to know how we can make sure that we are not just looking at Philly-based assets, but we're also looking at assets that they may hold other places to get what is due the City of Philadelphia.

When we juxtapose that with the cuts that we are facing, when we juxtapose that with the budget deficit that the School Board is facing, it seems to me that we should be a bit more aggressive in going after not the delinquent deadbeats that are uncollectible, but in some of these cases, these individuals actually have means and have proven they've had means because they treat their hometowns so very, very good.

MR. DUBOW: So one of the

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things that we're doing on the property tax in particular to try to increase delinquent collections is, we've gotten much more aggressive on taking properties to Sheriff's sale. We've gone from an average of 200. We're working our way up to 600 a month. But your question I think was what do we do about assets that aren't in Philadelphia.

COUNCILMAN JONES: There are 2,956 Philadelphia properties held by 2,320 non-Philadelphia residents that owe us $28 million.

MR. DUBOW: Okay. And you want to know how we get that they're non-Philadelphia assets?

COUNCILMAN JONES: And are we looking at that as a collectible considering we run after some of the deadbeats that are just not collectible. There are some that we've looked at that do have means and do have assets in other places, and I wanted to know if we're asking Philadelphians, who have made a

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commitment to own properties here and live here, are we looking at some of the folk that have kind of thumbed their nose at us?

MR. DUBOW: Yeah. That's a good question, and we'll look into that and see what our options are in terms of their properties outside of Philadelphia.

COUNCILMAN JONES: My second point is that we are looking at revenues, and one of the things that we use to look at are the PICA report. You projected on wage and net profit that you were going to have 3.40 percent increase, right? We actually wound up down 2.2 percent in actual.

MS. RHYNHART: No. That's the current projection.

COUNCILMAN JONES: Right. So between the deficit and the projection, we're talking about how many percent to make up just to catch up to where we said we were?

MS. RHYNHART: In terms of how

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to catch up for '12?

COUNCILMAN JONES: Yes.

MS. RHYNHART: We need to see strong growth for the remainder of the year. So we've had like 0.6 percent growth the first quarter and 2.1 percent the second quarter. So we need to see upwards of 3 percent growth to hit that.

COUNCILMAN JONES: So as we look at sales taxes, we're at 2.5. When we look at real estate transactions, 4.4. So all of these are down, aren't they?

MS. RHYNHART: Where are you looking, real estate, 4.4?

COUNCILMAN JONES: Under the PICA report, according to PICA. We're a bit down.

So I don't know -- someone asked who our economists are and that somehow regionally we were going to do better than the national average. I want to know where you get that optimism from.

MS. RHYNHART: I think that for '12, projections are similar to what we

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have in terms of that the transfer tax is expected to be down slightly for the year and the wage and sales tax are also supposed to be dampened, but then as the rebound occurs over the next few years, it is supposed to grow to more moderate levels. So there is a consensus on that.

COUNCILMAN JONES: I make those two points, who we're not collecting on and who we're expecting to get monies from, and say there is a disparity there between some people who -- in one instance I met with a small business association and they said to me that they run the risk of getting audited, that they have a better shot of getting a hit on the lottery and that it pays off to them to let the roulette -- what is that, roulette wheel go around. I don't gamble. So to go around and for them to get lucky or unlucky and then pay the fine and principal. It is better on average just to not do it.

We have to -- and I want to say

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that the Revenue Commissioner does a great job with what he has. I'm going to say it again. We need to give him more resources so he can collect the monies that are on the street. This same individual said, Councilman, if you're going to pass another tax that you're not going to collect, what's the point?

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you. Thank you, Councilman.

The Chair now recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you.

On Page 7, along the line of Councilman Jones, you in the proposed Five Year Plan, wage tax, what's with 2017? Everything seems to decline 2017. Do you suppose that if we're going to move the economy forward, that it might be higher at that point?

MS. RHYNHART: No. That's a good question.

COUNCILWOMAN TASCO: Because

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all of the issues, all of the wage tax, sales tax, real estate transfer tax, seem to be going backwards in 2017.

MS. RHYNHART: There's an expectation that there will be a rebound, and then that after the rebound occurs, which is really sort of catch-up years, for the economy to pick up some of the growth that has not been occurring and then it will moderate. So the 3 and a half percent sales tax in '17 and 3.1 percent growth in wage tax in '17, that's getting to more moderate growth levels in a stable economy. So there's several years that ramp up where the economic recovery occurs, and then the theory is that it will taper off into a stable economy with growth that is close to inflation.

COUNCILWOMAN TASCO: And if it doesn't and it goes up, it's better for you, right?

MS. RHYNHART: If it goes up? Yeah, sure.

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COUNCILWOMAN TASCO: Let me just ask you another question. I notice in all of your testimony, Mr. Gillison, with the advent of the proposed budget cuts of the state, where in our budget are we able to adjust for those cuts?

MR. GILLISON: We're not.

COUNCILWOMAN TASCO: So what happens to those individuals, the homeless? What happens to all of the programs that the state funds? I mean, they still impact on the people who live in the City of Philadelphia. What do we do about that?

MR. GILLISON: It's very true. We will not be able to absorb those dollars once cut by the state. Those programs would go away, because they're completely funded by the state. That's why we're spending a lot of time being as aggressive as we can, partnering with our surrounding counties, partnering with as many people that will listen in Harrisburg in order to say that these

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kinds of cuts, especially to our most vulnerable, really need to be taken a second look at.

But there's nowhere that we would be able to come to the rescue. We don't have the dollars, and those programs would go away.

COUNCILWOMAN TASCO: Well, they go away, but we still have the folk here in Philadelphia who have the problems.

MR. GILLISON: That's correct.

COUNCILWOMAN TASCO: Particularly those who are dealing with mental problems that go through the -- and substance abuse problems from the Department of Behavioral Health.

So don't you think we ought to look at how we might -- because those people will not get the services. They will probably increase our folk on the street, which you're trying to deal with at this point.

MR. GILLISON: Absolutely.

COUNCILWOMAN TASCO: So I think

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there ought to be some contingency to deal with -- and maybe you don't want to talk about it because then you won't have your lobbying in your Harrisburg to be as effective, but there's got to be some way that we look at what we do with our citizens who will be severely harmed by those budget cuts.

MR. GILLISON: I agree totally with you. I know that we are bracing, but I think that we're trying to be as aggressive as we can in our strategy to make sure that everyone understands that these kinds of cuts would have an impact and that we would come together on the local level where rubber always hits the road. We will try and do what we can to mitigate, but there's no dollars for us to mitigate in our budget. We just have to try and work with our partners as best we can to mitigate the extent of the devastation that those kind of proposed cuts would have.

I agree with you. I don't want

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to see where they would normally end up, which is back in the prisons, where I don't want them to be. We don't need more people who are mentally ill in prison. We don't need more people out on the streets. We've been trying to deal with this homeless matter for a long time, and it pains us, it pains me specifically. I've been in this area for over 30 years trying to help people get out. I can't imagine what's going on in Harrisburg where they would actually put together that kind of matter, that kind of budget. But it is literally -- we don't have the ability to respond financially, but we will have to respond and work together to find a different way should it come to pass. I'm just praying that it won't.

COUNCILWOMAN TASCO: Well, on Page 6, you have the $1.2 million for the Office of Supportive Housing to relocate those beds at the Ridge Avenue Center.

MR. GILLISON: That's correct.

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COUNCILWOMAN TASCO: Is there a time limit on when you have to move those residents, and why are you moving from that center?

MR. GILLISON: The center is closing down, and we are trying to put together the contracts that we would need in order to make sure that the people who are serviced at that center would be able to go elsewhere, and as we said to the Council President, we are trying to -- we're on target. We understand we're on target so that the center would close on June 30th and we'll have the ability with these dollars to put those folks in different areas.

COUNCILWOMAN TASCO: Is the closing generated by the City or is the closing generated by the possibility of that site being sold to a developer?

MR. GILLISON: I don't know the answer to that specific question. I would have to get back to you, Councilwoman.

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COUNCILWOMAN TASCO: Well, the question --

MR. GILLISON: I just know that that center is going away, so we have to have the ability to make sure that we're providing for those people in different places.

COUNCILWOMAN TASCO: Same folk, CBH.

MR. GILLISON: Right.

COUNCILWOMAN TASCO: One point five million to move these folks from one center. Don't know how many people will be impacted as a result of the budget cuts, but we have no provision in the budget to deal with relocating them.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair now recognizes Councilmember Kenney.

COUNCILMAN KENNEY: Thank you, Mr. President.

I think AVI is going to be --

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and I've said it. I was quoted in the paper saying that AVI is going to be the most difficult issue that we deal with this year. And let me bring it to the street level for a moment.

I ran into a young man the other day who I happen to know, who is a professional, married, has a small child, lives in Queen Village. His taxes right now are $4,000 a year. Based on the purchase price of his house and the comparable sales in recent months, he estimates between $8,000 and $10,000 his real estate taxes are going to be.

What do I tell him? What's the answer that I give that person, who is committed to urban life, who wants to live in the City, who can pay $10,000 living in Bryn Mawr and is going to face a doubling or more than double their real estate taxes next year? What do I tell him and how do I keep him in the City?

MR. DUBOW: There's not -- obviously that's going to be a real issue for him. It's one of the reasons that we want to put smoothing and a homestead exemption in place to hopefully help with that sticker shock, but there will be people whose assessments relative to other people have been too low for years and --

COUNCILMAN KENNEY: While I recognize that, his tax bill now is $4,000. It's not that his tax bill is $850 and he's been -- I mean, he's clearly not been underpaying based on at least the $4,000 that he pays every year in real estate taxes. His child is not school age. So these are folks that don't really -- aren't needy when it comes to City services and are paying $4,000 now and could potentially be paying $8,000 next year. How do I keep them living here? Why would they want to live here?

MR. DUBOW: Right. I'm not sure that they really would go up to 8,000 in the year --

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COUNCILMAN KENNEY: Based on what he bought the property for and what the comparables are in the community in the last six months. He's an accountant. He did the calculations. He thinks it could at least double.

MR. DUBOW: Right. And I don't know what he's assuming about where the rate will go or -- so I'm not sure that that's accurate, but --

COUNCILMAN KENNEY: Are you telling me that scenario is just totally out of the question?

MR. DUBOW: No, I'm not saying that at all. But I am saying I think that's why we do need some kind of buffering in here to kind of --

COUNCILMAN KENNEY: While I understand folks in other neighborhoods have been overpaying for years, that overpayment is not as high as the payment the folks are making in other neighborhoods where they're paying 3 and 4 and $5,000 a year. I mean, there's got

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to be a cap. There's got to be some limit to what we're going to whack people with, because they can move. I want them in the community. I want them contributing to the playground and to the home and school and to the civic association and everything else, but you can't expect somebody to have their real estate taxes doubled when they're paying 3 or 4 now and expect them to want to still be Philadelphia residents. I would just move to the suburb, send my kids to a public school there and that's part of my tuition payments I pay in my real estate taxes. They send their kids to private school, which it's their choice, but I just think that that's the issue. I mean, that's --

MR. DUBOW: Right, and that's why we have to look at ways -- I mean, I know you're not satisfied with that answer, but --

COUNCILMAN KENNEY: I mean, my problem is, I didn't know what to tell him. I'm standing there going, I don't know. I mean, I don't know. I mean, that's the issue and that's the --

MR. GILLISON: I think that one of the things that we all have to kind of remember is that, first off, I understand his projections. I would say, I understand your projections, but we're at the point now where we can't really say that those projections -- we're going to find out what the projects are and we'll deal with it in reality.

But, second, that's why we're so insistent on getting kind of like the smoothing aspect of the bill as well as the homestead exemption, because we recognize we don't want that sticker shock to send you away. We need good people to be here in order to do what we need to do.

