COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE OF THE WHOLE

Room 400, City Hall
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Wednesday, June 8, 2011
10:35 a.m.

PRESENT:
COUNCIL PRESIDENT ANNA C. VERNA
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BILL 100542 - An ordinance amending Section 22-310 of The Philadelphia Code, entitled "Deferred Retirement Option Plan (DROP)," by immediately terminating DROP...

BILL 110443 - An ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending the options for retirement benefits...

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

I would ask Mr. McPherson to please read the title of the bills that we will be considering today.

MR. McPHERSON: Bill No. 100542, an ordinance amending Section 22-310 of The Philadelphia Code, entitled "Deferred Retirement Option Plan," by immediately terminating DROP, under certain terms and conditions.

Bill No. 110443, an ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending the options for retirement benefits; in particular, amending Section 22-310, entitled "Deferred Retirement Option Plan," by making various changes to DROP to reduce its costs, including, but not limited to, changing eligibility requirements and the interest credited to DROP accounts; adding a new option for retirees to take a lump sum benefit at retirement, in exchange for an actuarial reduction of their regular monthly pension; and making conforming amendments to other provisions; all under certain terms and conditions.

COUNCIL PRESIDENT VERNA: Thank you.

Good morning. Please identify yourself for the record and proceed with your testimony.

MR. AUERBACH: Good morning, Council President Verna and members of Council. I am Rick Auerbach, City Council Technical Staff. I have been asked to begin these hearings on DROP by explaining --

MR. FISHER: We can't hear him.

MR. AUERBACH: I have been asked to begin these hearings on DROP, the Deferred Retirement Option Plan, by explaining exactly what DROP is, why DROP may impose costs on the pension system, and how Bill 110443 would reduce the cost of DROP. After I complete that summary, Council's actuarial consultant, Tom Lowman of Bolton Partners, will explain in more detail the cost impact of Bill 110443.

What exactly is DROP, the Deferred Retirement Option Program?

To understand DROP, you must first understand how the City of Philadelphia's pension system works. The City offers its employees what is known as a "defined benefit" pension plan. In a "defined benefit" plan, the City promises to pay its retired employees a guaranteed pension each year of retirement. The amount of that pension depends on the number of years the employee worked for the City and the employee's salary. Take as an example a police officer who was hired in 1985 and retired last year after working for the Police Department for 25 years. Police officers hired in 1985 earn a pension of 2 and a half percent for each year worked. So in our example, the police officer after 25 years would have accumulated a pension of 62 and a half percent. That's 2 and a half percent multiplied by 25 years. To determine the police officer's annual pension, that percentage amount, 62 and a half percent, is multiplied by the police officer's average final compensation. There's a complicated formula for that, but roughly speaking, it's the salary the police officer was making right before retiring. So if the police officer's last salary, for example, was $65,000 a year, then that police officer's annual pension will be 62 and a half percent of $65,000, or $40,625 each year.

All City employees in the City pension system earn a pension based upon this same method. The employee earns a fixed percentage pension amount each year, and the total percentage earned up to the day of retirement is multiplied by the employee's average final compensation to determine the amount of the pension. The details of what percentage is earned each year and how average final compensation is computed differ for each category of employee. There are different plans for police and fire employees, civilian employees and elected officials, and different plans for employees hired before a certain date and those hired after a certain date. But in broad outline, every employee's pension is determined by years of service and salary.

An employee generally may retire and receive a full pension when he or she reaches minimum retirement age. That minimum retirement age is different for different categories of employees. For example, newly hired police and fire employees may retire and receive full pensions at age 50; for newly hired civilian employees, it is age 60; and for civilian employees hired before 1987, age 55.

However, no employee is required to retire at his or her minimum retirement age. If the employee continues to work past minimum retirement age, the employee will continue to add to his or her pension benefit each year, both by earning an additional percentage amount and because the employee's salary may be increasing.

Once employees do retire, they are free to take a job with another employer, and they will continue to receive a full City pension check even while working full time for some other employer. But if a retiree is rehired by the City -- and, by the way, nothing in the Charter or civil service rules prohibits that -- then the pension will be suspended for as long as the rehired employee receives a salary from the City. In short, the rule is that no one may receive both a pension check and a salary check from the City.

There is one exception to that

rule, and that brings us to DROP. When all is said and done, DROP is nothing more or less than a one-time four-year exception to the rule that no one may receive both a pension check and a salary check from the City.

