

Committee on Fiscal Stability and Intergovernmental Cooperation
February 25, 2020

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON FISCAL STABILITY AND
INTERGOVERNMENTAL COOPERATION

Room 400, City Hall
1400 John F. Kennedy Boulevard
Philadelphia, Pennsylvania 19107
Tuesday, February 25, 2020
10:15 a.m.

PRESENT:

COUNCILMAN ALLAN DOMB, CHAIR
COUNCILMAN BRIAN O'NEILL, VICE-CHAIR
COUNCILWOMAN KATHERINE GILMORE RICHARDSON
COUNCILMAN DEREK S. GREEN
COUNCILWOMAN CINDY BASS
COUNCILMAN MARK SQUILLA
COUNCILWOMAN HELEN GYM

RESOLUTION: 200039

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2 COUNCILMAN DOMB: This
3 hearing is called to order. And to my
4 immediate right is Councilmember Kathy
5 Gilmore Richardson. To my immediate
6 left is Councilmember Derek Green.
7 This is the public hearing of the
8 Committee on Fiscal Responsibility
9 Intergovernmental Cooperation.

10 The purpose of this public
11 hearing is to hear testimony on
12 Resolution 200039 sponsored by
13 Councilmember Gilmore Richardson. The
14 Clerk will now please read the title of
15 the resolution before the Committee
16 today.

17 THE CLERK: Authorizing the
18 Committee on Fiscal Stability and
19 Intergovernmental Cooperation to
20 conduct hearings to determine the City
21 of Philadelphia's preparedness for the
22 possibility of an economic recession
23 and the strength of the reserve
24 stabilization funds.

25 COUNCILMAN DOMB: The Chair

1 would like to recognize Councilmember
2 Kathy Gilmore Richardson for some
3 remarks.

4 COUNCILWOMAN GILMORE

5 RICHARDSON: Thank you, Mr. Chair.
6 Good morning. I want to thank you,
7 Mr. Chair, and our Vice-chair
8 Councilman O'Neill and Councilman Green
9 and all of our colleagues here this
10 morning. I also want to thank our
11 panel of witnesses who are here to
12 share their experience with us this
13 morning.

14 This is an important hearing
15 to have, particularly just a few short
16 weeks before the Mayor's budget address
17 to this Council. What I hope we can
18 gain from the testimony today is a
19 sense of where our City stands in
20 regards to preparedness to whether
21 another recession as well as
22 suggestions for how the City can be
23 ready going forward.

24 Last year at the end of the
25 fiscal year as a result of careful

1 budgeting and responsible spending, the
2 City had a surplus. Based on Quarter 2
3 projections, we anticipate having
4 another surplus this year, and it's
5 more than earlier projected, but less
6 than we ended with last year.

7 Many stakeholders will see
8 this surplus as an opportunity to ask
9 for more and to spend more money. As
10 duly-elected representatives of the
11 people of Philadelphia, we are charged
12 with being responsible with our City's
13 finances.

14 In 2007, the nation entered
15 into an economic recession then called
16 the Great Recession. Bank stops
17 issuing loans, businesses failed and
18 our City's revenue went abruptly
19 downward. We were ill-prepared for the
20 ramifications that come with an
21 economic recession and it is our
22 responsibility now to learn from our
23 past mistakes and to ensure that our
24 City is prepared to weather whatever
25 comes to us, particularly from the

1 standpoint of how we spend and save our
2 City's revenue.

3 Since 2007, we have taken
4 steps to prepare. The City has four
5 reserve funds which we'll hear more
6 about later. And while it is important
7 to ensure that we allocate funding for
8 the essential functions of running our
9 City, it is our role to ensure that we
10 prepare for the event of an economic
11 downturn.

12 And on a point of personal
13 privilege, I just want to mention that
14 I was a legislative aide here in City
15 Council here during the last recession
16 and I remember a lot of the tough
17 choices we had to make during that time
18 and looking at the services we provide
19 as a city and how we were going to
20 continue to be responsive to our
21 constituents and I never want to have
22 that feeling ever again.

23 I remember having to do a
24 bill at the very last minute in June, I
25 believe, for the District around \$30

1 million, during that time for the
2 School District of Philadelphia. And I
3 think now that we have a surplus it's a
4 great opportunity for us to talk about
5 how we prepare for any potential
6 economic recession that may come our
7 way.

8 So thank you all so very much
9 for being here. Thank you for the
10 opportunity to have this discussion.
11 I'm going to use this as a framework as
12 we go into our budget hearing and I
13 look forward to the outcome of this
14 hearing in sharing that information
15 with all of my colleagues from
16 Philadelphia City Council. Thank you
17 very, very much.

18 COUNCILMAN DOMB: Thank you,
19 Councilmember Gilmore Richardson. It's
20 a very important topic and we
21 appreciate you bringing this forward.
22 Will the Clerk please call the first
23 panel of witnesses?

24 THE CLERK: Harvey Rice.

25 (Witness approached

1 Witness Table.)

2 COUNCILMAN DOMB: Please
3 state -- good morning.

4 MR. RICE: Good morning.

5 COUNCILMAN DOMB: Please
6 state your full name for the record and
7 proceed with your testimony.

8 MR. RICE: Harvey Rice,
9 Executive Director of Pennsylvania
10 Intergovernmental Cooperation
11 Authority. Good morning, Chairperson
12 Domb, and members of the Committee.
13 Thank you for allowing me to testify on
14 Resolution No. 200039 today regarding
15 the state of the reserve fund and the
16 City's ability to weather an economic
17 downturn. Although the City is on
18 better fiscal footing than it has been
19 for years or maybe even decades, PICA
20 does not believe it is in the strongest
21 financial position to weather a severe
22 economic downturn.

23 As you know, PICA annually
24 reviews and approves the City's five-
25 year plan. And in our staff report on

1 the five-year plan, we identify key
2 risks that can impact the City's plan
3 over the next five years. In our staff
4 report on the current five-year plan,
5 we identified economic growth or a
6 potential lack thereof as a key risk
7 that might impede the City's ability to
8 realize the projected revenues.

9 Fortunately to date, the
10 economy has continued its expansion and
11 therefore City tax revenues are coming
12 in as projected, if not even higher.
13 However, we all know this good fortune
14 will not last forever and City
15 officials have been taking measures to
16 protect our City from any possible
17 future decline in revenues due to an
18 economic slowdown.

19 PICA has long advocated for a
20 rainy day fund to prepare for an
21 economic slowdown. As such, we were
22 pleased when City Council adopted the
23 budget's stabilization reserve fund or
24 rainy day fund back in 2011.
25 Unfortunately, it took another nine

1 years to initiate the funding of the
2 reserve.

3 As part of the current '20 to
4 '24 five-year plan, the City made its
5 first ever deposit of \$34.2 million
6 with an additional \$146.5 million
7 projected to be deposited by the end of
8 the five-year plan for a total of \$180
9 million. However, even this five-year
10 projection would only pay the City's
11 payroll for a matter of weeks should
12 revenue plummet during a significant
13 economic downturn.

14 Additionally, there's a
15 possibility as we have seen in the past
16 that the BSR contributions may not be
17 funded as originally projected. For
18 instance, in past plans where the City
19 has projected contributions to the BSR,
20 other contingencies have taken
21 precedent which ultimately eliminated
22 contributions to the BSR.

23 Furthermore, we are concerned
24 that the expiring labor contracts for
25 all eight labor unions upcoming at the

1 end of June 2020 might result in more
2 foregoing BSR contributions in the
3 future plan. Hopefully, we will see
4 this commitment to fund the BSR will
5 continue in the FY 21, 25 five-year
6 plan.

7 PICA has also advocated for
8 voluntary contributions to the BSR even
9 if the revenue threshold that would
10 trigger deposit is not met. Another
11 factor to be considered when assessing
12 the City's preparedness for an economic
13 downturn is the general fund balance.

14 In FY 2019 the year-end fund
15 balance was \$438.6 million or 9.2
16 percent of general obligations. This
17 was \$140.9 million more than
18 projected -- more than the projected
19 \$297.7 million, and signified the
20 second time the City met or exceeded
21 its internal target for a fund balance,
22 which is between 6 and 8 percent of
23 obligations. Despite the recent larger
24 fund balances since 2018, higher
25 projected fund balances in the '20, '24

1 five-year plan, fund balances remain
2 below the Government Finance Officers
3 Association, the GFOA recommendation of
4 17 percent of obligations.

5 As mentioned previously, the
6 City has established an internal target
7 fund balance of 6 to 8 percent of
8 obligations. In the current 2024 plan,
9 the City projects fund balances to
10 range from 4.2 percent of obligations
11 in FY 20 to a low of 2.5 percent in
12 FY 22.

13 Therefore, if an economic
14 downturn occurred, higher fund balances
15 would help the City lessen the impact
16 on City services in the short term.
17 PICA recognizes the City's effort to
18 ensure larger fund balances in the
19 current plan and hopes the City will
20 continue this direction by increasing
21 fund balances to meet GFOA
22 recommendations.

23 In recent five-year plans,
24 the City has also established a
25 contingency for federal funding cuts

1 which represents money set aside in the
2 event of potential federal cuts to
3 grant money. PICA advocated for such a
4 contingency planning at the beginning
5 of the current presidential
6 administration. However, although the
7 risk of funding cuts from the federal
8 government has been minimal to date,
9 the City continues to set aside money
10 in this reserve.

11 Going forward, the City plans
12 to use this reserve as a contingency
13 for a recession or economic downturn.
14 We must keep in mind that this reserve
15 along with the provision for future
16 labor costs are included in the
17 year-end fund balance.

18 In conclusion, although the
19 City has made significant strides
20 towards short-term fiscal stability,
21 overall that's not sufficient to
22 weather a severe recession or economic
23 downturn. PICA will continue to
24 monitor the City's commitment to higher
25 fund balances and contributions to the

1 City's BSR to better prepare us for a
2 an economic downturn. Thank you for
3 allowing me to testify and I'm
4 available to answer any questions that
5 you may have.

6 COUNCILMAN DOMB: Thank you
7 for your testimony, Mr. Rice. I have
8 two questions and then I'm going to
9 turn it over to my colleague
10 Councilmember Derek Green.

11 In your opinion, is the
12 biggest financial burden on our budget
13 the pension obligation?

14 MR. RICE: I would say, yes,
15 it is one -- if it's not the biggest,
16 it's one of the top biggest drains on
17 the City's General Fund.