And the last piece is fairness, that just that's always got to be brought back. We've got to understand this from a fairness point of view of what really

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should be the true rate. And I think that taking and asking them to just stay with us as we straighten this out, this has been a long time coming. It didn't happen over night, but we can actually try and fix it this year.

COUNCILMAN KENNEY: Okay. I mean -- all right. Just so long as you know what we're getting on the street out there.

MR. GILLISON: We understand.

COUNCILMAN KENNEY: Okay.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair now recognizes Councilwoman Brown.

(No response.)

COUNCIL PRESIDENT CLARKE: Councilwoman Brown has officially lost her spot.

The Chair now recognizes Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Thank you.

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I have a few questions, and I know they were noted somewhat in your testimony. Can you tell us how much federal cuts the City of Philadelphia is receiving in both CDBG and HOME funds this year?

MS. RHYNHART: You asked for the cut in CDBG and HOME funds, Councilwoman?

COUNCILWOMAN SANCHEZ: Yes. Actually, in your testimony you note $7.8 million.

MS. RHYNHART: That's right.

COUNCILWOMAN SANCHEZ: Can you tell us what are some of the things that are going to be cut as a result of that $7.8 million in reductions?

MS. RHYNHART: I think that is being worked on right now and will come before you in the Consolidated Plan, but that is still being worked on.

COUNCILWOMAN SANCHEZ: In the state funds we've received -- and we had hearings the other day -- about $44

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million in cuts. Can you tell me if any of those cuts are going to be added on through the City's General Fund?

MR. GILLISON: They will not.

COUNCILWOMAN SANCHEZ: Do we know the total impact of what those cuts will be to services as the one our President mentioned earlier, Office of Special Needs?

MR. GILLISON: I know that there was a -- we have actually passed around an impact statement where those -- I think it was about $41 million, where those cuts were given out. I can actually provide that to you again if you just give me an opportunity.

COUNCILWOMAN SANCHEZ: I have that. I want to make sure we said it for the record --

MR. GILLISON: Okay.

COUNCILWOMAN SANCHEZ: -- the amount of cuts that we're receiving from the state.

In your Five Year Plan, there's

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$160 million in business cuts, and we appreciate the Administration's work with us in getting these cuts. If we are not successful passing this AVI, are these cuts in jeopardy, $160 million in business cuts in the Five Year Plan?

MR. DUBOW: If we --

COUNCILWOMAN SANCHEZ: If we are not successful passing AVI, are these cuts in jeopardy?

MR. DUBOW: And we went back to the amount of collections years go? They would be in jeopardy, but we'd also have to look at everything in the budget to figure out what we would do to bring it back into balance.

COUNCILWOMAN SANCHEZ: We had a briefing the other day with members of the Real Estate Association where one of their members reminded me that they have lawyers on standby. Can you give us an update of where our lawsuits are currently?

MR. DUBOW: Are you talking

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about the STEB issue?

COUNCILWOMAN SANCHEZ: Yes.

MR. DUBOW: So the State Tax Equalization Board has to basically validate the common level ratio we use. That common level ratio is a part of how our tax is calculated. We take the market value, multiply by that common level ratio and then multiply it by the millage rate.

What STEB found was that the ratio we're using at 32 percent was too high and that we should be using 18 percent. We got about 2,000 appeals from people saying that they want that 18 percent used against their taxes. If all those appeals are successful, it will cost the School District $45 million and the City 35 million.

We have appealed to STEB, saying that we don't think that 18 percent is right. They had a hearing last week, at which we presented our case, and we're waiting to hear back from

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them.

So we think that it won't wind up 18 percent. We think that we've made progress with them, but there's a big risk there, and that risk would continue in the year in which we hadn't gone to actual value.

COUNCILWOMAN SANCHEZ: So we lost this the first time around. Why are you guys so positive we're going to win this on the appeal?

MR. DUBOW: We think that we've provided them additional information on sales, sales that they may have thought weren't at arm's length that we think were that should have been included in their calculation.

COUNCILWOMAN SANCHEZ: And so this budget reflects us being successful in our appeals of $35 million for us, for the City of Philadelphia, and 45 million for the School District?

MR. DUBOW: Yes, it assumes we'll be successful.

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COUNCILWOMAN SANCHEZ: And if we are not, what is our Plan B?

MR. DUBOW: Plan B is then we have to reopen the budget and look for ways to balance. We would assume that it's a one-time impact, because we assume that we're going to actual value. If we don't get to actual value, then it's a multi-year impact.

COUNCILWOMAN SANCHEZ: Thank you, Mr. Chair. I'll come back on the next round.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Councilmember Squilla.

COUNCILMAN SQUILLA: Good afternoon, guys. Thank you for coming here today.

MR. DUBOW: Good afternoon.

COUNCILMAN SQUILLA: My question is with the Actual Value Initiative, when do we think that the public is going to be receiving their assessments in the mail?

MR. DUBOW: We think that they'll be receiving their assessments in September.

COUNCILMAN SQUILLA: In September?

MR. DUBOW: Yes.

COUNCILMAN SQUILLA: And is there any possibility that they would be getting it before then or after that time?

MR. DUBOW: The one risk to the timing is if there are more appeals and the BRT has --

COUNCILMAN SQUILLA: They can't get appeals until they get the --

MR. DUBOW: From the current -- from the existing assessments, particularly if we wind up -- I guess whatever happens with STEB may actually wind up to an increase in appeal activity. Because one of the things the BRT has said is that if the STEB ruling goes our way, they will allow people who

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appealed on the basis of STEB to come back and appeal on other issues. So if that happens, then assessors who could get out in the field may have to go back to hear other appeals. That could affect the timing. If we don't have that effect, the September date looks really good.

COUNCILMAN SQUILLA: And what is the timeline for when people can appeal the new assessments?

MR. DUBOW: Typically appeals have to come in by beginning of October. We would probably want to work with BRT to push that back to give people more time to let them appeal. If it comes in late, we want to give them a chance to look at their bills and figure out whether they want to appeal. So I'm not sure how far we'd push it back, but we'd want to push that back.

COUNCILMAN GREEN: Point of information.

COUNCIL PRESIDENT CLARKE: The

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Chair recognizes Councilmember Green.

COUNCILMAN GREEN: Thank you.

COUNCIL PRESIDENT CLARKE: That is a point information, right?

COUNCILMAN GREEN: Yes, sir.

COUNCIL PRESIDENT CLARKE: Thank you, sir.

COUNCILMAN GREEN: The property tax assessments under state law must go out ten days before October 1st. So they can't be pushed back to a date after that. So that is the outer limit of when they must go out.

Also, they have to be returned within a certain amount of time under state law, and there is no authority of the BRT or anybody else to have them not be returned within the amount of time required by state law.

MR. DUBOW: The question was about appeals, and BRT does have the right to let appeals after October 1st. They've done that before.

COUNCIL PRESIDENT CLARKE:

Thank you.

Councilman Squilla.

COUNCILMAN SQUILLA: Okay. That's just the one part that may be unfair to the public from getting the assessments at a very late time, if it goes out on that time.

The other issue is, in Fiscal Year 2012 we had a $1.1 billion, I guess, real estate tax revenue stream, and then Fiscal Year '13 we are now increasing that to 1.2 billion?

MR. DUBOW: We're increasing it by about $90 million, that's right.

COUNCILMAN SQUILLA: Ninety million dollars. What is Fiscal Year '14?

MR. DUBOW: Fiscal Year '14 in the bill shows about another 3 percent increase, assuming that that's what happens with market values. That's built into the bill. But we're actually hoping that we have this process done and we actually wind up just setting a millage

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rate next year based on assessments.

COUNCILMAN SQUILLA: So --

MR. DUBOW: But the plan is about a 3 percent increase a year in assessments.

COUNCILMAN SQUILLA: You're going to increase it 3 percent every year?

MR. DUBOW: It projects that assessed values will increase by about 3 percent.

COUNCILMAN SQUILLA: And that's part of the bill?

MR. DUBOW: Only in '14.

COUNCILMAN SQUILLA: Oh, only in '14. So not only do we raise $90 million in this year for this, the following year it's closer to 4 percent increase in real estate taxes built into the bill; is that correct?

MR. DUBOW: That's right, but, again, I think we're -- our hope is that by next year, we'll have a new bill that will set a millage rate.

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COUNCILMAN SQUILLA: All right. Because it seems like right now we don't have any information to tell anybody anything and we're hoping we can do this in the future. It just seems really irresponsible to go forward coming up with, well, it may happen and we don't know how it's going to affect this person. We don't even know what our safeguards are. You're proposing a $15,000 safeguard that's going to be put in place for all residents across the board.

MR. DUBOW: Two safeguards.

COUNCILMAN SQUILLA: The three-year smoothing.

MR. DUBOW: The three-year smoothing and $15,000 homestead exemption.

COUNCILMAN SQUILLA: And that doesn't protect -- we have senior citizens and people on low income that are living in neighborhoods that may have increased in value. The $15,000 homestead that you're proposing would -- people may have bought their house for $50,000 and now it's worth $200,000 -- really doesn't help them.

MR. DUBOW: There's a low-income senior citizen freeze. So if you're a senior citizen, low income, your property tax can't go up. So that protection already exists. One of the things that we need to do is publicize that so people know that it's out there and so that they apply for it.

There are also kind of hardship payment terms that let people stretch out their payments. Those are already existing, and we need to do a better job of letting people know about them.

COUNCILMAN SQUILLA: Or low-income people who are now in their phase of their life where they can't afford the increase.

MR. DUBOW: Right.

COUNCILMAN SQUILLA: All right. I'll ask more questions the next session.

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COUNCIL PRESIDENT CLARKE:
Thank you, Councilman.

The Chair recognizes
Councilwoman Brown, who stepped out of
the room earlier.

COUNCILWOMAN BROWN: Thank you,
Mr. President.

Good morning, everyone.

(Good morning.)

COUNCILWOMAN BROWN: Two
questions. The last page of your
testimony you mention that the Office of
Equal Opportunity has had a 50 percent
increase in the registration of DBEs; is
that accurate?

MR. GILLISON: Yes.

COUNCILWOMAN BROWN: My
question is, given that great progress,
how does that impact and what does that
translate into with regards to more DBEs
doing business with the City of
Philadelphia?

MR. GILLISON: I believe that
the opportunities obviously have been

expanded and the opportunity -- I know that we've actually done some great work this past year in explaining how to do business with the City of Philadelphia. So I think that with an expanded opportunity and with an expanded base, we are hoping that more people will be able to do business.

I know that we have set our own internal goals that you're very well aware of. We have met those goals, and we will be setting again internal goals again to see if we can stretch and make even more.

So progress is being made, and that's what we are dedicated to do or seeing. And having more people eligible is really where we will be able to have more people take part and take part in this particular effort.

COUNCILWOMAN BROWN: So the second question -- and I guess it is an FYI to all department heads. I've introduced a resolution saying that we

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Councilmembers will look at women on corporate boards or lack thereof. The Mayor has expressed an interest in this area. I'm of the view that government has a responsibility to lead by example. So I am asking that all City department heads include in their testimony a breakdown of top-level management or top deputies, whatever that equals, by ethnicity and by gender, so we don't have to ask for it and we don't have to hear, I'll get back to you. The ask is that that be a standard operating -- a standard paragraph in everybody's testimony.

And further, unlike past years, I would like to see the last four years under the Mayor's Administration what that looks like so that we can see if there have been progress or not.

I should, in the interest of being forthcoming, let you know that I've actually sent letters to a couple of departments, because there's a big

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concern about their department top-level staff not looking like Philadelphia, and in 2012, that's unacceptable.

MR. GILLISON: Very well. Thank you.

COUNCILWOMAN BROWN: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair now recognizes Councilmember Oh.

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

Good afternoon.

(Good afternoon.)