To be eligible for DROP, employees must have worked for the City for at least ten years. In addition, employees may enter DROP only if they are otherwise eligible to retire and to begin to receive regular retirement benefits. Employees who enter DROP are treated as if they had retired on the day they joined DROP. The employee's pension amount is calculated based on years of service and salary using the exact same formula as if the employee had retired. The pension, however, is not paid directly to the employee. Instead, it is credited to the employee's DROP account. When the employee finally separates from employment with the City, which must occur no later than four years after the employee entered the DROP, the pension benefits that have been credited to the DROP account are paid to the employee in a lump sum, together with annual interest at 4 and a half percent. After receiving the lump sum payment, the former employee continues to receive each month the exact same pension that had previously been credited to his or her DROP account. That's because the employee's pension benefit is frozen as of the date the employee entered DROP, and the employee does not earn additional pension credits based on years of service or salary increases while in DROP.

In short, DROP does not give an employee any greater pension benefits than the employee would have received, could have received and was entitled to receive had the employee chosen to retire on the day the employee entered DROP.

In fact, if an employee were to be fired the day after entering DROP so that the employee was in DROP for only a single day, the employee would still receive the exact same pension benefits as if the employee had remained in DROP for four years. Instead of those benefits being paid into the employee's DROP account for four years and then paid out in a lump sum, the same pension benefits would be paid to the fired employee on a monthly basis. An employee in DROP does also receive interest -- and I will discuss that later -- but putting interest aside and looking just at pension benefits, there is no difference between entering DROP and a regular retirement the same day.

In other words, DROP is not, as you sometimes hear, some kind of bonus that is paid in addition to an employee's pension. It is the employee's pension or, to be exact, the first four years of the employee's pension paid into a special account. It is true that the employee continues to work for the City during those four years and, of course, benefits by being paid a salary during that time, but the employee does not accrue any additional pension benefits during that time. From the pension point of view, there is no difference between an employee entering DROP on a particular day and the employee retiring that same day.

This means -- and this is the key point to understanding the cost of DROP -- if all employees enter DROP at the same age they would have otherwise retired, then in terms of pension benefits, DROP would impose zero cost on the Pension Fund. I understand this is difficult for some to understand, but the fact that employees receive large lump sum payments with DROP has absolutely nothing whatsoever to do with whether DROP does or does not cost money. Again, if the employee had elected a regular retirement instead of entering DROP, the employee would have received the exact same pension benefits as the lump sum paid in DROP, but those benefits would have been paid directly to the employee each month instead of in a lump sum after four years.

So why does DROP cost money if it does not give participants any greater pension benefits than if they had retired the same day they entered DROP? The primary reason, not surprisingly, is that employees generally are not entering DROP on the same day they otherwise would have retired. They generally enter DROP sooner than they would have otherwise retired, and because of that, they begin to take money out of the Pension Fund sooner than they otherwise would have and for a longer period of time. This can result in additional cost to the Pension Fund.

Let's look at an example. Consider an employee who is in a pension plan with a minimum retirement age of 55. Suppose that without DROP that employee would have retired at age 58, but with

DROP available, the employee decides to enter DROP at age 55 and remain in DROP for four years. That means that the employee will finally leave City employment at age 59 rather than age 58 as would have been the case without DROP. The employee will have extended his or her City career by a year, from age 58 to age 59. But, more importantly, that employee will, in effect, begin to receive a pension and take assets out of the Pension Fund at age 55 rather than at age 58.

The DROP pension credit that will be credited to the employee at age 55 will be less than the pension the employee would have received if he or she had retired at age 58 without DROP. That's because if the employee did not enter DROP, he or she would have continued to earn greater pension benefits because of the additional years of service and possible salary increases from age 55 to age 58. Whether this particular employee benefits from DROP and whether his or her participation in DROP imposes a cost on the Pension Fund depends on whether the employee is better off with a smaller pension beginning at age 55 or a larger pension beginning at age 58. That is a complicated question. It depends on such technical issues as life expectancy, the interest rate used to discount future payments and other factors. It is not always clear which is the better choice, since it depends on each person's individual situation.

However, on the whole, the employees who have been deciding to enter DROP have been better off taking a smaller pension earlier, and that is the primary reason why DROP has cost the City money.

Another reason DROP may cost money is because of the 4 and a half percent interest rate paid on DROP accounts. When DROP was created in 1999, it was recognized that the Pension Board would be holding the money being credited to an employee's DROP account for up to four years. During those four years, the Pension Board would be investing the employee's DROP money and earning a return. It was believed as a matter of fairness that DROP participants should share in the gains earned on their money. When DROP was created, the Pension Board assumed a 9 percent return on its investments. So the decision was made to split that assumed 9 percent return equally between the Pension Fund and DROP participants, 4 and a half percent each, the thought being that the Pension Fund's share would offset any potential costs of DROP.