18 COUNCILMAN DOMB: And
19 currently, does that represent in the
20 neighborhood of 16 to 17 percent of the
21 annual budget?

22 MR. RICE: Yes.

23 COUNCILMAN DOMB: And if that
24 was funded, how much would that
25 represent of the annual budget? If it

1 was fully funded, what would be the
2 annual percentage of the annual budget?

3 MR. RICE: I'm not sure of
4 that. I would have to check that out.

5 COUNCILMAN DOMB: Okay. And
6 then last but not least, has there --

7 MR. RICE: We're at \$6.1
8 billion on funded liability. We're
9 46.8 percent funded of the pension.

10 COUNCILMAN DOMB: Okay. Have
11 we given any thought, is there any
12 possibility of utilizing assets that
13 the City owns in exchange for not
14 having to pay obligations and pledging
15 those assets as part of that
16 requirement?

17 MR. RICE: We just started to
18 look into that within just a few weeks,
19 so I really don't have an opinion on
20 that yet. I mean, there's always once
21 an asset is sold and you have that
22 money is then used and gone, so we have
23 to weigh that.

24 What we also think is, and I
25 think Council has talked about this,

1 pilots with nonprofits and
2 institutions, that maybe something like
3 that can help generate more revenue
4 into the rev --

5 COUNCILMAN DOMB: But what
6 I'm talking about, I think other states
7 have done this, they pledge assets
8 instead of making payments against the
9 obligation. That frees up the cash.
10 And I guess my point in bringing this
11 up is that could be a contingency plan
12 in case we did have a downturn or we
13 can even look at it now, but that could
14 be one of the contingency plans that we
15 could put in place.

16 MR. RICE: As many
17 contingency plans we can have in place
18 to ensure that when a recession or an
19 economic downturn hits, that we have
20 more money, revenues and funds are
21 available to weather that storm.

22 COUNCILMAN DOMB: Okay.
23 Thank you for your testimony.
24 Councilmember Green?

25 COUNCILMAN GREEN: Thank you,

1 Mr. Chair. Thank you, Mr. Rice, for
2 being here. Thank you for your work at
3 PICA. Your testimony echoes some of
4 the information that we talked about a
5 few months ago when we had the one day
6 conference with PEW, and I think your
7 testimony information you presented
8 with PICA once again reinforced the
9 need to make sure that PICA stays in
10 existence.

11 As we all know, the enabling
12 legislation for PICA will expire 2023.
13 We'll be continuing the conversation
14 that I started regarding the future
15 PICA through hearings. We also know
16 the impact of what would occur to the
17 City of Philadelphia if that enabled
18 legislation were to not to stay in
19 existence.

20 Further, as I stated in the
21 past and I still believe we need to
22 have an independent fiscal office in
23 the City of Philadelphia. Some would
24 call that a local congressional budget
25 office. I see that as a possible role

1 for PICA in the future as we look
2 forward to re-authorizing the PICA
3 legislation, but that's a conversation
4 for another day.

5 But I wanted to focus a
6 little bit more on your testimony
7 today. And you made reference to a
8 couple of key points. One, the federal
9 contingency that we've been carrying
10 for about \$50 million for the past
11 couple of years since this current
12 administration came into office.

13 One of my questions,
14 considering that our fund balance has
15 been higher than in the past years but
16 still not at the level it should be
17 based on cities of our size or based on
18 GAO recommendations, would you suggest
19 we increase that federal contingency or
20 do you think that's the right size at
21 this point?

22 MR. RICE: If we're going to
23 use that as a recessionary reserve, I
24 would increase it. I would recommend
25 increasing it.

1 COUNCILMAN GREEN: Well, not
2 necessarily as a recessionary reserve,
3 although it could be used for that if
4 we do get to a recession. But
5 considering the fund balance has been
6 higher than it has been in the past and
7 you know this has come -- we have a
8 need to put more money into the rainy
9 day fund or the stabilization reserve,
10 but at the same point you don't want to
11 put something in there and then take it
12 out so --

13 MR. RICE: But if --

14 COUNCILMAN GREEN: So would
15 you think it would make more sense to
16 put additional dollars or budget
17 additional dollars for that contingency
18 fund?

19 MR. RICE: Yes, because at
20 the end of the year that is rolled over
21 into your fund balance so that would
22 make the fund balance bigger and it's
23 better budgeting and better planning.

24 COUNCILMAN GREEN: Okay. And
25 have you had any thoughts on what that

1 additional amount should be?

2 MR. RICE: I haven't. We
3 haven't looked at that.

4 COUNCILMAN GREEN: Okay.
5 Maybe and as you continue to look at
6 the five-year plan, that's something
7 that you may want to opine on at some
8 point in the future. Also, in
9 reference to the BSR or the budget
10 stabilization reserve or rainy day
11 fund, do you think the trigger for that
12 should be changed?

13 You made reference to the
14 fact that it was adopted, but it was
15 about nine years before any deposits
16 actually went into the BSR. Do you
17 think that number or the -- I'm sorry,
18 that trigger should be changed at all?

19 MR. RICE: I don't know yet.
20 I remember in -- it was the budget for
21 FY 19. If the City would have put \$2
22 million more, it would have triggered a
23 contribution of the BSR. So if they
24 would have lessened the federal reserve
25 by \$2 million or raised the revenue

1 projections, so we would have had -- at
2 that year we would have had a
3 contribution of BSR. But I haven't
4 looked at what that level would be a
5 good level.

6 COUNCILMAN GREEN: You made
7 reference to our City of Labor
8 contracts which are coming up. And
9 although we're not projecting onto
10 recession at this moment, we have been
11 in a very long -- market, one of the
12 longest that we've had in the history
13 of this country and we are going
14 through some significant pressures from
15 the impact of the coronavirus which
16 will probably depress manufacturing and
17 also the import, export market at least
18 probably going to the third quarter or
19 maybe the fourth quarter.

20 If you look at GDP for the
21 country, it has not been at the robust
22 levels that some who are currently in
23 office would like to see. I think part
24 of that is that we are a very mature
25 country. Workforce is aging. As my

1 father would say, it's seasoned.

2 And so, when you look at all
3 of those factors, do you have any
4 concern in reference to the ability to
5 address some of the issues in our labor
6 contracts as well as all of the fiscal
7 concerns we have and from a global
8 perspective and back in Philadelphia,
9 even though we're not right at a
10 recession, we could be at a short-term
11 period?

12 MR. RICE: Could you ask the
13 question again?

14 COUNCILMAN GREEN: Your
15 concern to reference from the bill they
16 put additional dollars, even the budget
17 stabilization reserve or the federal
18 contingency considering some of the
19 maturations I talked about and at the
20 same point we had the pressures of
21 resolving our labor contracts.

22 MR. RICE: I remember when I
23 was first appointed Executive Director
24 at PICA, I think the first plan I saw
25 there was no labor reserves, there was

1 no money for labor contracts. And so,
2 working with the City we said this is
3 not acceptable, you need to at least
4 put something in there understanding
5 the dynamics of how much do you put in
6 and then what becomes the starting
7 point for any labor negotiations.

8 In this plan, I think there's
9 \$140 million over the life of the plan
10 for labor cost and we projected a
11 conservative that a \$240 million over
12 the life of the plan. That's a 2
13 percent conservative raise, so that
14 would be like \$102 million more than
15 what the City has already put in as
16 reserve. So I would use that as a
17 starting point.

18 COUNCILMAN GREEN: And one
19 last question, do you have any concerns
20 in reference to the current status of
21 the School District considering that
22 out-years of the five-year plan, the
23 School District will have some
24 significant financial issues from the
25 perspective of having a negative

1 deficit that becomes pretty large in
2 the out-years --

3 MR. RICE: Right.

4 COUNCILMAN GREEN: -- and
5 that impact will have on the City of
6 Philadelphia from our ability to deal
7 with both the labor contracts as well
8 as trying to increase our fund balance
9 and also provide more dollars into the
10 rainy day fund as well as maintaining
11 the federal contingency.

12 MR. RICE: Yes. The School
13 District's situation in the out-years
14 going forward was a risk that we saw
15 when we analyzed the current five-year
16 plan and issued our report on it
17 because it shows deficits in 2022 of
18 \$76.4 million rising to \$186 million in
19 2023 and almost \$300 million in '24.
20 So with the City's commitment to fund
21 the School District and local control,
22 we saw that as a risk to the plan.

23 COUNCILMAN GREEN: Okay.

24 Thank you, Mr. Chair.

25 COUNCILMAN DOMB: Thank you,

1 Councilmember Green. And I want to
2 recognize some Councilmembers that have
3 joined us, to my immediate right
4 Councilmember Cindy Bass and to my
5 left, Councilmember Mark Squilla and
6 the Vice-chair of the Committee,
7 Councilmember Brian O'Neill. Thank
8 you.

9 MR. RICE: Thank you.

10 COUNCILMAN DOMB: Thank you
11 for your testimony. I appreciate it
12 and thank you for all your work at PICA
13 too. Thank you very much.

14 MR. RICE: Thank you so much.

15 COUNCILMAN DOMB: Will the
16 Clerk please call the next panel?

17 THE CLERK: Marisa Waxman.

18 COUNCILMAN DOMB: Please
19 state your full name for the record and
20 proceed with your testimony. And I
21 want to acknowledge, I believe I see
22 your mom here too.

23 MS. GOREN WAXMAN: Thank you.
24 Good morning, Chairperson Domb, and
25 members of the Committee on Fiscal

1 Stability and Intergovernmental
2 Cooperation. My name is Marisa Goren
3 Waxman and I'm the Budget Director for
4 the City of Philadelphia.

5 Thank you for the opportunity
6 to come before you today to talk about
7 the City's fiscal health. With me is
8 Rob Dubow, the City's Finance Director.
9 I'll cut right to the chase. We are
10 better prepared for the next recession
11 than we were for the last one thanks to
12 intentional actions by the
13 Administration and City Council, but we
14 still have tremendous weaknesses in our
15 fiscal health.

16 These weaknesses will put at
17 further risk vulnerable Philadelphians
18 who rely upon City services in the next
19 recession when demand for those
20 services can be expected to grow.
21 Given this reality about our current
22 fiscal condition and the needs of
23 Philadelphians, it is essential that we
24 continue to be intentional about
25 improving our fiscal health as a city.