COUNCILMAN OH: Thank you. Going back to Page 7 and to the issue of the property tax that are anticipated to be collected in Fiscal Year '13, I am curious just for your comments and perhaps a little more explanation. We have a new assessment, new assessments. We have a new AVI system. We have increased collections, possible homestead exemption and a possible smoothing

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process, and I'm curious how it is that you've come to the point where you believe that the revenues collected in 2013 will be the same as 2012.

MR. DUBOW: So what we did to try to determine where revenues should be in '13 was go back to the last time there was a full assessment and then try to figure out what's actually happened to values since then. That last assessment was in 2004, the last real full assessment.

We went to IHS Global Insight, our outside consultant, asked them what's happened since 2004 in terms of market values in Philadelphia. They said that the market value on average has increased 25 percent since 2004.

We've captured some of that, but not all of it. So looking at that growth and what we think we've captured, looking at the difference got us to calculate about a 9 percent increase, which is the 94 million that you see in increase in total revenues.

COUNCILMAN OH: Okay. Thank you very much for that explanation. Thank you.

MR. DUBOW: You're okay with it? You look like --

COUNCILMAN OH: It seems a little fantastic, but I'm going to contemplate the answer, and I appreciate it. Thank you very much.

MR. DUBOW: Okay.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair now recognizes Councilmember Johnson.

COUNCILMAN JOHNSON: Thank you, Mr. President.

I just had a couple of questions. I guess in preparation for the departmental hearings that will be coming up, the first one is the investment of a million dollars to the Managing Director's Office to fund anti-violence initiatives throughout the

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City, and obviously that's a key issue that we're facing at this particular time in the City. And so I expect -- what I would like when the Managing Director's Office does their presentation, an actual overview of how that million dollars is going to be laid out and what type of program, during the hearing part. So we won't be asking the questions and you don't have the information, so I'm not going to try to set y'all up that way, but hopefully by the time the hearing does come, get an overview of how those initiatives are going to be laid out as it relates to violence prevention.

The other one was under the Office of Economic Opportunity. And I think it's great the work that Ms. Angela Dowd-Burton was doing in terms of increasing minority, women and disabled-owned business participation, but I also want to see the enforcement component. A lot of times I've met small businesses who say they may have

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partnered with a prime on an actual project, but they don't receive the actual funding from the prime in terms of the rollout of their actual partnership on the actual project.

And so if there can be information on how you actually -- I don't want to ask you to go into what company names specific, but you actually caught one of the companies some time ago that actually had a woman standing in saying that they were -- I don't want to put the company name on the record, but y'all actually shut down one actual major individual for actually having someone on their rolls that they're supposed to be sharing business with and everything wasn't forthcoming. So I wanted to see the enforcement component under this particular department.

And under L&I, the Vacant Property, Windows and Door Court program, which is deemed very successful, the actual numbers, what actually has been done across the City, how many houses sealed, how many property owners, private property owners, you're going after to make sure they're outer -- I mean the facade of their buildings are actually sealed.

That's pretty much it.

MR. GILLISON: Thank you. I would say, Councilman, if you -- I'm sure the Inspector General, Amy Kurland, would be happy if you have additional persons that would need to be investigated. We would be very happy to partner on something like that, believe me. So if you have anything, I'd be glad to just take the call.

COUNCILMAN JOHNSON: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair now recognizes Councilman Henon.

COUNCILMAN HENON: Thank you, Mr. President.

I have a question regarding the

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pension fund. Council President Clarke started talking about in reference to the new hybrid type of pension options that the City is offering, and he had asked a few questions about individual accounts.

Is there an excess administrative cost to managing individual self-directed accounts in our pension fund or is this going to be a class opportunity for educating the members of the City on what their options are?

MR. DUBOW: I think -- one second. I just want to make sure I'm getting it straight.

So there are group seminars, but they also provide individual counseling if people -- when people seek that out. So you have both options.

COUNCILMAN HENON: And this type of hybrid option is a cost savings?

MR. DUBOW: Yes, it is. It reduces the unfunded liability in the long term. That then reduces the size of

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the MMO, the amount that we have to pay each year to pay off our unfunded liability.

COUNCILMAN HENON: It seems a little costly administratively, I think, to manage individual accounts for folks, as I think the Council President raised some valid questions. As being a layperson on self-directing funds, most people just get up and go to work every day and try to feed their family and raise their children right here in the City of Philadelphia.

Another question on the --

MR. DUBOW: Can I just -- I think that there'll be some increased administrative cost. I think that will be more than offset by the savings to the fund in general, savings to the fund in terms of the liability.

COUNCILMAN HENON: Well, I look forward towards the budget hearing to get into that in a little more detail.

The pension fund now as I read

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in the Five Year Plan is 50 percent funded?

MR. DUBOW: That's correct.

COUNCILMAN HENON: And we have started making as a result of the MMO the partial and full payments towards the pension fund?

MR. DUBOW: Yeah. Each year our actuary tells us what amount we need to pay into the fund to pay off our unfunded liability, and that's the amount that we pay.

COUNCILMAN HENON: But you've already set that? You've already set that through the MMOs; is that correct?

MR. DUBOW: That's correct. I mean, the number will change each year depending on a variety of factors, like what we earn or changes when people retire. So there's a whole bunch of assumptions that go into it, so it does change each year.

COUNCILMAN HENON: I'm sure of that. So we're 50 percent funded now,

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and towards the -- at the end of this Five Year Plan, what do you anticipate the fund being with making the partial and full payments moving forward?

MR. DUBOW: In the last report we got from the actuary, I think they had us in the high -- still in the high 40's at the end of the Plan.

COUNCILMAN HENON: At the end of the Plan?

MR. DUBOW: The end of the five years, yeah.

COUNCILMAN HENON: And we're starting off at 50 now?

MR. DUBOW: We're at 49.7, and it kind of moves up and down a little each year, not a whole lot of variation, but it's up in the high 40's each year, like 48, 49, somewhere around there.

COUNCILMAN HENON: So you don't see it moving significantly now that the City is starting to make payments?

MR. DUBOW: No. We've been making payments consistent with the MMO for years. So that's not new. But the unfunded liability is so large that it doesn't move quickly. And what we did -- because we earned 20 percent last year, it moved from 47 to almost 50. When the actuary makes his projections, he doesn't assume a year like that. He assumes that we hit our earnings assumption, which is 8.1 percent. If we had other years where we earned that much, then you'd see it move up, but that was one of the highest years in the fund's history in terms of returns.

COUNCILMAN HENON: Okay. In year FY15, the state sales tax is dropping off and you see a decrease in the revenue coming in. Is that because of that sunsetting at that time?

MR. DUBOW: Yes. That's correct.

COUNCILMAN HENON: Has the Administration thought about speaking with the state or having any conversations with the state moving

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forward?

MR. GILLISON: No. That was one of those things that we promised that we would let go, and we are going to stick with our promise.

COUNCILMAN HENON: Okay.

I'll defer to another time. Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

We're going to go on the second round. The second round is three minutes, and we want to make sure that everybody has an opportunity. So we will now start with Councilman Green.

COUNCILMAN GREEN: Thank you, Mr. President.

Mr. Dubow, do you have an answer to my question?

MR. DUBOW: It's the same answer as before, which is we don't have a projection for the total amount of assessments.

COUNCILMAN GREEN: You've said

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publicly and you've said to PICA 70 percent of the assessments are done.

MR. DUBOW: So the fieldwork scheduled is about 70 percent done, scheduled to be done the end of May or --

COUNCILMAN GREEN: So that's correct, that's a yes, 70 percent is done?

MR. DUBOW: Yeah, 70 percent is done.

COUNCILMAN GREEN: Thank you.

What is the value of taxable real property for that 70 percent?

MR. DUBOW: I don't know, and when I've talked to the Chief Assessment Officer about the values that they have so far and values that they'll have when they're done in May, he has stressed that those aren't reliable numbers yet, that they need to be validated, he needs to go and analyze them. So that number at this point wouldn't have a whole lot of meaning.

COUNCILMAN GREEN: Well, I

frankly will be the judge of that. I would like to know today, before we leave this room, what the value of taxable real property is of that 70 percent. If you'd ask Mr. McKeithen to please get that information over here, I'd appreciate it.

MR. DUBOW: I can ask. I'm not sure that it's been collected in that way, but if it is, we'll supply it to you.

COUNCILMAN GREEN: The things that you've told the public and that you've told the PICA Board, are they reasonable assumptions, that it will be three to four times the current value of assessed taxable property?

MR. DUBOW: I think it's too early for us to know what that multiple will be.

COUNCILMAN GREEN: So what you've told PICA is not a reasonable assumption?

MR. DUBOW: I don't know whether that's where we'll wind up.

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COUNCILMAN GREEN: So it is not reasonable for us to assume that it's three to four times the current value of assessed property?

MR. DUBOW: I guess what I'm saying is --

COUNCILMAN GREEN: Is that a reasonable assumption for us to make or not?

MR. DUBOW: Let me answer. We don't know where it will wind up. It could wind up three to four times. It could wind up two times. We don't know where we'll wind up.

COUNCILMAN GREEN: Okay. So if it wound up two times, how much would we collect under the savings clause in No. 3?

MR. DUBOW: Assuming and depending on what happens with collections and --

COUNCILMAN GREEN: I'm assuming everything else is true.

MR. DUBOW: -- appeals, then

you'd be around 500 million.

COUNCILMAN GREEN: If it's two times, it would be 500 million?

MR. DUBOW: If it's exactly two times. But, again, I don't know where we'll wind up.

COUNCILMAN GREEN: But you've publicly said and said to PICA it's three to four times?

MR. DUBOW: I think what we've said is we have some estimates. We don't know where it's going to wind up. We've been consistent with we don't know where it's going to wind up.

COUNCILMAN GREEN: So why are we then presented with a savings clause that could collect somewhere between 500 million and a billion dollars?

MR. DUBOW: We had a fail-safe that we put in the bill to ensure that we would collect at least the amount that we collected this year for both the City and the School District.

COUNCILMAN GREEN: What are the

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consequences --

MR. DUBOW: But we don't know -- can I finish my answer, please?

But we don't know where we'll wind up.

COUNCILMAN GREEN: I understand, but we're creating a bill in advance of that that could, in theory, collect two and a half billion dollars for the School District if the upper limit of your estimate is correct and it's four times, which we would never under state law be able to take back, which would be a permanent tax increase on the citizens of Philadelphia, which would be multiplying essentially what they pay by four times. That's not how this was presented to the public. It was presented as, We know what we're doing, it's a thoughtful formula and it's going to be roughly X, $491 million.

MR. DUBOW: That is what's in the formula.

COUNCILMAN GREEN: That's not

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what's in the bill.

MR. DUBOW: No. It is what's in the bill. The formula in the bill gets you to $458 million for the City. What you're talking about is if everything that were done is thrown out by a judge. That's what you're talking about, not what the bill is proposing, but if everything goes wrong through the court system.

COUNCILMAN GREEN: The question is what the bill proposes if the savings clause comes into effect because a judge throws it out. That's the question.

MR. DUBOW: Right, but then --

COUNCILMAN GREEN: The upper limit of that, a billion dollars for the City. Let's --

MR. DUBOW: I don't know what the upper limit is because I don't know where we'll wind up. We can have the same conversation over and over again, but that's what I'm telling you.

COUNCILMAN GREEN: If your

estimate to PICA is correct, which was three to four times, then it's between 750 and a billion dollars we'll collect. Is that a true statement?

MR. DUBOW: That's a true statement, but, again --

COUNCILMAN GREEN: Thank you.

Thank you, Mr. President.

MR. DUBOW: -- I don't know that that's where we'll wind up. And if we wind up at something below 2 percent, then we could get less. But, again, our proposal is the formula that's in the bill, not the fail-safe.

COUNCIL PRESIDENT CLARKE: All right, Mr. Dubow. Thank you. I assure you that you will be asked that question again in another forum.