That is the origin of the 4 and a half percent interest rate credited to DROP accounts. In fact, if you review the transcripts of the hearing on the bill that created DROP, you will see that the primary concern was whether the 4 and a half percent interest rate was too low given the outsized returns that were then being earned in the stock market. Because of that concern, the Pension Board was authorized to increase the interest rate above 4 and a half percent, but not to decrease the interest rate below 4 and a half percent.

Of course, we all know what happened to the outsized returns being earned in the stock market in the late 1990s. The 4 and a half percent interest rate, which once generated concerns that it would be unfair to DROP participants, now seems to be too generous, especially given the very low interest rates now being paid on savings accounts and given that the City bears the risk of poor investment performance while the 4 and a half percent interest comes with no risk to DROP participants.

To summarize, DROP may impose costs for two main reasons. First, and most significantly, it may cause employees to retire sooner than they otherwise would have. Second, the interest paid on DROP accounts might be too high.

Bill 110443 directly addresses those two cost factors.

First, in response to the earlier retirements resulting from DROP, the bill would delay eligibility for DROP for two years after an employee reaches minimum retirement age. An employee could still choose to retire at his or her minimum retirement age, but if the employee wished to enter DROP, he or she would have to wait an additional two years. For example, civilian employees under the older pension plan with a minimum retirement age of 55 would have to wait until age 57 before entering DROP, although they could still choose a regular retirement at age 55. Civilian employees hired under the newer pension plan could still retire at their minimum retirement age of 60, but would have to wait until age 62 to enter DROP.

Uniformed employees under the newer plan with a minimum retirement age of 50 would not be able to enter DROP until age 52.

The second cost-cutting feature of the bill is that it would reduce the interest paid on DROP accounts. Instead of the 4 and a half percent interest rate, the interest rate would be adjusted each year to equal the interest rate then being paid on one-year United States Treasury bonds. That is the so-called "risk free" interest rate suggested by Boston College in its study of the cost of DROP. The current yield on one-year Treasury bonds is about two-tenths of one percent. However, because there's always the possibility that Treasury yields might increase significantly in the future, even above the current 4 and a half percent interest paid on DROP accounts, the bill would also cap the interest rate at one-half of the Pension Fund's assumed rate of return. Currently, the Pension Fund assumes an average return of 8.15 percent on its investments. So DROP interest would be capped at half that, or about 4 percent. To summarize, under Bill 110443, the interest paid on DROP accounts would be readjusted on January 1 of each year to equal the then-current yield on one-year Treasury bonds or the 4 percent cap, whichever is lower.

I will leave it to Tom Lowman of Bolton Partners to explain in more detail the impact of these two changes on the cost of DROP. But let me first explain two other important features of the bill.

First, the bill includes an effective date section which provides that those employees who are eligible to apply for DROP now or within 90 days after the bill becomes law would not be impacted by the bill. Instead, those employees would continue to be eligible for DROP as it currently exists. This provision keeps Council's promise as expressed in Resolution 100688, adopted in October of 2010, that -- and I'm quoting from the resolution -- "in the event Council enacts legislation revising or curtailing DROP, any such legislation will provide all City employees who are eligible to enroll in DROP by virtue of their age and years of service with a 'window of opportunity' to enroll before any changes affecting their eligibility take place."

That resolution was adopted out of concern that if employees believed DROP would be eliminated, there would be a "run on the bank"; that is, hundreds, if not thousands, of DROP-eligible employees would apply for DROP before its elimination. And, in fact, within a week after the Mayor announced last August that he would send to Council legislation to eliminate DROP, almost 500 DROP applications were filed with the Board of Pension, and that number increased to nearly 1,200 within two months. After

Council adopted the resolution reassuring employees that there would always be a window to apply for DROP, even if DROP were to be eliminated, almost half of those applications were withdrawn or not acted upon.

If no such window were provided, then any cost savings that would be realized by amending DROP might be offset, at least for a substantial period of time, by the additional costs incurred by the rush of DROP-eligible employees to enter DROP, and this would be even more true with respect to the Administration's bill to eliminate DROP, as DROP-eligible employees would be faced with a "use it or lose it" scenario.

Finally, in addition to the two changes to offset the cost of DROP, the bill would also add a new partial lump sum benefit option. Under this option, which would not be available to anyone who signed up for DROP, an employee at retirement could choose to take up to three years of benefits in a lump sum. This lump sum benefit would be completely offset by the employee taking a reduced monthly pension check for life, so as to guarantee that no new costs would be imposed on the Pension Fund. But for employees who are not interested in DROP, it would provide an additional way for them to receive a lump sum at retirement.