1 Right now we are in a
2 prolonged period of economic expansion
3 allowing the City to recover from the
4 last recession by investing more in
5 City services while at the same time
6 shoring up our longterm fiscal health
7 by creating reserves for future needs.

8 The City's economic
9 consultants expect a national and local
10 economic expansion to continue a bit
11 longer with just a 25 percent chance of
12 a recession in 2012, but our chances of
13 making it through the entire FY 21
14 through 25 five-year plan without a
15 downturn are slimmer.

16 In a recession, we can expect
17 that revenues will decrease. Our fixed
18 cost already a significant portion of
19 the City budget would stay the same or
20 even grow and demand for City services
21 will grow. With our high poverty rate,
22 weak tax base and large fixed cost,
23 Philadelphia remains vulnerable to a
24 recession.

25 When evaluating our most

1 recent general obligation bond issue in
2 November 2019, Moody's noted "some
3 persistent weaknesses like the City's
4 very high poverty and above-average
5 unemployment rate." Two of our biggest
6 fixed costs, debt service and pension
7 payments, account for over 20 percent
8 of our budget. That means if we have
9 to make choices about how to react to a
10 recession, one-fifth of our budget will
11 be untouchable.

12 Even with those high fixed
13 costs, the City is better positioned
14 with the next recession compared to the
15 last one. We've taken a number of
16 steps to get here. These include
17 stress testing our budget, increasing
18 pay-as-you-go capital spending,
19 increasing our fund balance and setting
20 aside reserves.

21 In late fall, we analyzed the
22 impact on revenues during the last
23 three recessions to assess the scale of
24 losses we could expect under different
25 conditions given our current level of

1 reserves. If revenues grow half as
2 much after FY 20 as what we currently
3 anticipate through FY 24, Philadelphia
4 would lose \$263 million in revenue
5 compared to the adopted five-year plan.

6 If revenues do not grow at
7 all after FY 20, Philadelphia would
8 lose \$1.3 billion compared to the
9 adopted five-year plan. And if
10 revenues declined by 3 percent in FY 21
11 and FY 22 and then hold steady in FY
12 24, Philadelphia would lose \$1.9
13 billion compared to the adopted
14 five-year plan.

15 In all but the mildest
16 recession scenario, the City's fund
17 balance could quickly turn negative
18 with deficits that's over \$100 million
19 as early as FY 22 and the City would be
20 forced to make painful budget choices.
21 Our pay as you go funding for capital
22 projects with operating dollars rather
23 than by issuing debt avoids borrowing
24 costs by addressing critical
25 infrastructure needs.

1 We have increased the fund
2 balance in recent years, meaning even
3 slightly exceeding the Administration's
4 goals of 6 to 8 percent of
5 expenditures. The City ended FY 19
6 with a fund balance of \$439 million, 9
7 percent of the budget.

8 While this is a significant
9 improvement, I must point out that it
10 falls far short of what other major
11 cities do and of the Government Finance
12 Officers Association recommendation of
13 17 percent of fund balance, enough to
14 pay two months of City bills.

15 Philadelphia has set aside
16 other reserves for specific costs or
17 scenarios in the future. This has
18 included more than \$50 million per year
19 in the FY 20 to 24 five-year plan as a
20 reserve against reductions in federal
21 funding. The City has also reserved
22 funds for upcoming labor contracts and
23 made a \$34 million payment into the
24 budget stabilization reserve fund, aka
25 the rainy day fund. Also, the higher

1 than anticipated ending fund balance in
2 FY 19 enabled setting aside another \$20
3 million into a recession reserve.

4 These reserves cushion us so
5 that new costs or unexpected revenue
6 losses don't immediately require
7 service reductions and spending cuts.
8 The improved fund balance has also
9 allowed us to put additional money into
10 the pension fund, which will help the
11 fund get to full funding more quickly.

12 In a December 2019 report on
13 the recession readiness of the 25
14 largest cities, rating agency Moody's
15 acknowledged our progress, noting that
16 Philadelphia like 17 other cities is
17 moderately prepared for the next
18 recession. Six cities were rated
19 stronger and two were rated weak.

20 Moody's said that
21 Philadelphia's better-prepared than it
22 was in the last recession because we
23 have begun building up of fund balance,
24 we've made contributions to the rainy
25 day fund and began the recession

1 preparedness planning.

2 Despite this progress, when
3 we evaluated the impact of different
4 recession scenarios on Philadelphia
5 this past fall, we found that on all
6 but the mildest scenarios
7 Philadelphia's current fund balance
8 would not be enough. Moody's also
9 highlighted our weaknesses, and our
10 fund balance is a percent of revenues
11 second worst, 24th out of 25 of the
12 largest U.S. cities.

13 Despite the significant
14 progress, Moody's recommends that
15 Philadelphia grow its reserves and
16 maintain fund balance percentages at
17 levels equal with its peers which was
18 24.3 percent in 2007 going into the
19 last recession and 32.4 percent in
20 2018.

21 They share that Philadelphia
22 is the only city in the top 25 that
23 didn't have an FY 18 fund balance that
24 was larger than the decline in its fund
25 balance during the last recession.

1 Philadelphia has made progress, but
2 remains in a weaker fiscal health than
3 we should be.

4 Next week on March 5th, Mayor
5 Kenney will propose the
6 Administration's FY 21 budget and FY 21
7 through 25 five-year financial plan.

8 As with past plans and budgets, it will
9 seek to balance the trade-offs between
10 addressing immediate service demands
11 and maintaining stable finances so that
12 we can continue to meet the needs of
13 Philadelphians in each year of the plan
14 and beyond.

15 Even in an economic downturn,
16 we look forward to working with City
17 Council to continue improving
18 Philadelphia's fiscal health. Thank
19 you for the opportunity to testify this
20 morning and I'm happy to answer any
21 questions.

22 COUNCILMAN DOMB: Why don't
23 we have all the testimony and then
24 we'll come back to you with the
25 questions. Rob?

1 MR. DUBOW: Oh, no --

2 MS. GOREN WAXMAN: That was
3 it.

4 COUNCILMAN DOMB: Oh, you're
5 not going to testify. All right.
6 Councilmember Gilmore Richardson.

7 COUNCILWOMAN GILMORE

8 RICHARDSON: Thank you, Mr. Chair.
9 Thank you for your testimony. First,
10 could you just break down for us the
11 four different funds.

12 MS. GOREN WAXMAN: Certainly.
13 First, we have the budget stabilization
14 reserve or the rainy day fund. That is
15 one that has a trigger having to do
16 with the amount of revenues that come
17 in and then a certain percentage
18 getting to positive when there is
19 enough revenue available, and that has
20 sort of the strictest rules in terms of
21 when money can come out.

22 So the very first payment
23 ever came in during FY 20. That was
24 \$34 million. The current five-year
25 plan anticipates deposits into the

1 budget stabilization reserve throughout
2 the current plan. The second reserve
3 we have is the federal funds reserve.
4 Starting in 2016 with the current
5 presidential administration, the
6 administration thought it was prudent
7 to create a reserve against the
8 potential for a lost federal funding,
9 and that is funded over \$50 million in
10 each year of the current plan.

11 At the end of FY 19 given the
12 larger than expected fund balance, we
13 were able to deposit \$20 million into a
14 recession reserve. We are actually
15 getting to sort of those last two, the
16 federal funds reserve and the recession
17 reserves, combine those and rebrand as
18 a recession reserve to hedge against
19 lost revenues, whether that's from
20 federal sources, revenue sources,
21 whether that's policy decisions or
22 economic conditions.

23 And then the fourth is the
24 labor reserve. As was mentioned during
25 the last testimony, all four City

1 contracts are expiring at the end of
2 June and we expect there will be
3 additional costs, so the current
4 five-year plan includes \$140 million
5 anticipated against those increased
6 labor costs going forward, so those are
7 the four reserves we have.

8 COUNCILWOMAN GILMORE

9 RICHARDSON: Thank you. Quickly,
10 yesterday there was an article in the
11 New York Times, CNN and a bunch of
12 other publications around how the
13 spread of the pandemic of the
14 coronavirus has impacted our economy
15 and increased fears for an economic
16 downturn. Can you talk about our
17 City's preparedness around that issue?

18 MS. GOREN WAXMAN: Certainly.

19 And so, that's something that obviously
20 us and the economists that the City
21 consults with are looking at. And when
22 we actually started our recession
23 planning, obviously it's something
24 that's always on our mind but November
25 we started to really stress test.

1 And at that moment, it was an
2 inverted yield curve and a trade war
3 with China that we were concerned that
4 that economic break with China would
5 have an impact on us. Now, obviously
6 those concerns have pivoted towards
7 both the coronavirus and pandemic,
8 whether that's a different economic
9 break.

10 Different sources can have
11 different impacts, but what we've been
12 doing is trying to model sort of
13 various levels of recession and what
14 that means on our budget to try and
15 figure out, okay, if it's small, medium
16 or large, if it's short or it's long so
17 that we can understand.

18 A lot of our goals, the last
19 recession it was long, it was deep.
20 Hopefully, the next recession doesn't
21 have those characteristics, but a lot
22 of what we're trying to do by building
23 up these reserves is buy time so that
24 we can have thoughtful responses. If
25 it's a short recession, enough to get

1 us through. If it does turn out to be
2 longer and deeper, that we have some
3 time so that we can make thoughtful
4 decisions.

5 COUNCILWOMAN GILMORE

6 RICHARDSON: Also, right now we're in
7 the longest period of economic growth
8 as an overall economy. And typically,
9 when we project, the City projects the
10 fund balances, it's a certain
11 percentage of our obligations. So can
12 you talk about why that is decreasing
13 over time and not increasing?

14 MS. GOREN WAXMAN: So next
15 week we will be coming out with the FY
16 21, FY 25 plan with a new set of fund
17 balance projections. But really
18 there's this constant trade-off for us.
19 We understand that to really be
20 prepared for a downturn in the future,
21 we would want a higher fund balance.

22 The Government Finance
23 Officers Association suggests 17
24 percent, two months of bills in the
25 bank. And I think of the lady on WHYY

1 telling you, you need six months of an
2 emergency fund. But what we also
3 realize is Philadelphia is a city with
4 a lot of needs today, that for a lot of
5 Philadelphians, it's already raining.
6 And so, as we try and balance both of
7 those two things together, that's where
8 we're constantly having that push and
9 pull about investing in services for
10 vulnerable Philadelphians today as well
11 as making sure we have them beforehand.
12 And so, budgets are simply a series of
13 trade-offs and those are the trade-offs
14 that we have had to make over time.