The Chair now -- before I go to the next one, I just want to ask you a couple of quick questions.

Relating to the proposed new police administration building, two questions related. One, the PICA

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dollars, could you real quickly define the 9 million in PICA and what further obligation we have with respect to the 9 million in PICA and then on the sale of the existing assets, assuming that we build a new facility. And I know in an earlier briefing, there were some conversations about the revenue generated from the sale of those existing assets going to pay off either the debt or the costs associated with the new facility. I believe it was the police administration building, the morgue and I don't know if there are any other --

MS. RHYNHART: 500 South Broad Street. I think the first part of your question was is there any sort of strings attached to the $9 million. I'm not framing it as eloquently as you did.

COUNCIL PRESIDENT CLARKE: That's okay.

MS. RHYNHART: No. We plan to request $9 million from PICA our funds that they have for one-time purposes. So there would be no obligation. I mean, as long as we're using it for a one-time expense, the idea would be that there would be no obligation to return that money.

COUNCIL PRESIDENT CLARKE: Okay. And the second point, in terms of if in fact we build a new facility, which will be, I guess, the capital -- I guess we'll bond it or whatever -- what in terms of the sale of the then assets be, police administration building, South Broad and the morgue?

MS. RHYNHART: The morgue.

COUNCIL PRESIDENT CLARKE: I'm assuming we don't have an estimate of the cost or the proposed sale. Would the proposal be to sell those assets and then retire the debt on the new facility or would that money just simply go into the General Fund?

MS. RHYNHART: A lot of the details would still need to be worked out. The plan is that we get the $9

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million from PICA and spend the next year doing all the design work and schematic and programmatic work that needs to get done in order to understand the full cost of the project and how to best move forward with construction. At that point, we'll be able to figure out how best -- what the cost is and then how best to pay for it, so if we would need to issue bonds. And then it seems like a likely place to go that the cost of -- I mean, I'm sorry, that the money that we get from the sale of the buildings, it would be good to offset the total cost of the project.

But a lot of the details would need to be worked out in terms of the timing, because obviously we need to be moved out -- well, not obviously, but you'd have to figure out a way to structure it so that you could get sale proceeds before the debt, if that's what you're saying. There's a lot of details to be worked out.

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COUNCIL PRESIDENT CLARKE: Well, obviously that's something we're interested in in terms of asset sales, and we have some ideas about how those asset sales should be applied.

MS. RHYNHART: Okay.

COUNCIL PRESIDENT CLARKE: But the question is -- and you actually made me a little more concerned based on your response -- is that we would actually be requesting $9 million from PICA and we could possibly conceivably spend the $9 million without having an understanding of how to retire the debt or how the asset sales could be applied to the debt or very specific terms. I mean --

MS. RHYNHART: We have ideas.

COUNCIL PRESIDENT CLARKE: It's $9 million.

MS. RHYNHART: Yes. We have --

COUNCIL PRESIDENT CLARKE: So do you have a game plan on --

MS. RHYNHART: We have ideas about how to do it. There are multiple

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ways in which it could be done, but I think that my point was that the $9 million is being spent first and then we would know the full cost of the project, because we've gotten varying, really wide estimates in terms of how much it would cost.

COUNCIL PRESIDENT CLARKE: All right. I mean, can you share -- I'm assuming PICA will ask similar questions if they're going to give you 9, but we're kind of in the game also. So I'd like to see a more fully flushed out game plan in terms of how we're going to pay for a new facility, which is obviously needed. But my concern is, I talked to you particularly as it relates to this Love Park Garage -- and I'll spare you with that one today -- about us continuing to incur debt and without a game plan of retiring the debt. So we're adding debt on top of debt, and as you said in your earlier conversations, some of the obligations that we have, not only to

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some of our earlier debt, be it NTI or capital debt, but also pension obligations, at some point we have to come up with a strategy on relieving ourselves of that.

So I'd like to get a better sense of how we're going -- if we're going to incur additional debt, what's the game plan on having short-term elimination of that debt.

MS. RHYNHART: Okay.

MR. GILLISON: We'll get that to you.

COUNCIL PRESIDENT CLARKE: Can you, please.

MR. GILLISON: Yes.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair recognizes Councilman Jones.

Oh, wait a minute. Hold on. Hold on.

Okay. Councilman Jones.

COUNCILMAN JONES: Thank you,

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Mr. President.

COUNCIL PRESIDENT CLARKE:

You're welcome, sir.

COUNCILMAN JONES: I first talked about where we would get revenues by way of outstanding tax delinquents. I want to talk about expenditures and particularly from my vantage point of being Chair of Public Safety.

I'm looking at your PICA reports, your testimony and the Quarterly City Managers Report, which indicates that we have spent $14.4 million in the first two quarters in overtime, that representing Fire, Prisons and Police, respectively, 13.9 million for the Fire Department, $7 million for Prisons and 1.7 million in overtime for police officers. And I guess what I'm trying to understand is, in some of those categories, we actually increased and hired new employees, but yet overtime still went up, and I don't understand.

I want to know, how does the

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formula work by which a manager says, All right, rather than fill new positions, we're going to go with the overtime expenses and fiscally it makes sense for us to do that versus a tipping point where we say, Okay, we need to make these new hires such as what we're doing in Police, in the Police Department with the new graduating class.

Who is making those decisions and is it -- let's start with that part of the question and then I'll ask my followup.

MR. GILLISON: Well, Councilman, I can tell you that the -- and I want to take a step back. Overtime in Fire, which was a large driver of what you just noted, came as a result of us not being able to hire, even though we perhaps wanted to, but we had an issue with the Supreme Court and how it affected our testing that was done. We also had some labor issues we had to get resolved in the courts before we could actually put in a class. So even though we would have wanted -- I think we were down something like at the time 60 firefighters -- we could not put a class in without having those issues resolved. So sometimes you may want to do something and you can't, and you just have to then deal with where you are and use the overtime in order to address the problem, because you have to staff up to a certain level and controlling it as best you can, either with the union assisting or without the union assisting, through other means. So that's one.

Second, we do try to manage overtime. I know that one of the things we started many years ago in the Police Department, Commissioner Ramsey put in an overtime unit trying to deal with court overtime and working with people on CJAB and working collectively with the District Attorney, the courts and everyone else to try to control overtime as best we can, and we've seen dramatic savings in that as well.

And last --

COUNCILMAN JONES: He's very serious about the timer. I just want to ask two quick questions followup.

So that means we won't double that in the next six months --

MR. GILLISON: That's correct.

COUNCILMAN JONES: -- by way of overtime?

And then my other question is, the second largest department is the Prisons.

MR. GILLISON: Yeah, not necessarily. I just want to say the Fire is still going to be there because we still haven't had a chance, so the overtime is still going to be used. We are trying to manage it as best we can, but that overtime is still going to be there because we haven't been able to get a class in yet. I think that's the safe --

MS. RHYNHART: That's right.

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In the Fiscal '13 proposed budget, you'll see the Fire Department's overtime projected to go down as they bring on up to 160 new firefighters over the year. But in '12, the problem will persist, unfortunately.

COUNCILMAN JONES: So we should anticipate doubling that overtime from 14 to 28?

MR. GILLISON: I'm hoping not, but we have to just deal with it -- I mean, obviously we respond to things that need to be done and we have a staffing component that has to be maintained. So whatever needs to happen has to happen.

COUNCILMAN JONES: So in the case of the Prisons, what is the -- that's $7 million there. What's going on there in the overtime?

MR. GILLISON: The Prisons were at a point where -- we're actually putting a prisons classes in. We're continuing to do that in order to help Commissioner Giorla with his staffing

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vacancies as well.

MS. RHYNHART: The problem with the Prisons is that the census has gone up recently, and that's put pressure on overtime.

MR. GILLISON: That's correct. We had to open up a different place. We had to reopen some places that we've gotten out of. We had to reopen, and that means a new staffing plan had to be put in place, which is basically done by overtime.

COUNCILMAN JONES: By way of these critical departments, Police, Fire --

COUNCIL PRESIDENT CLARKE: Councilman.

COUNCILMAN JONES: -- Prisons, Public Safety, I'm concerned that --

COUNCIL PRESIDENT CLARKE: Councilman.

COUNCILMAN JONES: I'm concerned that we --

COUNCIL PRESIDENT CLARKE: You

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said that I am serious about the timer.

COUNCILMAN JONES: I'm going to stop talking at this point. Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair recognizes Councilmember Kenney.

COUNCILMAN KENNEY: Thank you, Mr. President.

One of the good things and bad things about being around here for a long time is you get to ask the same questions over and over again every year.

If I were to ask you what's the outstanding delinquent real estate tax that's out there, what would be the number?

MR. DUBOW: I think the principal amount of what's outstanding is about 230 million.

COUNCILMAN KENNEY: How much?

MR. DUBOW: I think 230 is the principal amount that's outstanding.

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COUNCILMAN KENNEY: What's the number that everybody keeps talking about? Every time we have a discussion, I get e-mails from people and calls from people saying, Collect the $480 million in delinquent real estate taxes before you raise my real estate taxes.

MR. DUBOW: Yeah. I think that probably includes interest and penalties.

COUNCILMAN KENNEY: How old is the oldest? Is it 20 years old, 30 years old, the oldest property that's still being counted in this?

MR. DUBOW: I think it's ten years is the oldest.

COUNCILMAN KENNEY: What's the average time that a bank, lending institution would carry a bad debt, a bad mortgage? They got to write them off at some point, right?

MR. DUBOW: Right. It's probably maybe half of that, but I'm just kind of guessing.

COUNCILMAN KENNEY: So why are

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we still adding interest and penalty and having that number rise every year and having it used as a baseball bat to beat us with when we want to do something else? Why don't we just have a policy or pass a law or change the Charter or whatever needs to be done to wipe out ten-year-old debt that we're never going to collect that gives people the misimpression that somehow there's stuff out there that we're not going after.

MR. DUBOW: Well, we've actually significantly changed our policy. It used to be a few years ago that we were still showing 30 years, which obviously got an even bigger number. So we've pulled it down I think based on -- I mean, at ten years there's less of a chance, but still some chance that --

COUNCILMAN KENNEY: When does it roll off?

MR. DUBOW: When does it roll off?

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COUNCILMAN KENNEY: How old does it get before we stop counting it?

MR. DUBOW: In our collectable, I think it's after ten years.

COUNCILMAN KENNEY: So that's a standard policy now?

MR. DUBOW: Yeah.

COUNCILMAN KENNEY: Do we keep adding interest and penalty to it?

MR. DUBOW: Yes.

COUNCILMAN KENNEY: Why?

MR. DUBOW: We keep adding interest and penalty because --

COUNCILMAN KENNEY: It's not reality. It's simply not in the real world. After a certain period of time, you're not going to get that money. You can add all the interest and penalty you want to it; it's just going to make it look bigger.

MR. DUBOW: Well, that's a good point. We can look at kind of when it's appropriate to stop doing that.

COUNCILMAN KENNEY: Could we

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get something back and say a certain length of time, a certain age, it's dead and buried.

MR. DUBOW: Right. And we'll look at what kind of constraints we may have and whether that requires a change in law here or whether there's something at the state.

COUNCILMAN KENNEY: Great. Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilmember Goode.

COUNCILMAN GOODE: Thank you, Mr. President.

Good afternoon. I'm not going to deal with this as just a financial document anymore. We are not necessarily legally required to approve the Five Year Plan. We will have to approve a budget. Next year when we approve a budget, there will be another Five Year Plan. The purpose for the Plan is a requirement from PICA, but I asked the question last year whether it's also considered to be a strategic plan for the Administration, and I'll amend that question a bit.

Is it also a legacy document? At the end of the day, if we look at this Five Year Plan, can we look at what the Nutter Administration will have accomplished over his time in office?