15 COUNCILWOMAN GILMORE

16 RICHARDSON: Sure. And also, could you
17 just react to the report that was
18 released yesterday relative to the
19 quarterly overtime update?

20 MS. GOREN WAXMAN: Certainly.

21 So yesterday we released a quarterly
22 City managers report with each quarter.
23 The Budget Office provides us a
24 quarterly update that looks at our
25 revenues, our spending, our performance

1 across the City to figure out whether
2 we're on track or off track.

3 And so, one of the things we
4 do look at is overtime spending. So
5 the most recent quarterly report did
6 show that there was an increase
7 compared to the same quota the prior
8 year. It's about 13 percent of our
9 overall spending on Class 100 are
10 wages.

11 And actually, helpfully last
12 quarter PICA did a really thoughtful
13 analysis where they paired up the
14 departments that had high vacancy rates
15 and the larger overtime expenditures.
16 And you can really see the interplay
17 there. One of the things about being
18 in a really good economy right now, it
19 means that it is for some of our
20 departments in some areas challenging
21 to fill positions. And when we can't
22 fill those positions with the services
23 that need to be delivered, sometimes we
24 need to rely on overtime.

25 The reason we do the

1 quarterly city managers report though
2 is we want to make sure that we are
3 making the most effective use of those
4 overtime dollars as we can and really
5 monitoring that. So we look at it each
6 quarter as an area of concern, but we
7 can see in some areas that there's
8 certain economic pressures in trends so
9 that our overall Class 100 spending is
10 still on track, but the break between
11 straight wages and overtime, that we
12 see a shift.

13 COUNCILWOMAN GILMORE

14 RICHARDSON: Thank you, Mr. Chair.

15 COUNCILMAN DOMB: Thank you,
16 Councilmember. I have a few questions,
17 but I want to recognize Councilmember
18 Helen Gym has joined us. I have a few
19 questions I just want to ask. First of
20 all, congratulations on your position
21 as Budget Director and I'm sure you're
22 going to do a great job, so
23 congratulations.

24 MS. GOREN WAXMAN: Thank you.

25 COUNCILMAN DOMB: Can you

1 tell us the kind of things that the
2 Budget Office is doing to find savings
3 across all departments?

4 MS. GOREN WAXMAN: Certainly.

5 So as part of the annual budget
6 process, in the beginning of December
7 we asked all of the departments to
8 basically say tell us what you need for
9 the upcoming fiscal year, what more
10 revenues do you need. But what we did
11 this year also was ask for cut
12 scenarios.

13 And what that means is we
14 asked departments if you had to this
15 year we said spend 3 percent or 5
16 percent less, what would you do. And
17 part of that for us was
18 recession-readiness planning because we
19 wanted to make sure that if we do find
20 ourselves in a recession and if it is
21 sudden, that we are not surprised in
22 making decisions on the fly, but that
23 we have well-thought-out vetted plans.

24 But as part of that, there's
25 also just that nice opportunity for

1 reflections, so we're able to sit down
2 with departments, have them evaluate,
3 are there areas where they could be
4 spending less, are there areas where
5 they would shift, that maybe they would
6 stop spending on this and start
7 spending on that.

8 So we have those
9 conversations with departments on an
10 ongoing basis and found that some of
11 them said, you know what, actually we
12 identified areas where we don't need to
13 spend this anymore and we would rather
14 redirect it to that, so that's a
15 constant process that we go through
16 with departments while we're evaluating
17 their budgets.

18 COUNCILMAN DOMB: Thank you.
19 I have another question. The wage and
20 BIRT tax are coming in over our
21 original projections. And what's our
22 projected fund balance looking like at
23 the end of this year?

24 MS. GOREN WAXMAN: Certainly.
25 This was last week when we released the

1 QCMR, we revised our FY 20 balance
2 projection to be \$352 million. That's
3 an increase from the prior quarter. We
4 had been at \$307 million. However,
5 still significantly below the \$439
6 million that we were at last year, so
7 we are sort of just getting there sort
8 of meeting the low end of our 6 to 8
9 percent goal.

10 COUNCILMAN DOMB: And I'm not
11 sure this is a question for you or for
12 Rob. In the Road to 80, the pension,
13 can you give us an idea where we are
14 right now for funding?

15 MR. DUBOW: Sure. As you
16 know, the Road to 80 pension had
17 several components, all of which are
18 actually in place now. One through
19 negotiations with unions and
20 partnership with Council. We got
21 changes in both collecting bargaining
22 agreements and what exempts and nonreps
23 do for pensions. So contributions went
24 up and the design of the plan changed
25 so that it's a combination of defined

1 benefit plan with a 401K plan. That's
2 meant that assets have gone up because
3 of the increased contributions and the
4 growth and liabilities have started to
5 slow because of the change in the
6 design.

7 We've also put in more money
8 from the sales tax. Remember, there
9 was state legislation, moved some of
10 the sales tax over to pensions. We've
11 required that that be above the MM0,
12 that state required amount that we put
13 in. So all of that has helped with our
14 funding. It's meant that last year for
15 the first time in decades the pension
16 fund was cash flow positive even
17 without investment earnings, and it's
18 meant that according to our actuary by
19 the end of the current five-year plan,
20 we'll be about 60 percent funded up
21 from the mid-40s and that's with more
22 conservative assumptions of things like
23 earnings and mortality.

24 And when PEW looked at our
25 pensions, they said that even if we

1 miss our earnings assumptions, we'll
2 continue to see improvements in our
3 funding percent.

4 COUNCILMAN DOMB: I just want
5 to make sure I understood. When is it
6 going to be 60 percent funded?

7 MR. DUBOW: The end of the
8 five-year plan period.

9 COUNCILMAN DOMB: In the five
10 years from now?

11 MR. DUBOW: Yes.

12 COUNCILMAN DOMB: Okay.
13 That's good news. Thank you. One last
14 question, in the recent drop of
15 interest rates that are dramatic, we
16 focused on refinancing a lot of our
17 debt that we could get more much
18 attractive rates today.

19 MR. DUBOW: Yes, we've done a
20 couple of things. We've done refunds
21 across our credit so the General
22 Fund -- we've also looked for any
23 opportunity. We've also gotten out of
24 some of our interest rate swaps to
25 reduce our exposure to operate over

1 time, so we've done both of those.

2 COUNCILMAN DOMB: That's
3 good. Okay. Thank you. The Chair
4 would like to recognize Councilmember
5 Green.

6 COUNCILMAN GREEN: Thank you,
7 Mr. Chair. Good morning to both of
8 you. I just want to follow up with
9 some questions based on some of the
10 things that were stated and also, with
11 the information provided.

12 Ms. Waxman, I'm curious in
13 reference to, and I'm looking at this
14 article from I'm not sure from -- oh,
15 it's from PEW and it compares
16 Philadelphia to a bunch of other
17 cities, and I'm curious if you have any
18 perspective on where we are from our
19 rainy day fund dollars compared to
20 cities like Detroit or Baltimore?

21 MS. GOREN WAXMAN: Off the
22 top of my head, I'm not sure where
23 they're at and sometimes it's not
24 apples to oranges. One of the things I
25 do know is Detroit actually has a much

1 higher fund balance from us, but that's
2 actually because their credit rating is
3 so bad and they can't borrow money, so
4 they need if they want to make those
5 investments, to do that.

6 So there are times where
7 having these super high fund balances
8 of say Detroit, that actually indicates
9 you've got other fiscal challenges
10 that's sort of a point in time. So we
11 do look at ourselves in terms of our
12 peers but also trying to be mindful
13 that sometimes there are different
14 conditions on the ground.

15 COUNCILMAN GREEN: Okay. And
16 that may be a question for the next
17 speaker, especially I'm curious about
18 Baltimore, Kansas City, Cincinnati and
19 Cleveland in reference to where they
20 are from a rainy day fund.

21 Some other questions, you
22 talked earlier that we now have a
23 recession reserve about \$20 million and
24 that's on top of the federal funding
25 contingency fund. So we're looking at

1 about \$70 million?

2 MS. GOREN WAXMAN: Yes.

3 COUNCILMAN GREEN: I know the
4 Mayor is going to give the budget
5 address next week and we'll be seeing
6 the new five-year plan for FY 21
7 through 25. Do you anticipate that
8 same \$70 million throughout the
9 five-year plan?

10 MS. GOREN WAXMAN: I think
11 we'll be able to talk more about the
12 whole mix in balance of reserves.
13 There'll be some changes across the
14 four reserves that I mentioned before
15 trying to be mindful of all the
16 different needs that we have.

17 COUNCILMAN GREEN: But the
18 goal is to try to extend it possible
19 and maintain that level of that reserve
20 fund, which includes both recessionary
21 as well as what used to be the federal
22 funding.

23 MS. GOREN WAXMAN: Yes.
24 We're trying to balance both different
25 roles. One is just our sort of plan

1 vanilla fund balance in making sure
2 that that's good. We also look at
3 those recession reserves at the same
4 time trying to balance that with our
5 labor reserves and then the service
6 needs and making sure that we're able
7 to invest in services in our community,
8 so we're sort of balancing all of
9 those.

10 COUNCILMAN GREEN: And
11 similar to the commentary I had for
12 Mr. Rice when we're talking about PICA
13 and independent fiscal office in future
14 conversation, but once you revisit the
15 questions I had for him for both of you
16 regarding do you think that the trigger
17 for the budget stabilization reserve
18 for a rainy day fund should be changed
19 as well?

20 MR. DUBOW: I don't know
21 about whether the trigger should be
22 changed. Do you think it would be
23 helpful if there was a change so that
24 we could make deposits in different
25 times in the year? The way it's set up

1 now, we can only do deposits when we're
2 doing the budget. So I think that
3 would a helpful change.

4 COUNCILMAN GREEN: So
5 basically flexibility to be able to
6 make deposits at different times based
7 on what's happening from your
8 projections versus actual numbers?

9 MS. GOREN WAXMAN: Yes.

10 MR. DUBOW: Yes.

11 COUNCILMAN GREEN: Mr. Dubow,
12 you also talked a little about the
13 pension. You and the Chair had a
14 colloquy in reference to where we are
15 from a pension funding balance that
16 will be about 60 percent I believe.

17 MR. DUBOW: By the end of
18 five years.

19 COUNCILMAN GREEN: by FY 25.
20 You also said something earlier about
21 the MMO or minimal municipal obligation
22 and I want to make sure I heard you say
23 that last year we actually put in more
24 than an MMO?

25 MR. DUBOW: Yes. So we've

1 actually been funding the pension fund
2 according to something called the
3 revenue recognition policy, which is an
4 amount that's higher than the
5 state-required minimum useful
6 obligation. So that MMO plus the
7 contributions that employees agree to
8 make during part of the last collecting
9 bargain process plus the additional
10 sales tax.

11 In addition, in the last
12 couple of years when our fund balance
13 comes in at a higher amount, we put in
14 additional funding over those amounts
15 into the pension fund.

16 COUNCILMAN GREEN: And was
17 last year the first year that actually
18 occurred or does that also occur in
19 years prior?

20 MR. DUBOW: It happened the
21 year before too.

22 COUNCILMAN GREEN: So in the
23 last two fiscal years, we actually put
24 in more than the MMO?

25 MR. DUBOW: More -- revenue

1 recognition policy we may have been
2 doing for three years, but then we've
3 put in amounts of both the revenue
4 recognition policy for the last couple
5 of years.

6 COUNCILMAN GREEN: Okay.

7 Also, I just want to follow up on some
8 back and forth that we had regarding
9 overtime versus hiring. One of the
10 things that occurred through a number
11 of administrations is that, and I would
12 say that you have to go back from the
13 good administration on through, a
14 number of administrations have not
15 hired as much as people have left the
16 City, and that's been a way of trying
17 to address some of our budget
18 constraints by not replacing people
19 when they leave, and that caused our
20 population, our census of employment to
21 go down over time. And because of that
22 perspective, the hiring, I think
23 there's been a focus on not doing as
24 much hiring and that's putting more of
25 a pressure on overtime, which I think,

1 Ms. Waxman, you talked about that
2 tension.

3 Is there a way we can try to
4 change that perspective? And I know
5 now because we're -- that's been an
6 unofficial policy for a period of time,
7 but now we're in a very robust
8 employment perspective. And so, that's
9 caused an inability to hire because
10 many more people are employed although
11 we still have a high unemployment rate
12 here in the City of Philadelphia,
13 especially for people of color.

14 So I guess the question is
15 how do we start to change that dynamic?
16 I know we're going to labor contracts
17 and that will also be part of that
18 conversation, so I wanted to get a
19 question on that.

20 MS. GOREN WAXMAN: So I think
21 you sort of are noting that tension
22 there about not wanting to hire,
23 wanting to hire. And I think as you'll
24 see as we move forward with the FY 21
25 to 25 plan, that we are putting an

1 emphasis on trying to hire. There are
2 certain areas where we are doing more
3 to try and broaden the base of folks
4 who sort of come into the hiring pool,
5 reach out more broadly, particularly to
6 reach out to communities of color, make
7 sure that our recruitment is really
8 robust and wide, but we know that there
9 are certain areas that right now,
10 particularly skilled trades, that we
11 are having a very hard time simply
12 because we can't commit in certain
13 areas.

14 One of the things we already
15 tried to do is push up the salaries in
16 certain hard-to-fill areas so that we
17 could attract more folks when we're
18 really trying to get folks who might
19 have other opportunities elsewhere.
20 Also, the Chief Administrative Officer
21 Office is working with OHR to figure
22 out different ways how do we reduce the
23 time to hire, how do we streamline that
24 process, how do we make sure that also
25 our retention is there, so that once

1 people are on board with us they stay.

2 And so, there are a number of
3 different opportunities where we're
4 trying to bring folks on board and make
5 sure that is an inclusive and
6 successful process. Then we'll be able
7 to talk more about that throughout the
8 budget process.

9 COUNCILMAN GREEN: We are
10 going through on the precipice of what
11 many people are calling a Silver
12 Tsunami where in a number of
13 industries, employment sectors you have
14 a significant wave of people as my
15 father would say, seasoned employees
16 that will be leaving the workforce.
17 And so, that's going to have additional
18 pressures on our ability to address
19 this overtime versus hiring dynamic.

20 I wanted to also ask you, you
21 talked about the budget process which
22 ever year the Budget Office reaches out
23 to various departments to provide their
24 budgets for the year. And although we
25 are in a better economic situation than

1 we've been in for a number of years,
2 you still requested those various
3 departments to provide data on what it
4 would look like if they had a 3 percent
5 reduction.

6 I think that's actually a
7 good idea to start to do that and not
8 only do it in a recessionary context,
9 but there's been conversation over the
10 years about 0 based budgeting, and it's
11 been stops and starts in that regard.
12 Can you give some perspective on how we
13 get to that concept and does this
14 initiative you started as Budget
15 Director help us to move in that path?

16 MS. GOREN WAXMAN: And I will
17 say that I'm not the first budget
18 director to ask for cuts and --

19 COUNCILMAN GREEN: Well, let
20 me just correct the record. I know
21 Mr. Dubow has done that as well, but
22 often we've had to do that because we
23 were facing very significant financial
24 perspectives. This is one of the first
25 times that I remember hearing that

1 you've asked departments to make those
2 presentations on reductions when we
3 have not been in such dire straits.

4 MS. GOREN WAXMAN: To not
5 make me super popular. Right now the
6 City uses program-based budgeting which
7 is really focused on tying performance
8 with the budget, but also making sure
9 that you understand every bit of that.
10 I think that there really is a bridge
11 between that 0 based budgeting, the
12 program based budgeting, because when
13 you start looking at a department's
14 spending and breaking it down into
15 meaningful chunks that are actual
16 services, we deliver, this is the
17 sanitation program, this is what we put
18 into inspecting restaurants. That
19 gives you that opportunity to figure
20 out, okay, this is the level of service
21 we're providing, is it not enough, too
22 much, just the right size.

23 And so, going through those
24 cut scenarios, one of the ways that we
25 asked departments to think about this

1 and we asked for a 3 percent to 5
2 percent, 3 percent said it's fine sort
3 of if you want to look at those
4 incremental reductions, if you want to
5 snip a little here, snip a little
6 there.

7 But when looking at those 5
8 percents, we asked them to think more
9 about are there lines of service that
10 you would discontinue, that maybe
11 instead of a scenario where you do five
12 things not nearly up to snuff, would
13 you want to look at doing four things
14 but doing them all really well, so that
15 creates that opportunity to sort of
16 think in both frameworks, both the
17 incremental cuts as well as changing
18 just sort of generally what services we
19 provide.

20 And part of the thought
21 process around that is thinking about,
22 say, we were to go into a recession, if
23 it is long and deep, you might really
24 need to think about what services do we
25 as a city provide. If it's short,

1 we're looking to just sort of get
2 through until we get back to normal,
3 then maybe you don't need to have those
4 conversations so we're trying to have
5 both. So I think that second area, the
6 deeper in thinking through what do we
7 do and not do gets closer to that 0
8 based budgeting. The other is more of
9 that incremental approach, and we
10 really like to on both of those
11 approaches think about what does that
12 mean for service delivery, so that if
13 we were to cut your dollars here or if
14 you had less resources to do X, what
15 does that mean in terms of days to
16 process whatever or how long we're or
17 how many services we can provide.

18 COUNCILMAN GREEN: One final
19 question, and prior to the influx of
20 the coronavirus and some of the --

21 MS. GOREN WAXMAN: I promise
22 I don't have that. I've been to the
23 doctor's.

24 COUNCILMAN GREEN: Okay. I
25 don't have my mask with me either, but

1 I don't know how much my mask will
2 cover me. Now, prior to the influx of
3 the coronavirus and also some of the
4 concerns regarding trade and tariff
5 wars with China, most economists
6 project a very low possibility of a
7 recession in this year going into next
8 year. That may change.

9 But based on the
10 conversations we've had today and even
11 with a possibility of even a future
12 recession, most economists have said
13 that that recession will not nearly be
14 as challenging as the prior recession
15 we came out of a couple of years ago.
16 It will be quicker, not as impactful.

17 However, we have, for a lack
18 of a better word, a School District
19 recession on the horizon. I had asked
20 the question to Harvey Rice about his
21 concerns regarding the financial
22 conditions of the School District,
23 especially now that we have local
24 control and we look at that issue, plus
25 labor contracts that we're currently

1 negotiating now and also the need to
2 have a better fund balance based on a
3 number of indicators that we need as
4 well as trying to maintain the reserve
5 and federal funding contingency. What
6 are your thoughts on that going
7 forward?

8 MS. GOREN WAXMAN: So the
9 current five-year plan includes a
10 historic level of funding from the City
11 to the School District, over \$1.2
12 billion. And your question really gets
13 to the heart of those trade-offs we're
14 trying to constantly balance the
15 immediate needs. We believe our School
16 District has immediate needs with
17 making sure that we also have reserve
18 so that we can continue to provide
19 services this year throughout the
20 five-year plan come what may in the
21 economy. And so, that is something
22 that we carefully look at as we develop
23 the budget and the five-year plan in
24 talking with the School District to
25 understand what their needs are.

1 COUNCILMAN GREEN: Mr. Dubow?

2 MS. DUBOW: I think that what
3 you've gone through is a really good
4 way of highlighting all the challenges
5 we face as we attempt, one, to put the
6 plan together and, two, to prepare for
7 a recession. All of those are major
8 issues and that's what we're grappling
9 with as we try to put a plan together
10 for next week.

11 COUNCILMAN GREEN: Okay. So
12 we'll look to see your thoughts in next
13 week's budget address and the five-year
14 plan for FY 21 to 25. Thank you,
15 Mr. Chair.

16 COUNCILMAN DOMB: Thank you,
17 Councilmember Green. And the Chair
18 would like to recognize Councilman Gym.

19 COUNCILWOMAN GYM: Thank you
20 very much, Mr. Chairman. I appreciate
21 it. So I'm going to just continue
22 along with the line of questioning that
23 Councilmember Green had asked about the
24 schools.

25 MR. DUBOW: I thought you

1 might.

2 COUNCILWOMAN GYM: I'm sorry?

3 MR. DUBOW: I thought you

4 might.