MR. GILLISON: Thank you, Councilman. I think that most documents within the City tell you, especially from a strategic point of view or even an investment point of view, where you're going, and that is a legacy that every Administration I think has.

COUNCILMAN GOODE: That was a leading question --

MR. GILLISON: I'm sure.

COUNCILMAN GOODE: -- that didn't require a long answer.

At the end of the Five Year Plan, what will the unemployment rate be?

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MR. GILLISON: I can't speculate on what the unemployment rate would be.

COUNCILMAN GOODE: What investments are being made to change the unemployment rate under the Five Year Plan?

MR. GILLISON: I think that our Administration has consistently made similar investments. Our emphasis on literacy, our emphasis on workforce development, our emphasis on reentry are the kinds of investments that we believe will help transition people into fully engaged citizens that allow them to be part and parcel of the society.

COUNCILMAN GOODE: So can you quantify that in terms of investment over the Five Year Plan?

MR. GILLISON: I would have to just go back and add it up, but I know that we -- whatever those investments --

COUNCILMAN GOODE: You can send that through the Chair.

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MR. GILLISON: Yes, I can.

COUNCILMAN GOODE: All right. At the end of the Five Year Plan, what will the City's poverty rate be?

MR. GILLISON: Again, I wouldn't hazard to guess. I would state that no matter how you look at whatever the poverty level is, it would be too high.

COUNCILMAN GOODE: Can you tell me what those investments will be and can you quantify that and just forward that through the Chair?

MR. GILLISON: I will.

COUNCILMAN GOODE: What will the City's graduation rate be at the end of the Five Year Plan?

MR. GILLISON: The Mayor has put that out as a policy statement that he would like to have the graduations at 80 percent, and that's also part and parcel of how we are seen and one of the important parts of our Administration. So I would think that that would be what we would hope would be accomplished.

COUNCILMAN GOODE: Can you tell me what you envision in terms of those investments and quantify how much will be invested and just submit that through the Chair as well?

MR. GILLISON: I believe we can. I think that our Office of Education is pretty much where our investment has been in order to help collaborate and then move things forward. Obviously the School District itself is not something necessarily with us, but we work very diligently to help them out.

COUNCILMAN GOODE: Okay. What will the City's prison population be at the end of the Five Year Plan?

MR. GILLISON: Again, I wouldn't hazard to guess. I know where I would love it to be, because I'd love to close a prison.

COUNCILMAN GOODE: Last year you said 6,500.

MR. GILLISON: That's where I

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would love it to be.

COUNCILMAN GOODE: Can you tell me what investments you will make over the next five years and quantify that and send it through the Chair?

MR. GILLISON: Yes.

COUNCILMAN GOODE: Just very last thing.

I will stay within the rules, Mr. President.

What percentage of City contract dollars are projected to be awarded to businesses owned by women and people of color by the end of the Five Year Plan?

MR. GILLISON: I will -- I know what our policy is and I know where our investments have been at this point. I know they were a little bit north of 25 percent, but we will deal with making that answer at the end of five years. I'll have to take a look at it and provide that as well.

COUNCILMAN GOODE: Okay. If

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the registry is already increasing by 50 percent and we're already above the 25 percent mark at 26 percent, I'm assuming there's a higher goal at the end of five years, but you can forward that information through the Chair.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilmember Squilla.

COUNCILMAN SQUILLA: Yes. Thank you again. Thank you, Mr. President.

The 4 percent increase in Fiscal Year 2014 that's penciled into the budget, end of the Five Year Plan, would that even happen if the assessments did not increase?

MR. DUBOW: If we didn't put a new millage rate in place next year, our anticipation is that after we get to actual value, that we will put a millage rate in place next year.

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COUNCILMAN SQUILLA: So we would change the millage rate again in 2014?

MR. DUBOW: I think after -- I mean, this bill only is a formula, and I think going forward, we want to be able to put specific millage rates in the legislation.

COUNCILMAN SQUILLA: So what we're saying is, you want to be able to increase it that following year from 2013 to 2014 to have a 4 percent increase?

MR. DUBOW: No. Really what we're saying is that we're projecting that assessments will increase again.

COUNCILMAN SQUILLA: And if they do not?

MR. DUBOW: If they do not and we put the same millage rate as we have -- as we wind up with in '13, they would not increase if assessments didn't go up.

COUNCILMAN SQUILLA: But what does this state here?

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MR. DUBOW: I'm saying that in the legislation it goes up, but we would hope to have actual -- to be done with AVI and have a millage rate by next year.

COUNCILMAN SQUILLA: Okay. Question on the Police. I know they said they want to hire 400 new police officers in 2013.

MR. GILLISON: Yes.

COUNCILMAN SQUILLA: How many actual police officers are retiring?

MR. GILLISON: I think it's on average it's about 116, but it's -- go ahead.

MS. RHYNHART: We know how many officers are in DROP, and then we have a projection of how many are leaving that are non-DROP. So overall it could be up to like around 265 or so that are leaving.

COUNCILMAN SQUILLA: And this is just for 2013?

MS. RHYNHART: That's right.

COUNCILMAN SQUILLA: So then we

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have a projection for 2014?

MS. RHYNHART: That's right. Basically we have it projected up for the five years that the police are expected to leave in rather sizable numbers for the next five years. The 260 or so in '13 will continue in that range for the next four years. So we have to hire large numbers of classes in order to keep up with that and keep the count up at 6,500.

COUNCILMAN SQUILLA: And our intention is to keep it at 6,500 for the five years?

MR. GILLISON: That's correct.

MS. RHYNHART: Right.

COUNCILMAN SQUILLA: And the Fire Department, the number that is projected to increase in 2013?

MS. RHYNHART: We have an increase of about 160 firefighters, and the numbers are also supposed to be sizable that are anticipated to leave, so that we'll have to hire perhaps even double that to keep up with the level of attrition.

COUNCILMAN SQUILLA: And are classes going to be scheduled along the way to be able to do this? Because, as you know, the less people that we have, the more overtime and the more cost it ends up becoming.

MS. RHYNHART: Right. The departments are working closely with our HR department in order to stagger the classes and have enough -- have the classes be large enough and the list be large enough so that we don't run into a problem.

COUNCILMAN SQUILLA: Okay. Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilmember Green.

COUNCILMAN GREEN: Thank you, Mr. President.

Mr. Dubow, to Councilmember

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Squilla's point, doesn't the formula result in a millage that will be applied to the assessed value?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay. So the fact that you have two different formulas, one for 2013 and one for 2014, doesn't that mean that you've, as a result of the formula, put in place two millage rates that you're not, quote/unquote, getting an increase in value, that by its very nature this bill puts in place two millage rates, one that is 4 percent higher than the other? So that if we had an actual increase in property values of 3 percent, the increased millage rate of 4 percent in 2014 would actually result in overall property taxes coming in at 7 percent higher by application of the two millage rates that are in this bill?

MR. DUBOW: No, it does not mean that. I'll take this in two parts. It has an actual dollar amount that we

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would receive under the formula. So that dollar amount is not 7 percent higher than the dollar amount from the year before. So you would get to that dollar amount.

COUNCILMAN GREEN: It has a millage rate that is automatically calculated based on the formula. That is how you responded to my question to begin with.

MR. DUBOW: Right, but the one part of the formula is the dollar amount you would collect. So you wouldn't get a millage rate -- you wouldn't have a formula based on an amount you collect --

COUNCILMAN GREEN: Does the --

MR. DUBOW: -- and have the -- let me just finish, please -- and you wouldn't get to a millage rate that then would produce more than the other part of the constraint on your equation, which is how much you collect.

COUNCILMAN GREEN: Okay. So aren't we going to have a millage rate in

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2013 as an automatic result of the adjustment? The answer to that was yes. We're going to have a millage rate in 2014 as a result of the formula, and we've set two different millage rates, one for 2013 and one for 2014, which are formulaic and one is 4 percent higher than the other. So essentially what you've locked in is a 4 percent tax increase -- a 4 percent increase in the millage rate between '13 and '14. Is that a fair characterization?

MR. DUBOW: No, it is not.

COUNCILMAN GREEN: All right. That's fine.

MR. DUBOW: But I want to answer your question, because what it shows is an increase in dollar value, right? So the millage rate in each year will depend on where assessments wind up. So the millage rate the first year will go up or down depending on where assessments are, and that would happen the second year too. So if assessments

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went up 10 percent in that second year over what it was the first year, you actually see the millage rate go down.

COUNCILMAN GREEN: That's correct. But it wouldn't go down by -- it would be -- we'd still collect 4 percent more than we did in 2013.

MR. DUBOW: We would, and like I said to Councilman Squilla, if we get AVI done this year, then next year's we could have new legislation that would have a millage rate.

COUNCILMAN GREEN: So why have a millage rate set for 2014 since we have to do a budget next year anyway?

MR. DUBOW: We put that in the legislation in case we didn't get AVI done this year, but I think we can have a discussion about whether we should take out the '14. I think we could do that.

COUNCILMAN GREEN: So what is the Administration's assessment -- I think this raises a very important point. What are the odds that we -- if you need

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to build into the legislation a safety valve in case we don't get AVI done this year, should we be rushing to get it done?

MR. DUBOW: Like I said, I think you've raised -- you and Councilman Squilla have raised some good issues about having FY14 in there, and I think we'd be open to talking about removing that from the legislation.

COUNCILMAN GREEN: Thank you.

I think that was my time, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilwoman Bass.

COUNCILWOMAN BASS: Good afternoon.

(Good afternoon.)

COUNCILWOMAN BASS: Just a couple of quick questions. The first question is, if you prevail and have a win at the STEB Board, do you think the

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rates will go back to 32 percent or do you think it will be somewhere between 18 and 32? Do you have an estimation on that?

MR. DUBOW: So to add another level of complication to this STEB issue, because it's not complicated enough, you have a 15 percent window around the 32 percent. So you have to be at at least 27.2 percent, and that's where we think we'll be, above the 27.2 percent.

COUNCILWOMAN BASS: Okay. And how will that 27.2 percent affect revenues?

MR. DUBOW: If you get within the 15 percent variance, you're allowed to keep using the 32 percent in terms of your common level ratio. So if we get there, then we'll be okay. But I should emphasize again that this is a big risk for every year we haven't gone to AVI that the state will tell us that we have to calculate our taxes differently and that we'll have substantial losses.

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COUNCILWOMAN BASS: Okay. And the other question was on -- just in the presentation that was made in terms of investments in people, particularly folks here in Philadelphia who are at risk. So we're going to increase the money we spend on crime prevention by $1 million, we're going to increase beds at the shelter that's going to be closing on Ridge Avenue by 1.2 million and another 4 million in terms of investments in police. And I guess when you look at this investment at 6.3 million over the investment that we're making between Dilworth and Love Park, which is about 70 million, if I'm correct in that, and so my thought is, how do we justify spending about $70 million on these two areas? Dilworth is already obviously under construction and the proposal is to do Love Park as well, but at a time like this when there's an increased need for human services, it just seems that it might not be so wise to contemplate Love

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Park at this time.

MR. GILLISON: Let me say a couple of different things. First, there are two different aspects of the budget. One is Capital; one is General Fund. So when -- and I've heard this thing about Dilworth is 50, whatever the million dollars is for Dilworth Plaza and the City's investment. We are actually getting grants for most of that, and a lot of that is federal funding. So that's really not an apples-to-apples comparison.

When we're talking about trying to invest in people, we're using the dollars that we have available to us to invest in those people, to invest in making the City safer, to invest in people's services, and we're trying to hold the line as best we can, but we need those investments in order to make sure that those people don't get hurt.

COUNCILMAN JONES: Excuse me. Councilwoman Sanchez has a point of

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information.