5 COUNCILWOMAN GYM: So we got

6 rid of the MOU, which allowed a

7 continuation maintenance of effort

8 agreement between --

9 MR. DUBOW: Correct.

10 COUNCILWOMAN GYM: -- I

11 should have said an MOE, maintenance of

12 effort agreement between the School

13 District and the City of Philadelphia.

14 At the time, it made a lot of sense,

15 particularly during the years in which

16 I think what we found is that the

17 School District in my opinion seemed to

18 see like a lagging indication from the

19 impact of the recession. So while the

20 recession may have hit most City

21 businesses during I think my colleague

22 would have said maybe between the years

23 of 2008 to 2011, the District's

24 devastating budget through the state

25 really hit between 2012. We closed

1 down 24 public schools in January of
2 2013, September of 2013 opened with
3 4,000 less staff, schools closed and
4 then that continued through until we
5 started reversing that most recently in
6 2016 and 2017.

7 So have you thought about
8 how -- I know that there's going to
9 need to be ongoing dialogue and I do
10 think that we need to make sure that
11 the School District itself is included,
12 but have you thought about the impact
13 of a recession plus a lagging or
14 potential for a lagging kind of impact
15 on one of the most significant entities
16 that cannot raise its own money
17 unfortunately, relies heavily and
18 probably too much so but increasingly
19 more on local funding, what that may
20 look like because it actually in my
21 opinion drags out the length of time
22 that we might have?

23 I'd also be curious if you
24 agree that you think that the District
25 somewhat lagged whereas we saw

1 investments continue at a marginal
2 rate, certainly not robustly, but not
3 the kinds of severe cuts that we saw
4 that really frankly devastated a lot of
5 the communities, had tremendous impact
6 on children and neighborhoods across
7 the City?

8 MR. DUBOW: So the School
9 District definitely lagged last time.
10 I think part of the reason for the lag
11 was the influx, the stimulus money that
12 the District used to make investments
13 and to hire staff. And I think the big
14 hit they took was when that stimulus
15 money went away and the new governor
16 said not to try to replace those funds.
17 So I'm not sure that in a new recession
18 that they would lag again. I think
19 that they might take a hit fairly
20 quickly as we would, which makes
21 planning with them, as you're saying
22 even more important.

23 COUNCILWOMAN GYM: Yes.
24 Okay. And then do you have opinions
25 about where you would be on maintenance

1 of effort should that be a situation in
2 which, you know, like again the
3 District cannot raise its own funds? A
4 lot of our delivery to the District is
5 delivered through grants so it's not
6 necessarily through, like it's
7 relatively -- we're committed
8 obviously. They have a five-year plan.
9 We have a five-year plan. On the other
10 hand, it is somewhat discretionary
11 because it's given through a grant
12 process as opposed to property tax
13 delivery or something that's
14 formula-based as opposed to negotiated.

15 MR. DUBOW: So probably the
16 state should be the prime funder and
17 the City should provide reliable
18 funding to the District and together,
19 that should be a significant amount of
20 funding for the District to provide the
21 services it needs to provide.

22 I think the maintenance of
23 effort was kind of a plus and a minus.
24 It was a plus in that it gave the
25 District some security that they knew

1 that the City funding wouldn't go down.
2 On the other hand, it made us much more
3 cautious about providing funding to the
4 District, something for example as a
5 one-time thing, it was much harder to
6 do that because you couldn't give -- if
7 you wanted to give \$50 million for a
8 specific item, the issue is how do you
9 get around the maintenance of effort.
10 And so, it was actually in some cases a
11 bar to giving money to the District.
12 So I'm not sure that it would actually
13 help the District in the long run as
14 much as the City and the state living
15 up to the commitments.

16 COUNCILWOMAN GYM: I think
17 one of the questions would be that I
18 think that the ability to do
19 large-scale grants at different points
20 in time, like, for example, if we
21 wanted to fund a big school's
22 investment, for example, that might
23 sunset at some different point in time
24 down the road, is a much different
25 financial scenario.

1 I am curious about where you
2 would be somewhat on a maintenance of
3 effort through a recessionary period,
4 because actually you don't really -- I
5 think what the District has
6 consistently said to us about its
7 problems, particularly with the state
8 and with the federal government which
9 can withdraw money actually, because
10 again, a lot of the District's money is
11 dependent upon grants and negotiated
12 delivery as opposed to do right, which
13 is really what we should be moving
14 towards.

15 I think what we heard
16 repeatedly from them was that stability
17 and predictability is their main
18 interest, even when that may not be
19 incredibly generous. But that in times
20 of downturn, an economic downturn,
21 stability and predictability are more
22 important than whether or not they can
23 get like a sort of, I don't know, I
24 wouldn't call it a windfall, but like a
25 break in case something goes

1 horrifically bad.

2 MR. DUBOW: Right. I can
3 completely hear what you're saying and
4 I would not want us to reduce funding
5 to the District in a recession because
6 then we're just kind of doubling down
7 on their problems. I think our putting
8 money in each year of the five-year
9 plan gives them some stability because
10 they can see what we're planning to do.
11 So the combination of -- in some ways,
12 that gives them some assurance that
13 they'll get that money regardless of
14 what happens in the economy whereas the
15 property tax, income tax, those can all
16 go down and will go down when the
17 economy turns. Our giving them a
18 contribution actually kind is a steady
19 state of funding.

20 COUNCILWOMAN GYM: Do you
21 think the current relationship with the
22 District is strong enough to have good
23 stable, predictable, reliable
24 conversations about the District's
25 financial path?

1 MR. DUBOW: I think it is.
2 We have regular meetings with the CFO
3 of the School District. We go to their
4 financing and facilities committee
5 meetings. There are regular
6 discussions between the School
7 District's Chief of Staff, the Mayor's
8 Chief of Staff, between the
9 Superintendent and the Mayor and
10 between the Board and the Mayor's
11 Office so there's a lot of dialogue. I
12 think the relationship is very strong.

13 COUNCILWOMAN GYM: And you
14 think they've been accurate, for
15 example, about predicting facilities
16 conditions or the need for facilities,
17 they have a good assessment on terms of
18 infrastructure and the fact that 10
19 schools closed this year, for example?

20 MR. DUBOW: Yeah. So --

21 COUNCILWOMAN GYM: Since
22 September.

23 MR. DUBOW: Obviously, any
24 large organization has challenges but
25 that's different from our having a good

1 working relationship with them on their
2 operations and their finances.

3 COUNCILWOMAN GYM: Yes. 10
4 schools did close down since September,
5 though.

6 MR. DUBOW: Yes.

7 COUNCILWOMAN GYM: And one
8 last question, and congratulations on
9 your new position as Budget Director.

10 MS. GOREN WAXMAN: Thank you.

11 COUNCILWOMAN GYM: When we
12 give out City grants or subsidies,
13 traditionally they might be delivered
14 through the Commerce Department and
15 others, and we've done legislation that
16 requests that there's some feedback on
17 subsidies when it's specifically
18 related to job growth, job development,
19 that kind of thing.

20 Does anyone ever do any
21 evaluation of economic subsidy grants
22 in terms of how they contribute back to
23 budget revenues or to tax revenue or
24 growth and overall? Is that your
25 department that actually does that?

1 MR. GOREN WAXMAN: So what I
2 would say is actually there was
3 somewhat recent legislation that put in
4 place looking at job incentives. And
5 so, the Commerce Department took the
6 lead but with help from the Revenue
7 Department, the Budget Office, the
8 Finance Office doing an evaluation
9 starting with some of the incentive and
10 subsidy programs for when businesses
11 are granted funds.

12 So they completed an analysis
13 and delivered recommendations on a
14 number of programs, so it's sort a
15 rolling basis so that different
16 programs will get evaluated each year.
17 And that's actually what then led to
18 the inclusive growth strategy that was
19 released by the Department of Commerce
20 talking about how we could pivot, make
21 some adjustments based on how our
22 current sort of suite of programs were
23 performing against sort of expectations
24 and job growth, but also in terms of
25 inclusivity and other factors and also

1 compared to what the market was for
2 incentives from other jurisdictions.

3 COUNCILWOMAN GYM: And just
4 to be clear, that also includes
5 revenue --

6 MS. GOREN WAXMAN: Sorry.

7 COUNCILWOMAN GYM: That's
8 okay. Do you need more water?

9 MS. GOREN WAXMAN: I'm fine.

10 COUNCILWOMAN GYM: Revenue
11 and that also includes just revenue and
12 overall tax payments like defaults,
13 that kind of thing with the entities
14 that receive the subsidies. Is that
15 accurate, you'll consider that as part
16 of that --

17 MS. GOREN WAXMAN: Yeah, so
18 that was part of the analysis.

19 COUNCILWOMAN GYM: Because
20 sometimes it's just limited to jobs and
21 I want to make sure that --

22 MS. GOREN WAXMAN: Sure. So
23 what they would be looking at is sort
24 of the ROI, on those incentives, is one
25 of the things they analyzed. They used

1 an outside firm who had done this for a
2 number of different cities. And so,
3 that factored into that analysis.

4 COUNCILWOMAN GYM: And then
5 do you internally do that within
6 revenue or is this mostly outsourced,
7 that analysis?

8 MS. GOREN WAXMAN: So
9 different programs, it varies --

10 MR. DUBOW: You can take a
11 rest.

12 MS. GOREN WAXMAN: Okay, yes.
13 Thank you.

14 MR. DUBOW: It's a
15 combination. So sometimes it's outside
16 firms. Sometimes it's our Revenue
17 Department and any department working
18 in combination with Commerce and
19 Budget, so it really varies by
20 analysis.

21 COUNCILWOMAN GYM: All right.
22 Thank you very much.

23 COUNCILMAN DOMB: Thank you,
24 Councilmember Gym. I have one comment.
25 Just let me hear your thoughts on it

1 and, that is, I know that we have a
2 very, very large percentage of our
3 economy that's eds and meds,
4 educational institutions and medical
5 institutions. And while they're in
6 boom time, they're always complaining
7 they don't pay real estate taxes or
8 business taxes. In downturns, thank
9 God we have them because they are very
10 stable in our economy, very stable. So
11 we don't have the big downs as other
12 cities do.

13 And now with even the cell
14 therapy that the University of Penn is
15 doing, the tremendous cell therapy, I
16 actually think in my opinion that if we
17 experience a downturn in Philadelphia,
18 it may not be as severe as it will be
19 in other areas, which I think is a
20 positive. I'd just like to hear your
21 thoughts on that.

22 MS. GOREN WAXMAN: So one of
23 the things that we did with our stress
24 testing in the late fall was actually
25 look back to the past three recessions

1 and look by tax type. And one of the
2 things we found was our wage tax which
3 with our very large eds and meds sector
4 even in the last recession, which was
5 the largest of the three we looked at
6 in terms of depth and length, our wage
7 tax receipts were paused as opposed to
8 declined, and that was a really
9 interesting finding I think that speaks
10 to what you're talking about whereas
11 our tax types that are on for-profit
12 businesses, particularly the net income
13 portion of the BIRT saw tremendous
14 amount of volatility. And then there's
15 some tax types that are more volatile
16 based on the market that is sort of a
17 mix of the nonprofit and the
18 for-profit, our realty transfer tax.
19 And so, we do see that there is a
20 certain steadiness in -- there's an
21 interplay. We've in part got the
22 economic sort of make-up we have
23 because of the tax structure we have
24 and vice versa and an interplay there
25 that the wage taxes are a number one

1 tax source and that captures the for-
2 and nonprofit sectors.

3 COUNCILMAN DOMB: I think
4 that's a very interesting fact that you
5 brought up, that the wage tax stays
6 steady basically in a downturn. That's
7 very, very comforting, very important
8 for us to know so thank you.

9 MR. DUBOW: Yes. Really
10 where we saw in the last recession, the
11 first hits were in the BIRT and the
12 transfer tax and a little bit in the
13 sales tax, but not as much in the wage
14 tax.

15 COUNCILMAN DOMB: That's
16 good. Okay. The Chair would like to
17 recognize Councilmember Gilmore
18 Richardson.

19 COUNCILWOMAN GILMORE
20 RICHARDSON: Yes. Thank you,
21 Mr. Chair, and thank you all for your
22 testimony again. I just have a very
23 quick question relative to our
24 municipal budgeting model. I believe
25 this is our first year moving all of

1 our City departments to program-based
2 budgeting, correct?

3 MS. GOREN WAXMAN: All the
4 mayoral agencies are now doing
5 program-based budgeting. It's been
6 sort of a four-year roll-out to get
7 folks in. So some departments it's
8 year 4. For some, it's year 1.

9 COUNCILWOMAN GILMORE

10 RICHARDSON: Sure. So in my studies
11 and in grad school and I applied to a
12 PH.D. program around program-based
13 budgeting in different municipal-
14 budgeting models, so it is an interest
15 area of mine. Typically, after year 3
16 or 4, you have realized savings and
17 your change in the budgeting model,
18 have we seen any realized savings as we
19 changed our municipal-budgeting model
20 in the City?

21 MS. GOREN WAXMAN: I think
22 that one of the things that it has
23 really allowed us to do is figure out
24 where we want to direct those
25 resources. Unfortunately,

1 Philadelphia, our needs are still up
2 here and our resources are down here.

3 And so, what it lets us do is
4 sort of figure out where we're getting
5 the biggest bang for our buck. So one
6 the I would say success stories that
7 we've really seen through program-based
8 budgeting was the Health Department
9 came and showed up, you know, it's a
10 really long lag. I think it was up to
11 17 or 18 months between restaurant
12 inspections and to make sure that
13 Philadelphia residents and visitors are
14 eating in healthy and clean
15 establishments, they really wanted to
16 get to a much shorter window.

17 And what they were able to
18 say was, if you give us X amount of
19 dollars, we're going to translate that
20 into resources and we'll be able to
21 show you through this measure that now
22 we're actually getting to their goal.
23 They set themselves with 12 months and
24 actually with those extra resources,
25 they were able to start a rotation

1 where they were getting on average
2 every 11 months.

3 And so, what the program
4 based-budgeting is really allowing us
5 to do is make sure when we're
6 investigating dollars, we're getting
7 results. So it's less about figuring
8 out where we've been spending too much,
9 but figuring out where we can spend to
10 get the biggest impact.

11 COUNCILWOMAN GILMORE

12 RICHARDSON: Okay. So more on service,
13 delivery and improving our service
14 delivery to citizens?

15 MS. GOREN WAXMAN: Um-hmm.

16 COUNCILWOMAN GILMORE

17 RICHARDSON: Quickly around the
18 increase in pay and your capital
19 spending, now with our interest rates
20 being at a historic low and thinking
21 about our capital needs over time, have
22 you all been having discussions around
23 how we're planning our capital needs
24 relative to what we're able to do based
25 on the funds that we have now? And

1 then if and when something occurs, the
2 interest rate would obviously go up.
3 How are we planning for that relative
4 to our capital needs?

5 MS. GOREN WAXMAN: So we try
6 and be very thoughtful understanding,
7 one, what would our infrastructure
8 need, and we are an old city. We are a
9 city built for a lot more people than
10 currently live here. There's a lot to
11 maintain and we know that putting those
12 investments in existing and new
13 facilities, the need is here.

14 One of the things we've been
15 doing is we do our capital program, is
16 actually a six-year program, so similar
17 to the five-year plan. We do try to be
18 strategic in terms of understanding,
19 first of all, what dollars we can put
20 in without actually having to borrow.

21 And so, one of the things we
22 were able to do during the last year
23 transfer ordinance process was allocate
24 \$47 million for pay-as-you-go capital
25 investments. And so, what that does

1 for us is, one, it lets us address
2 needs that were unmet, that clearly
3 there are needs that are unmet. Also,
4 other things it lets us sort of avoid
5 borrowing for certain things that we've
6 been planning to in the coming year.

7 And so, that helps us reduce
8 our costs because high interest rate,
9 low interest rate, no interest rate is
10 even better. So that's where we're
11 putting a lot of our attention.

12 And in terms of looking
13 forward, we look a lot at that
14 interplay between the capital program,
15 how much we're borrowing and what that
16 does to our debt service in the
17 operating budget. Because as we
18 mentioned earlier in the testimony,
19 that between our debt service and our
20 pension obligations, that's 20 percent
21 of our budget so we're constantly
22 trying to be mindful that we not
23 squeeze out the funds available for
24 day-to-day service delivery by locking
25 ourselves into those fixed costs. So

1 we're constantly balancing the two.

2 And right now a lot of our
3 focus has been on when we can doing
4 that pay-as-you-go capital financing.
5 Another thing to mention about interest
6 rates and what we do, the market is
7 going to have interest rates change but
8 the control we do have is doing what we
9 can to try and improve our credit
10 rating.

11 And so, the Treasury's Office
12 was able to share with me that right
13 now our credit rating is A, which is if
14 we were one rung below that, it would
15 be BBB, right now the difference on
16 \$100 million borrowing and our interest
17 would be \$332,000.

18 If we were able to get our
19 credit rating up to an AAA, the
20 strongest there is, we would save
21 \$690,000 compared to if we were at that
22 BBB level. So being able to improve
23 our fiscal condition, improve our
24 credit rating saves us money.

25 And the second thing that I

1 haven't gotten to mention yet but I'm
2 really just going to share with you --

3 MR. DUBOW: Can I share one
4 thing about the --

5 MS. GOREN WAXMAN: Yes.

6 MR. DUBOW: So the other
7 thing in the way our bonds have been
8 selling, not only have they been
9 selling better because we're rated
10 better, they've been selling better
11 compared to the standard benchmarks for
12 other jurisdictions rated at our
13 rating, so we're actually trading even
14 better than AA, and I think part of
15 that is because of what the market sees
16 us doing with our fund balances, what
17 they see us doing with our pensions so
18 they like the progress we're making and
19 that kind of translates into better
20 results when we go to markets.

21 MS. GOREN WAXMAN: And the
22 thing I want to add onto that is the
23 other thing, in the past two years the
24 City of Philadelphia was able to avoid
25 doing a tax revenue anticipation note,

1 which in periods of time where we
2 didn't have enough cash on hand to pay
3 bills early in the year before those
4 real estate receipts and BIRT receipts,
5 we would have to borrow money. From
6 the '70s until 2018, we had to do those
7 tax revenue anticipation notes every
8 year but for one.

9 The past two years we didn't
10 have to do that. We had enough cash on
11 hand that we were able to make it
12 through. What that did was in terms of
13 the interest savings, the straight up
14 borrowing cost saves us \$2.3 million.
15 That was the average cost of doing
16 that. The four years before, we were
17 able to not do that.

18 So being physically
19 responsible, that really does free up
20 cash today. So those are the sorts of
21 trade-offs. And by paying attention to
22 our fiscal help really does make sure
23 that we can address all of the needs of
24 Philadelphians on the service side.

25 MR. DUBOW: And in 10 years

1 we've gone from having to meet weekly,
2 whether there were vendors that we had
3 to delay paying because cash was so
4 weak, to not having to do cash flow
5 borrowings.

6 COUNCILWOMAN GILMORE

7 RICHARDSON: And just really quickly, I
8 wanted to follow up on the line of
9 questioning from my colleague
10 Councilmember Gym relative to the
11 School District. How were you
12 thoughtful in the planning of this
13 upcoming budget around the increase,
14 not only capital, but really operating
15 expenses the District has incurred
16 relative to the lead and asbestos
17 issues that have been happening in the
18 District?

19 Do you give any consideration
20 to that in your planning and could you
21 just talk about that?

22 MR. DUBOW: Yes. And part of
23 our ongoing conversations with the
24 District are about their projections
25 for their needs and how they want to

1 handle things like facilities in their
2 budget and then how that reflects back
3 to what we need to do, so that's
4 definitely been part of our
5 conversations with them.

6 COUNCILWOMAN GILMORE

7 RICHARDSON: Okay. Thank you. Thank
8 you, Mr. Chair.

9 COUNCILMAN DOMB: Thank you,
10 Councilmember. Thank you for your
11 testimony today. And you should have
12 some chicken soup, Marisa. But thank
13 you very much. Thank you, Rob.
14 Will the Clerk please call the next
15 panel?

16 THE CLERK: Tom Ginsberg.

17 (Witness approached
18 Witness Table.)

19 COUNCILMAN DOMB: Good
20 morning.

21 MR. GINSBERG: Good morning.

22 COUNCILMAN DOMB: Please
23 state your full name for the record and
24 proceed with your testimony.

25 MR. GINSBERG: Thank you for

1 the opportunity to testify today. My
2 name is Thomas Ginsberg. I'm a Senior
3 Officer at the PEW Charitable Trusts
4 Philadelphia research and policy
5 initiative. We're a project that
6 produces analyses of key issues and
7 engages with decision-makers on
8 policies.