COUNCILWOMAN SANCHEZ: I just want to -- I think where Councilwoman Bass is going is, I outlined earlier how we're getting cuts both at the federal and City level and we're not covering those costs, but we're making additional investments in other areas. So I guess her concern is the decision to add 4 and a half million dollars to the Mayor's budget versus covering the $44 million in state cuts or the $10, $15 million in federal cuts. Who makes that decision?

MR. GILLISON: Well, again, it comes down to capital versus operating dollars, which is what I think --

COUNCILWOMAN SANCHEZ: That's not case with services.

MR. GILLISON: With services, it's us and our operating money that we are actually putting forward. And the idea that we would actually -- there's no money and there's no ability for us to cover the state cuts directly, and that's

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what we're trying to help minimize, and we have to always deal with that as best we can. But to say that the capital dollars could somehow be used to cover that --

COUNCILWOMAN SANCHEZ: I'm not mixing the capital dollars. You're saying that -- and I understand your point around capital, but we're making decisions around general operating. One of the discussions we've had continuously is the fact that most of our CDBG money, all of it is grants and that in fact none of that expense is on our general operating fund side, but here you've made a decision to add $4 million in General Fund, but not cover any of the cuts that we're receiving from the feds or the state.

MR. GILLISON: Correct. And the idea is that -- that that is a policy decision. That is a policy decision, especially the 4 million that's going to be used to try to get the police to the

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levels of providing the services and the safety needs of the City, and we've always had a policy decision that says that safety has to come first. It's the first responsibility of government, and that's what we have to deal with. So, yes, that is a policy decision. It's one that we make and have to make so everything else can flow from there.

COUNCILMAN JONES: The Chair recognizes Councilwoman Bass still, although her time has expired.

COUNCILWOMAN SANCHEZ: I borrowed some. You can give it back to her.

COUNCILMAN JONES: Y'all treat me like a substitute teacher here. That's all right.

COUNCILWOMAN BASS: Thank you, Councilman.

Just going back to -- okay. So I understand. Thank you very much.

So just going to if we take out Dilworth, which you said we got grants

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and other funds to cover those costs. Is that the same for Love Park as well?

MR. GILLISON: Love Park is going to be again capital funded, not operating. So, again, it's two different sources.

COUNCILWOMAN BASS: I understand.

MR. GILLISON: So that's why they can't really be -- you're spending on one and not the other.

COUNCILWOMAN BASS: So we're not going to be spending -- well, we are going to be spending about $20 million on Love Park.

MR. GILLISON: That's correct.

COUNCILWOMAN BASS: That's not through grants --

MR. GILLISON: That's correct.

COUNCILWOMAN BASS: -- and other funds that won't come out of the City's budget, as Dilworth is. So there's a difference between the two.

MR. GILLISON: That's capital

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dollars, not operating dollars. That's correct.

COUNCILWOMAN BASS: Thank you.

MR. GILLISON: Thank you.

COUNCILMAN JONES: Thank you.

A couple of questions on that line. And I was next. This is not the prerogative of the Chair, honestly. I got a witness.

The Administration has done a very good job of articulating and even implementing its green strategy. You know it. Most green city in America, and we have taken great strides to really actualize that.

More recently, the Mayor has dug his heels in and said we're going to have a crime strategy, and it's clearly articulated in ten points, dealing with everything from bounties on guns and dealing with the bail question, which we played a part of, but you understand his crime strategy with cameras and the like. Kind of sort of you understand his

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education strategy, which is do over, start over, let's kick everybody out. But what I have not heard -- and I think this speaks to the spirit of my colleague's question -- is his anti-poverty strategy.

When we start looking at the fact that we're spending 18 million on Love Park, 40 million on the Plaza, that's respectively closing in on $60 million. We have agencies like MOCS, Mayor's Office of Community Services.

What is the anti-poverty strategy? And we're talking about 28 percent of the City's population living under poverty guidelines. You're talking about many young people waking up in the morning and they are afraid -- or what is that term used, food insecurities. That is really real. And I don't need to have Councilwoman Blackwell talk about the homelessness strategy as of late.

Can you articulate our anti-poverty strategy as it relates to

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your submission of a Five Year Plan?

MR. GILLISON: Well, Councilman, I would suggest to you that one of the things that we have been able to deal with, especially since I was able to sit in this particular chair, is a real reevaluation of what that strategy really should be. There has been for a number of years -- I'm going back 30 years -- where we, as a result of receiving various grants that came either out of Great Society, we have gone forward under various alliterations from the federal government, state government, whatever, that everyone has an understanding of what anti-poverty should look like, and I think that the Mayor's statement -- I'm always struck by it -- is that the best anti-poverty strategy you can have is to give a person the education and a job to get them -- so that they'll be able to provide for their family and their loved ones. That's really the best strategy there is out

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there, and we have to look at all of our programs with that as our lens and that as our filter.

With the decline of the federal government in taking away dollars from the anti-poverty area, we have an entire department that will obviously come up with its -- I guess it's the 38th year or 39th year trying to struggle with what we're doing with housing, what we're doing with work-wise, what we're doing with all of these various things, and the CDBG money that's around that's left is now down to about a paltry $4 million, I think it is, that's coming from the federal government. Our strategy has always been one that comes out of community. Our strategy has been one that says that the places that we are going to get people from poverty and out of poverty is to connect them with the basis of getting jobs and keeping good jobs, and that's the kind of work strategy, that's the economic strategy, all of that is to get people out of poverty.

COUNCILMAN JONES: Where is it articulated in the Five Year Plan?

MR. GILLISON: I think that the basis of -- I think the investments are there when you add them up in total, but I will agree with you that there's no Greenworks that says this is what it is. There's no communications tag to this is what it is, and that's something that I think that I will take away and I'll go back and I'll deal with.

COUNCILMAN JONES: The good thing about the way we do our budget here is that it gives you a heads-up as to what is coming down the pike by a particular department.

I applaud the Mayor on his green strategy. I'm down, as they say in the streets, with his crime strategy. I'll be on the corner any time. I understand what he has to do with education. I need to understand what the

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anti-poverty program is in the five-year strategy, whether it's a part education, whether it's part jobs creation. The Mayor's Office of Community Service is the point person of that, and that plan needs to be articulated by them so that this body, who has -- if I look around each of these District Councilpeople, they have poor people within their -- oh, my three minutes, you can do mine too -- is clear and present and it filters into every other department. The person that doesn't have a job is more likely to not have the education, not have the housing, be involved in other activities.

So we really need to kind of hone in on what that strategy is as we approach these other worthwhile goals.

MR. GILLISON: Thank you.

COUNCILMAN JONES: The Chair recognizes Councilman Kenney.

(No response.)

COUNCILMAN JONES: Councilman Kenney.

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(No response.)

COUNCILMAN JONES: The Chair recognizes Councilman Green.

COUNCILMAN GREEN: Thank you, Mr. Chair.

If I occasionally sound upset, it's because the people I represent are upset and confused about what's happening here, and although not confused, I'm trying to get clear, direct answers that will allow us to explain to our constituents exactly what is proposed and do feel frustrated in that effort.

That being said, I will continue the effort.

The AVI bill has several savings clauses that specify what would happen if a court struck down various aspects of the proposal. Do we have a written opinion from the City Solicitor on the legality of the bill, and specifically using an algebraic equation rather than specifying a millage rate?

MR. DUBOW: We do not. We've

talked to them about it. We do not have a legal opinion.

COUNCILMAN GREEN: Is there a memo explaining why this is legal under the law that is not a legal opinion?

MR. DUBOW: Again, we've had discussions about it. There's nothing that we have in writing on it.

COUNCILMAN GREEN: Has there been research done with respect to whether or not this is legal by the Law Department?

MR. DUBOW: I believe the Law Department has done research into it, yes.

COUNCILMAN GREEN: And they've put none of that in writing?

MR. DUBOW: No. We had a series of meetings with them about it. We didn't ask for anything in writing.

COUNCILMAN GREEN: Okay. So if there is no written opinion, I think I would like to request that a written opinion be delivered to the Chair from

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the City Solicitor that specifically covers the aspects of the bill for which there are savings clauses, the authority to levy taxes based on certified market value and the use of an algebraic equation to set a tax rate rather than specifying the millage rate in the bill itself.

I think we've covered in some detail one of the savings clauses, and it's clear that if that savings clause, the 1 percent for the City and the 1 and a half percent for the School District, go into effect, that we'll collect somewhere between a billion and 3 and a half billion dollars in property taxes next year, and I think we're raising all sorts of -- there are a lot of uncertainties built into what is being proposed, the fact that there are savings clauses, et cetera, but the biggest uncertainty I think that -- or the biggest concern I now have about the bill is the concept that there will not be

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potentially AVI done next year. And I recognize you said you might be willing to take out the 2014 automatic adjustment.

MR. DUBOW: I didn't say "might." I said we're willing to take that out.

COUNCILMAN GREEN: Okay. But what in the bill, specifically since the bill was written with a potential non-AVI move next year, what in the bill specifically would happen as our tax rate next year if AVI was not completed for some reason, either court action or something else? If we don't get AVI because we're not ready for some reason, things slow down, the assessments come back way different than expected and we can't get the bills out by October 1st, what exactly happens as a consequence of not getting to AVI, not being able to get out real property value assessments by October 1st or the court striking it down? What happens? Explain to us what

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the tax we will collect will be.

MR. DUBOW: Well, there are a few answers of what will happen if we don't have AVI. And, again, I should emphasize that we're confident we're getting it done in September. I don't want you to come away thinking that we think that's -- that there's a substantial risk that won't happen. We're confident that that's going to happen.

If we don't have AVI, then the big risk to our collections is what happens with the common level ratio. If the State Board still says we're outside of the acceptable range, we would see a dramatic hit to our budget, probably tens of millions of dollars. So that's one impact of what would happen if we didn't go to AVI.

In terms of what the actual millage rate would be, it would probably depend on what the court ordered.

COUNCILMAN GREEN: The question

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is, what specifically does the bill call for if we don't get to AVI next year? What happens in the bill? Not from a court order. We don't get the bills out by October 1st or a court says that formula doesn't work, what do we collect in taxes next year? That's a simple question. We can't collect it under the formula. What do we collect in taxes next year?

MR. DUBOW: If there's --

COUNCILMAN GREEN: In your bill that you presented to Council.

MR. DUBOW: The bill contemplates our going to AVI. The fail-safe is if the tax mechanism is kicked out.

COUNCILMAN GREEN: The bill contemplates our going to AVI in 2013 and, if not, in 2014. I'm talking about the bill as written, not as you're willing to amend it, what you sent to Council. What happens if we don't get to go to AVI this year?

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MR. DUBOW: Are you saying if a judge says we can't use the formula?

COUNCILMAN GREEN: Or the assessments come back --

MR. DUBOW: Then we go to the 1 percent? Is that the part you're talking about?

COUNCILMAN GREEN: No. I'm just saying it doesn't go to the 1 percent if we can't get the bills out by October 1st.

MR. DUBOW: But, as I said, I mean, we're confident that we're getting them out.

COUNCILMAN GREEN: Why then in the structuring of the bill did you build in a 2014 maybe we won't?

MR. DUBOW: As I said, you've raised a good point about that, and we're willing to take that out.

COUNCILMAN GREEN: I understand you're willing to take it out now that it's been brought to your attention. The fact of the matter is, you put that in

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there for a reason, because at the time the bill was written, you were not certain. And my question is, what happens if the formulaic approach can't be used because the assessments come back or are very wrong by October 1st? What is our tax next year?

MR. DUBOW: Again, what I'm saying to you is, we're confident that they'll get out and we'll take the '14 out.

COUNCILMAN GREEN: I understand, but that's not the question. What happens if we can't get the assessments out by October 1st? What's our tax rate? How much money will we collect next year?

MR. DUBOW: If we don't get the assessments out, then we would still have our current assessments.