9 PEW has done extensive
10 research on the fiscal tool that we've
11 talked about today, rainy day fund
12 known here as the budget stabilization
13 reserve fund, which along with other
14 budgetary control actions is a useful
15 way for coping with and sometimes
16 taking advantage of volatility in
17 government revenues that often followed
18 swings in the economy and the tax base,
19 both up and down.

20 Governments use rainy day
21 funds to help ensure that they can keep
22 providing essential services in
23 shouldering liabilities if or when
24 their revenues fall after an extreme
25 event or an economic slump. This

1 starts with putting away a certain
2 prescribed amount into a dedicated
3 reserve during good times, and that
4 involves picking the optimum formula in
5 the timing of the deposit.

6 Our research has found that
7 Philadelphia is one of 18 major U.S.
8 cities that currently use this tool in
9 one form or another. New York City
10 actually is the latest to consider
11 joining this group of cities. We at
12 PEW held an event on the topic in
13 October 2018.

14 At that event, an official
15 from Los Angeles said that he sees his
16 city's rainy day fund as one part of a
17 tool kit for fiscal policy. He said,
18 "We don't want to be in crisis
19 management in the next downturn. We
20 want as many tools as possible for when
21 times are not as good as they are now."

22 There's a lot to learn on
23 this subject from state governments,
24 where rainy day funds are much more
25 common than in cities. 48 states

1 including Pennsylvania currently have a
2 dedicated economic reserve fund of some
3 kind.

4 Our researchers found that
5 there are some common elements in those
6 state funds, common elements of
7 well-designed funds. What we found is
8 that well-designed funds codified in
9 law, that they are institutionalized
10 with clear goals such as protection
11 from a downturn and that's important to
12 getting the most benefit from it.

13 When the rules and goals are
14 enshrined in law or formal procedures,
15 they have a better chance of remaining
16 on course through changes in the
17 elected leadership and budget
18 priorities, and they are transparent
19 for rating agencies and the public.
20 And Philadelphia can check this box.
21 Its fund is codified in the City
22 Charter.

23 Deposits, they should be tied
24 to revenue volatility, that is,
25 governments should set up their funds

1 to take advantage of growth and revenue
2 that may not be sustainable otherwise
3 or may be a one-time spike.
4 Philadelphia currently deposits a
5 defined amount based on projected
6 year-end budget surplus, not so much
7 revenue.

8 While this type of rule
9 sometimes works, the research shows in
10 states generally that it does not
11 consistently track closely to actual
12 revenues or economic trends that the
13 City may be experiencing. The amount
14 of money in the fund also matters.
15 Philadelphia's rainy day fund currently
16 holds about \$34.3 million. It was
17 created in 2011 by a ballot measure and
18 sat empty for seven years.

19 In 2019 after several years
20 of revenue growth, the Kenney
21 Administration using those rules, the
22 same rules that were laid out in the
23 Charter, made the first deposit. Like
24 other cities, Philadelphia has also
25 other reserves you've talked about here

1 today set up for various purposes. On
2 withdrawals, the experience of states
3 show the importance of clear rules on
4 withdrawals. Officials should withdraw
5 money only when the indicators related
6 to their goals show that the time is
7 right, such as a measure of economic
8 slow-down or declines in revenue and
9 they should stop withdrawals when those
10 measures show that the economic
11 conditions and revenue volatility has
12 actually improved.

13 In Philadelphia, the
14 withdrawal rules in the Charter are
15 pegged to revenues as well as
16 expenditures. They state that the City
17 can make withdrawals when actual prior
18 revenues came in at least 1 percent
19 below the year's official projections
20 or when necessary in the current year
21 to pay for emergency services or to
22 avoid material disruption services.

23 So aside from all of those
24 elements, having a codified purpose and
25 having effective deposit and withdrawal

1 rules, there is a key benefit of having
2 a well-defined rainy day fund and, that
3 is, credit agencies look at them when
4 judging a government's fiscal
5 condition.

6 Our researchers found that
7 agencies tend to look favorably on
8 governments that strictly follow their
9 rules both for deposits and
10 withdrawals. In fact, the leading
11 agencies, everything else equal usually
12 do not penalize the government for
13 taking money out of a rainy day fund
14 during downturns as long as they do in
15 accordance with the rules that they set
16 out. In other words, both depositing
17 and withdrawing under the rules can be
18 a credit positive.

19 As one analyst said during
20 our event, if you have a reserve policy
21 and you're not implementing it, it's
22 not a strengthening factor for you.
23 Thank you very much for your time and
24 attention and I'm happy to address any
25 questions I can.

1 COUNCILMAN DOMB: Thank you
2 for your testimony.

3 MR. GINSBERG: Thank you.

4 COUNCILMAN DOMB: I have a
5 few questions I wanted to ask. Are you
6 suggesting one of two things, either we
7 build it into our budget a certain
8 percentage of our gross revenue goes
9 into a reserve fund every year no
10 matter what and/or are you suggesting
11 that above the budgeted amount of
12 revenue, we take a percentage of that
13 and put it into the reserve?

14 MR. GINSBERG: Well, I don't
15 mean to be suggesting a particular
16 formula. I'm just making the point
17 that we found in our research, that the
18 states that have had rainy day funds
19 for years, they started out with the
20 kind of formula that Philadelphia has
21 now, which is measuring your budget
22 surplus and using that as an indicator
23 of how much you take out.

24 States have shifted over the
25 years to more of a strictly

1 revenue-side analysis and now looking
2 at the revenue volatility and using
3 perhaps an average of past years'
4 cases, instances where actual revenue
5 came in above projected revenue apart
6 from whatever the budget says.

7 And when you focus on that
8 side of it, then you get a measure of a
9 more -- tend to get a more accurate
10 review of what's happening in the
11 economy and your tax base. So the
12 specific percentage that's up to each
13 state. Each government sets through
14 its own process.

15 COUNCILMAN DOMB: Chair would
16 like to recognize Councilmember Gilmore
17 Richardson.

18 COUNCILWOMAN GILMORE

19 RICHARDSON: Thank you. Thank you so
20 much for your testimony. And I just
21 wanted to go back to your testimony
22 where you talked about deposits as
23 well. Philadelphia currently deposits
24 a defined amount based on projected
25 year-end budget surplus.

1 Can you talk about some other
2 municipalities and/or states that
3 utilize the other format where they
4 make contributions throughout the year
5 based on the actual numbers that come
6 in?

7 MR. GINSBERG: Some of our
8 research has looked at Utah, Texas I
9 believe has adopted this sort of
10 process. Now, economies are different
11 in those places too of course and those
12 are state-wide systems rather than our
13 city-wide. But as I said, I think
14 around -- I'm sorry. I'm doing this
15 from memory a little bit. Out of the
16 48 states, a fair number now have moved
17 over to revenue rules.

18 I could get you the exact
19 list of states that actually do that.
20 And actually just last week ahead of
21 this hearing, we decided to start
22 looking deeper at what cities do in
23 that regard also, so we will dig into
24 that and I'll let you know.

25 COUNCILWOMAN GILMORE

1 RICHARDSON: Okay. Thank you so much.
2 That will be most helpful. Thank you.

3 COUNCILMAN DOMB: I have
4 another question for you actually.
5 Hearing the Budget Director's testimony
6 about the wage taxes in the prior
7 recessions, that they were basically
8 flat which I thought was very positive
9 versus going down. I thought that was
10 a great indicator of our economy in a
11 downward recession.

12 Have we looked at other
13 cities to see any other indicators
14 they've lost further than Philadelphia
15 so that we can say we're actually in a
16 better position to weather a downturn?

17 MR. GINSBERG: Well, there
18 are a few things that happened in the
19 economy that happens to the tax base,
20 and some taxes are more exposed to what
21 happens in economy than other
22 obviously. Generally speaking, and I
23 can't speak to exactly the comments
24 about the City's wage tax. Generally
25 speaking, income taxes are more

1 susceptible to movement with economy
2 than say property taxes, which tend to
3 be much more stable with ups and downs.

4 And some of our analysis has
5 looked at again the state level and we
6 haven't done as much at the City level,
7 but it goes to my point about revenue
8 volatility. Revenue volatility can be
9 measured and tends to be -- revenues
10 tend to be more volatile when an area
11 is more dependent on income-type taxes
12 rather than property taxes or some
13 other stable source.

14 Now, what was happening
15 specifically in the health care sector
16 here, which is our biggest sector, it's
17 hard to know. There are a lot of other
18 things in that sector that would affect
19 the wage taxes going up and down. By
20 its nature, it's a more stable industry
21 than pick almost any other. So there
22 might have been a lot of things going
23 on there.

24 I can just tell you that our
25 research has shown revenue volatility

1 is higher in places that are more
2 dependent on income-type taxes.

3 COUNCILMAN DOMB: In your
4 opinion, we heard the Administration
5 saying we're shooting to 8 to 9 percent
6 in reserves, but I guess the accounting
7 professionals are saying that we should
8 be looking closer to 17 percent.
9 What's your opinion on those two
10 different numbers?

11 MR. GINSBERG: So I don't
12 have an opinion particularly on that.
13 The association, the GFOA, that sets
14 that 17 percent has been setting that
15 for quite a while and they've looked at
16 it over the years and I will just defer
17 to them. It's not the kind of research
18 that we do.

19 COUNCILMAN DOMB: All right.
20 But in simpler terms what they're
21 saying I guess is we have one month
22 reserves versus two month's reserves.

23 MR. GINSBERG: That's the way
24 the GFOA usually phrases it. They can
25 express it either as a percentage, but

1 it's what is often they've said they
2 found more useful to express it in how
3 many days of funding do you have for
4 your expenditures.

5 COUNCILMAN DOMB: Okay.
6 Well, thank you very much for your
7 testimony. Thank you.

8 MR. GINSBERG: Thank you.

9 COUNCILMAN DOMB: This
10 concludes the hearing on Resolution
11 200039. And I want to thank everybody
12 for participating and I want to thank
13 the sponsor for bringing this forward.
14 Thank you very much. Thank you.

15 COUNCILWOMAN GILMORE
16 RICHARDSON: Thank you.
17 (Committee on Fiscal
18 Stability and Intergovernmental
19 Cooperation concluded at 11:45 a.m.)

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

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

Court Reporter - Notary Public

(The foregoing certification of
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