COUNCILMAN GREEN: We would not. We would have passed this bill. What would be the tax rate -- how much would we collect if we can't actually get

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all this done, knowing that we can't come back after June 30th and set millage under the old system?

MR. DUBOW: Right. If we didn't -- well, we'd have --

COUNCILMAN GREEN: If the Administration misses its target, which I know is unthinkable that's going to happen --

MR. DUBOW: So we have the old assessments, right, and then we'd have a millage rate calculated under those assessments.

COUNCILMAN GREEN: No, we wouldn't. If we pass this bill, that won't be the case.

MR. DUBOW: Why won't that be the case?

COUNCILMAN GREEN: Because we wouldn't have gotten the bills out -- so the new millage rate will be calculated based on current assessed value, which is --

MR. DUBOW: Right.

COUNCILMAN GREEN: -- which is at least half, based on your testimony, of the actual value.

MR. DUBOW: I said we don't know and that we won't know that until the assessments are done. That's what I said about where values would wind up.

COUNCILMAN GREEN: Okay.

Thank you, Mr. President. I know my time has expired.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Jones.

COUNCILMAN JONES: Thank you, Mr. President. I will be very brief because we're overdue. You ran an efficient hearing. You ran right through the break. So I'm going to be real brief.

COUNCIL PRESIDENT CLARKE: Thank you, sir.

COUNCILMAN JONES: Last year in the last Administration we brought a bill

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forth that talked about evaluating outsourcing, evaluating in-house work being done, and we were in negotiations with the Administration about a formula that would look at that in some key procurement areas to see if we were getting value by contracting out or whether greater value could be sought by internal workforces. Thank you for alluding to the fact that Public Property was going to pick up some people to look at doing maintenance in-house as opposed to contracting out.

I believe Councilman Green also introduced some legislation to that effect, but I want you to have full alert that we're going to be looking at this. The first part of my comments today was on revenue sources that were being left on the table, meaning not collecting taxes. The second part of my questioning today dealt with expenses, meaning overtime and whether or not we were being prudent by way of hiring and when we decided to hire.

The final shoe to fall, if you would, is contracting out and getting as much as we can out of internal workforces versus making the decision to hire outside labor. That's in construction and in professional services.

So that's just a heads-up to the department heads that this will be a theme in our questioning this year.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Real quick. Not a specific question relating to this proposed budget. There have been a number of conversations centering around other revenue generation methods, and I had actually hoped in this particular proposed budget one of them would be listed as a revenue stream as it related to FY13 budget, municipal advertising. And what I need to know is, what's the threshold -- and I understand that this is the Mayor's budget. He submits it to Council. We have to approve or we have to make adjustments, but there are what I believe to be good ideas had by members of Council, and it's always been relatively difficult to get our issues in the Mayor's proposed budget. And that's just historical, not relating to this particular Administration.

I remember last time we had a challenge that -- actually we passed a tobacco tax, which was somewhat challenging because we realized a whole lot of people actually liked to chew tobacco. They came down here and they were all upset, and cut some deals. We got a reasonable number as it relates to the impact, and we took a little hit from it, but we thought we were trying to help the City of Philadelphia. I don't know how much we raised, but we had certain projections. The Administration says, No, we're not getting any money. But anyway, it was what it was.

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So in this particular issue and the conversations earlier, we talked about this municipal advertising and we talked about the fact that even if there was a swift conclusion as it relates to the actual proposal, we probably couldn't implement it in its entirety for the fiscal year. There were some conversations about the fact that we did the same thing on the sugar proposal, where we couldn't implement that, but with some projections.

So as we get the budget, I don't see municipal advertisement in there, and I'm actually not surprised.

What's the threshold that we as a Council have to meet to get something in this document?

MR. GILLISON: I guess that's on me to try to answer. I think, Council President, that the way that we have tried to go about both sharing ideas and to validating the ideas, I think it's all a function of just timing. I think

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that's the easiest way to answer that question.

I know that we are still validating, because we're going back and forth meeting and working with your staff. All of us are really trying to see exactly what it would mean so that whenever something does get placed in the proposed budget, that we are all -- we're in agreement, that this is what we can expect. And I think that we got the information, we got the ideas, and we've been working together. I think it shows a great way for us to work together to say that if once those ideas have been validated and both of us -- both you and the Mayor can sit down and say, Okay, this is where we're going to go, I think you'll find that they'll make it into the budget.

I just think it's a timing thing, and I think that we have to just trust and work with each other so that we can end up making it into the next one, or even if some parts of it will make it into this one, I think that will happen in the next and over the next few weeks.

COUNCIL PRESIDENT CLARKE: Well, that sounds nice. I don't interpret what's been happening the way you just indicated in your response. This is something that we've been talking about since last year. There has been one meeting. From my perspective, to push to get this at a minimum in, as you call it, the validation stage has been one-sided. I'm concerned that it's not being taken seriously.

The reality is is that this is not something that's not happening all over the country. We've had a number of proposals. A member of the Administration indicated that there was going to be some level of process relating to them, and maybe I misunderstood, so we had a follow-up meeting. We basically put information on the table. That's as far as it's gone.

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We've actually gotten a couple of informal quotes about some advertisement opportunities down here with some prominent municipal buildings that are in the millions of dollars.

So I just need to understand what do we have to do to get this on the serious track as it relates to being in a budget proposal that we can concur on and move ahead as it relates to providing some much-needed revenue to the City, outside of taxing people, be it AVI or any other potential tax that we may put on the table?

MR. GILLISON: Well, again, I will actually go back. I know that I get briefed on most of these, where ideas are and especially when the meetings occur and what are the deliverables that come out of those meetings. If I've missed something, I will actually go back and I'll deal with it, and I will sit down and I'll talk with you.

COUNCIL PRESIDENT CLARKE:

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Okay. Can you put the Love Park Garage on that list also, which was another conversation that we've been having?

MR. GILLISON: Be glad to.

COUNCIL PRESIDENT CLARKE: In terms of asset sales.

All right. Thank you.

The Chair recognizes Councilmember Green.

COUNCILMAN GREEN: Thank you, Mr. President.

I've got some questions related to the assumptions behind the algebraic formula.

So the target revenue number is 512.6 million for 2013. You plan to collect 445 million of current year real estate taxes for the year 2013.

MR. DUBOW: 458.

COUNCILMAN GREEN: 458?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Okay. And that's based on a current payment rate of 87 percent?

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MR. DUBOW: Eighty-seven and a half.

COUNCILMAN GREEN: Eighty-seven and a half. So it is your assumption that the payment rate under AVI is going to be, if we were to go to AVI, is going to be about the same as it has been historically?

MR. DUBOW: Yes.

COUNCILMAN GREEN: Has that been the case in other jurisdictions that have made a tax shift like this?

MR. DUBOW: Yeah. I think what they've seen is a change in the level of appeals, and that's what we've put into the plan, is a change in the level of appeals.

COUNCILMAN GREEN: My question is, has that been the case in other cities that have made a tax shift like this?

MR. DUBOW: That's my understanding from conversations we've had, that that's kind of similar.

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COUNCILMAN GREEN: Conversations with whom?

MR. DUBOW: With our Chief Assessor.

COUNCILMAN GREEN: With your Chief Assessor?

MR. DUBOW: Yeah. He's done this in a couple other places.

COUNCILMAN GREEN: And so you have a written memo or research or some analysis that demonstrates how collections have changed in other cities that have gone through this in your file somewhere?

MR. DUBOW: We don't have a written memo, but we can get you one.

COUNCILMAN GREEN: Well, I mean, there's no point in -- you know what conclusion you want now, so I'm sure the research or the memo will match that. My question was, did you bother to do a written analysis prior to making the assumption that the collections would stay the same as they have historically?

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MR. DUBOW: As I said, we don't have it in writing, but we can give you a memo if you want one.

COUNCILMAN GREEN: And it's based entirely on conversations with our Revenue Commissioner?

MR. DUBOW: No; with our Chief Assessor.

COUNCILMAN GREEN: With our Chief Assessor, okay. So it is -- what kind of evidence would you call that?

MR. DUBOW: Well, I would call him someone who really understands the field. So I would call that good evidence.

COUNCILMAN GREEN: Good evidence. I would call it circumstantial or circumspect in that it's one data point from one individual that is not backed up by any research.

Does the Administration have any estimates regarding going forward how many appeals there will be and the potential revenue impact of the appeals?

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MR. DUBOW: We have an appeal amount that goes up from 200 million to about 960, I think.

COUNCILMAN GREEN: And what assumptions are made with respect to the granting of appeals versus historical trends?

MR. DUBOW: That they're much higher, that the 960 is -- it's a much higher level of appeals being granted.

COUNCILMAN GREEN: Not appeals being granted. How much revenue are we likely to lose -- what is the assumption about the loss of revenue as a result of appeals?

MR. DUBOW: We're losing about -- it assumes we lose about $960 million worth of assessments through the appeals process. So then you would multiply that by the tax rate to get to the amount.

COUNCILMAN GREEN: So the formula builds in $960 million of mistakes?

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MR. DUBOW: Of appeals granted, which is different from mistakes.

COUNCILMAN GREEN: Okay, appeals granted. So that's basically an assumption of how many appeals, how many people are you assuming appeal?

MR. DUBOW: We actually did it by dollar amount rather than by people who appeal.

COUNCILMAN GREEN: In other cities, what has been the dollar amount of appeals compared to the overall assessed value?

MR. DUBOW: We can get you that.

COUNCILMAN GREEN: Is there any written analysis of that prior to you presenting us with this budget?

MR. DUBOW: There's no written analysis of that, no, but we can get you that.

COUNCILMAN GREEN: And what is that data based on? The experience of your assessor?

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MR. DUBOW: Yes, it is. But one of the other things is, what will happen here will be different from what happened in other places. The change in values will be different. What's happened here historically is very different. So, I mean, we had to make an estimate there and I'm not sure that what happened in other places would necessarily tell us what will happen here.

COUNCILMAN GREEN: So how is this a reasonable assumption? How --

MR. DUBOW: Our assumption was that you would see a substantial increase because you would see changes in assessments. But it is an estimate. The number could be different.

COUNCILMAN GREEN: What is the consequence on collections from the 491 million we're expecting if actually 2 billion of the appeals are granted?

MR. DUBOW: From the 458 million? If 2 billion are granted, then

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the number would be much lower. If --

COUNCILMAN GREEN: How much lower would it be?

MR. DUBOW: Well, we can get you that for 2 billion. I don't have that off the top of my head. If it was 500 million, then the number would be higher. It would change with the number that was appealed, the number of appeals that were granted.

COUNCILMAN GREEN: Isn't the answer dependent upon what the actual aggregate valuable taxable property is in the City, which you've already said you don't know whether that's two or four times?

MR. DUBOW: That is clearly one of the factors, yes.

COUNCILMAN GREEN: Isn't this assumption --

MR. DUBOW: The appeal -- the level of appeals granted as a percent of the total assessment is what will determine the impact.

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COUNCILMAN GREEN: Right. So isn't this $960 million assumption way off if it's two times current value? In other words, on what aggregate taxable value assessment was the $960 million assumption made?

MR. DUBOW: For the 960, I think all we did was take out the -- we just took out the common level ratio and used the 960 against the number without a common level ratio.

COUNCILMAN JONES: Councilman, you're the last question, so we're indulging you a little longer. The clock is not broke, though.

COUNCILMAN GREEN: Councilman, I have four pages of questions I haven't gotten to, so...

Okay. So basically there's no relationship between the $960 million potential part of this algebraic formula and what the overall aggregate property tax value is; is that what you're saying?

MR. DUBOW: No, that's not what

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I said. I said it was based on a number that adjusted out the common level ratio.

COUNCILMAN GREEN: But you haven't stress-tested this individual portion of the overall formula?

MR. DUBOW: We do know -- well, we can show you we have had -- the changes in this number obviously have an impact on what you collect, and we can show you that.

COUNCILMAN GREEN: So the City Code already has a deferral provision allowing the Revenue Department to grant applications for homeowners to defer until time of sale increase in real estate taxes due to an increase in assessments of over 15 percent. This is currently the law. The applicant has to demonstrate that it would be a hardship to pay, which will obviously be the case in many cases.

What in the formula takes into account this existing Philadelphia law and the likelihood that people in areas

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that are likely to see a lot of assessments will be able to defer most of their increase in assessments until their sale under this existing provision of the City Code?

MR. DUBOW: Yeah. That's something that's kind of built into that appeal loss number. We've treated them as kind of the same.

COUNCILMAN GREEN: Well, describe what portion of the appeal loss is related to this law and what portion of the appeal loss is related to just a granting of appeals?

MR. DUBOW: We can break that out for you.

COUNCILMAN GREEN: Is the work done in writing today?

MR. DUBOW: It's not done in writing today, but we can get that to you.

COUNCILMAN GREEN: Okay.

COUNCILMAN JONES: Councilman.

Will you please provide that to

the Chair?

MR. DUBOW: Yes. Yes.

COUNCILMAN JONES: This will be your last question?

COUNCILMAN GREEN: Councilman, I have four pages of questions here, and I intend to try to get through them today. Fortunately, we're on Page 4 at the moment -- or let's see here.

So the homestead exemption itself, the bill targets a $15,000 homestead exemption. What's the average assessed value of residential property in Philadelphia today?

MR. DUBOW: The average market value of a property in Philadelphia today is about $50,000.

COUNCILMAN GREEN: Fifty thousand dollars. And so how did the Administration settle on the 15,000 exclusion amount?

MR. DUBOW: Well, we actually looked more at where -- we looked at a number that we thought would provide some relief, but particularly for lower valued houses. Again, it is a number that was more art than science.

COUNCILMAN GREEN: Okay. What's the average market value under the new system?

MR. DUBOW: We don't know that yet.

COUNCILMAN GREEN: But it's likely two to four times higher than the 50,000?

MR. DUBOW: Could be, yes.

COUNCILMAN GREEN: Okay. So let's call it $200,000. Let's just say it's at the upper limit of your -- is there an analysis of how much the $15,000 exclusion means to people, whether it's $100,000 or $200,000?

MR. DUBOW: Sure. If you have a house, for example, that's at the lower end of values and --

COUNCILMAN GREEN: I'm sorry, Mr. Dubow. I apologize. My question was not about a particular house, because

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obviously if the house is worth 15,000, they'll pay no taxes. The question is in general how this relates to the distribution of taxes we collect from residential collections versus commercial/industrial collections. In other words, the higher we set that homestead exemption, the more tax relief is going to be given to residents and --

MR. DUBOW: Correct.

COUNCILMAN GREEN: -- the more taxes, as a consequence, will be paid on the commercial and industrial side.

MR. DUBOW: That's correct.

COUNCILMAN GREEN: So how much of the total percentage of taxes that we are going to collect under the new system are residential and how much as a percentage are current collections residential?

MR. DUBOW: I think now the current residential is in the 60 to 65 percent. We did an analysis of what the homestead might cost depending on where

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the tax rate wound up. I don't have the numbers in my head, so we can get you that. And obviously we didn't then go to what's the percent residential and commercial, but we can provide you that.

COUNCILMAN GREEN: So 60 to 65 percent is residential today?

MR. DUBOW: I think so.

COUNCILMAN GREEN: Do you know what it is under the new system?

MR. DUBOW: I just said we'd have to -- that's something we'd have to go back and check.

COUNCILMAN GREEN: Is it less than 60 to 65 percent?

MR. DUBOW: It will be less because of the homestead exemption, if that's enacted.

COUNCILMAN GREEN: Even without the homestead exemption, wouldn't it be less?

MR. DUBOW: It depends on the changes in assessments for commercial and residential.

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COUNCILMAN GREEN: What's the average assessed value of commercial and industrial properties today in terms of its comparison to actual market value?

MR. DUBOW: I don't know that.

COUNCILMAN GREEN: Okay. Particularly in light of the Five Year Plan rehousing cost as a percentage of household income in Philadelphia, the Plan notes that over 41 percent of homeowners with mortgages and almost 59 percent of renters pay 30 percent or more of their household income on housing costs. Paying 30 percent or less of household income for housing costs is the commonly accepted definition of housing affordability.

Does the Administration have estimates about how AVI will impact this metric of housing affordability and, in particular, if 15,000 is the proper number to allow us to meet this metric of housing affordable for our most vulnerable homeowners?

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MR. DUBOW: Because we don't know where AVI will wind up with properties, we don't have that analysis, but a homestead exemption would obviously be a help, and to the extent that relatively overvalued houses were on the lower end of the value scale, then AVI would help with that too.

COUNCILMAN GREEN: So there is no way for us to know how AVI will affect housing affordability and what the appropriate place to set the homestead exemption at to effect housing affordability for our most vulnerable citizens unless we have the actual numbers to apply to the homestead exemption and the total aggregate amount of assessed real property in the City of Philadelphia; isn't that correct?

MR. DUBOW: I think even when you have all that information, figuring out the right level for the homestead exemption won't immediately answer your question. I think there's always going to be some level of art in where you want the homestead exemption to be.

COUNCILMAN GREEN: That is true, but without those missing pieces of the formula, it's hard for us to know what impact 15,000 versus, say, 35,000 is going to have on the ground with respect to housing affordability?

MR. DUBOW: That's --

COUNCILMAN GREEN: Is that a fair statement?

MR. DUBOW: Until you have all the assessments, that's true.

COUNCILMAN GREEN: Thank you.

There's another sort of issue. The legislation sets a July 31st deadline for homeowners to apply to the Office of Property Assessment for the homestead exclusion, but we don't have state-enabling legislation authorizing a homestead exclusion and people will not receive their new assessments until September. So how will people know by July 31st, especially if there has not

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yet been state action, that they should be applying for their homestead exemption?

MR. DUBOW: Right. Well, if there hasn't been state action by then, that obviously would be a real issue for us, and we're pushing to get state action by then. But if they don't have it by then, we'd have to go back and look at that and figure out what an appropriate date would be.

COUNCILMAN GREEN: But the bill as presented currently contemplates it must be presented by July 31st.

MR. DUBOW: Right.

COUNCILMAN GREEN: And people will not have received notices of their taxes for next year until September.

MR. DUBOW: Right. We're assuming that people will want -- we'll make sure people know that they're eligible, because every homeowner is eligible, and that people will want to apply for it.

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COUNCILMAN GREEN: So what's our plan prior to people receiving their tax notice to let them know prior to July 31st that they're eligible for a homestead exemption, which has not yet been passed by the State Legislature?

MR. DUBOW: Well, we would have a plan to have a whole communication strategy around that, around all of the relief items that are available for people.

COUNCILMAN GREEN: Okay. I believe that in response to a previous question I asked, according to -- this is part of your Five Year Financial and Strategic Plan. According to IHS Global Insight, the average residential real estate property value in the county increased to $180,330 in 2011. When you consider that it's currently today, according to your testimony, $50,000 and it's increased to $180,330, IHS Global at least has the increase in aggregate value, at least with respect to residential, at more than three and a half times the current taxable assessed property value, and that's probably where you got the numbers that you were mentioning to PICA as three to four times.

MR. DUBOW: It's actually not where we got those numbers. And assessments may be there or may come out some place different, but that's --

COUNCILMAN GREEN: So do you agree with the statement that's in the Five Year Financial and Strategic Plan that you presented to PICA that the average residential real estate property value in the county is $180,330 in 2011?

MR. DUBOW: I agree that that's the average home price and I agree that they've increased 25 percent. I don't know what that will mean before we wind up with assessments.

COUNCILMAN GREEN: Okay. The Five Year Plan revises -- and this has been touched on briefly. The Five Year

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Plan revises real estate transfer tax growth rate significantly in FY13, 5 percent in '13 and 4 percent in '15 and '16. In the quarterly -- and there's been a discussion about this assumption here today, which I won't repeat, but it was testified to by the Budget Director that it's reasonable given how much we used to collect from this tax and that there's been pent-up demand. Hasn't there been pent-up demand this year, and why do we think the pent-up demand will be realized next year?

MS. RHYNHART: There is -- yeah, there is pent-up demand going on right now and it keeps building up, and the transfer tax has been relatively flat, but that's -- our projections are based on projections of housing sales and property values growing that were given to us by our economic advisor as well as what the economists at the Fed think. So that's a consensus opinion.

COUNCILMAN GREEN: Will you

please provide your economic analysis to the Chair, Ms. Rhynhart?

MS. RHYNHART: Yes. You want --

COUNCILMAN GREEN: The report that --

MS. RHYNHART: From IHS?

COUNCILMAN GREEN: From IHS that demonstrates --

MS. RHYNHART: Sure. Yes, we can provide that.

COUNCILMAN GREEN: The Administration reported that the revenue estimate in the most recent Quarterly Managers Report for real estate transfer tax actually went down by $5 million compared to what was budgeted.

MS. RHYNHART: That's right, and that's consistent with -- what we have seen is, transfer tax has been relatively flat for the past few years, and that's consistent with what IHS and the economists are seeing as well, and then they expect the rebound to occur in

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a few years, over the next few years.

COUNCILMAN GREEN: Okay. I have additional questions on the Five Year Plan which we can get to, but for now, I will -- because I understand we're going to recess this hearing.

I do want to make a couple of quick points, and, that is, apparently there's no memo or written legal opinion as to the legality of this. We're building in a formulaic approach. We're building in the possibility for a lot of contingencies here. One, that we won't get to AVI; two, that if we do get to AVI, in other words, we get the assessments done on time and we send out the bills on time, that the courts may not uphold this, and there's two grounds that are specifically in the bill pursuant to which the courts may not uphold this legislation, and I think that there's a lot of uncertainty with respect to -- including the overall aggregate value, how that impacts what homestead

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exemptions and other things should be, and just for myself, Mr. President, there are many, many unanswered important questions that need to be addressed before I think I and the public and others will feel comfortable with any sort of formulaic approach to this year's budget.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Councilman, I agree. I think that you can include most of, if not all, of the members in terms of level of concern, the uncertainty of a lot of this.

So what I'd like to do, if there are no other members who are interested in asking questions today, I would like to recess the Five Year Plan until Wednesday, March 28th. So I would ask that you all come back.

MR. GILLISON: I won't be here.

COUNCIL PRESIDENT CLARKE: Pardon me? You can't come back?

MR. GILLISON: I will talk to

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you afterwards, but, no, I won't be here. But I'll talk to you afterwards.

COUNCIL PRESIDENT CLARKE: You can talk to me now.

MR. GILLISON: I will not be here. I will be in Boston with my daughter.

COUNCIL PRESIDENT CLARKE: Okay. I'm assuming there's someone else from the Administration. We have some veteran members up there.

MS. RHYNHART: Sure.

COUNCIL PRESIDENT CLARKE: So I assume there will be a few questions. That's the good thing about government, there's always somebody to pitch in when someone can't be there.

MR. GILLISON: I agree. I just didn't want you --

COUNCIL PRESIDENT CLARKE: As you see, Councilman Jones has capably stepped in when I was out of the room.

So what I'd like to do now, we're going to recess the Five Year Plan

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and we will have the Capital hearings on Wednesday, March 28th at 11:00 a.m.

MR. DUBOW: We're doing the Capital hearings on the 28th or the Five Year Plan?

COUNCIL PRESIDENT CLARKE: We're going to do the Five Year Plan first. I anticipate there will be just a few questions, and then we'll immediately go into Capital.

MR. DUBOW: Got it.

(Committee of the Whole recessed at 2:20 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on March 26, 2012, and that this is a true and correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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