I hope this explanation has helped to clarify what the DROP program is, why DROP does and does not impose costs on the Pension Fund, and how Bill 110443 addresses those costs. Tom Lowman of Bolton Partners will now provide a little more detail on the cost impact of the bill, and then we would be happy to take your questions.

Thank you.

COUNCIL PRESIDENT VERNA: Good morning, Mr. Lowman. Welcome.

MR. LOWMAN: Good morning. Good morning, Council President Verna and members of the Council. My name is Tom

Lowman. I'm an actuary with Bolton Partners. I've been hired by the City Council to look at the impact of changes to the DROP program.

My detailed comments are contained in a letter from me dated June 1st. I'd like to submit a copy of that for the record when we're done here. This morning, though, I'd like to briefly go over some of the key points from that letter.

Overall, the DROP program has been a cost to the Pension Fund. The nature of this cost is sometimes difficult to understand since the members in DROP are getting no more than they would have received had they retired when they entered DROP. However, the DROP has changed past employee behavior, which has led to there being a cost.

I understand that there are two bills you are considering. One is from the Mayor, Bill No. 100542, which would eliminate the DROP program. This will eliminate future costs of the DROP program, but not until one final rush of employees enter the DROP. This "run on the bank" will have some cost.

The other bill, City Council Bill No. 110443, has several features, and I would like to briefly cover each one of them.

The proposed changes are unlikely, though, to eliminate all the cost of the DROP provisions. However, they go to the material -- they go a material way in that direction.

The first change is to -- under the City Council bill is to delay the DROP entry by two years. Because this change would not apply to those currently eligible for the DROP program, we looked at the cost only for those not yet eligible. We expect this change will make DROP less attractive to many members and change the behavior of some who would still elect DROP.

We focused on the municipal

plan members; that is, non-uniform employees, since public safety members already seem to work longer under the existing DROP provisions and we believe that this additional public safety service was offsetting any cost increase to the value of the benefit under DROP.

There are two groups of municipal members, though: Group J employees who are in the old 1967 plan and can generally retire or join DROP at age 55 and Group Y employees who are in the new 1987 plan and generally can retire or join DROP at age 60. We expect that the two-year delay will eliminate most of the costs for Group Y, which has already shown that they work fewer years beyond the normal retirement age than Group J. We do not expect the same savings from delaying the entry into DROP for the pre-1987 Group J employees, though. For this reason, we focused on the cost for Group J employees.

There are roughly 2,600 Group J

employees not yet age 55. We estimate that the cost difference between eliminating the DROP versus keeping the DROP with a two-year delay will be in the range of $15 to $20 million. This is a present value, sort of one-time cost, not an annual cost.

The second provision is the grandfathering of existing employees who are already DROP eligible. As I already noted, Bill No. 110443 also provides that changes only apply to employees not eligible to participate in the DROP as of the date that the bill takes effect. There are about 1,600 employees over age 55 in Plan J who would remain covered under the original DROP provisions. Our estimate of the cost for this group is between $25 and $35 million.

We believe that a similar range of costs would be incurred for this group under Bill No. 100542 if a significant percent of those employees who were eligible elect to take DROP before it is eliminated, which I believe is likely. My point is that under the bill, that bill, the Mayor's bill that would eliminate the DROP, it grandfathers employees who apply for the DROP before the bill becomes law and, therefore, does not eliminate all of the costs from that group.

The third change in the City Council bill is to lower the DROP interest crediting rate. Historically, such a change would have saved between one and one a half million dollars per year. We expect to have fewer members who will elect DROP in the future, which would reduce these savings, but based on the current yields on one-year treasuries, it's so low that the savings though still could be higher unless yields increase.

Finally, the City Council bill also gains a Partial Lump Sum Option, or PLOP. A PLOP allows retiring members to take a portion of their benefit as a lump sum and reduce the annuity by the actual equivalent of the lump sum paid. Unlike the DROP, this would likely be a cost-neutral design. There is some question as to the assumptions used to determine the actual equivalence. Currently, the Board of Trustees sets these assumptions. The current set of assumptions would be favorable to the City, but you might want to ask the Board if they intend to change the assumptions that they would use for this PLOP, or Partial Lump Sum Option.

I'd be happy to answer any questions. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you.

Oh, I'm sorry. Councilman Green is a little slow.

Councilman Green.

COUNCILMAN GREEN: Thank you for your testimony. I'm just curious, did you calculate the present value of eliminating or reducing the interest rate if you were to, say, compare what people are getting now versus -- and I know we can't predict interest rates going into the future, but making some sort of assumption about the difference between 4 and a half percent and what we actually end up having to pay and bring that back to present value?

MR. LOWMAN: I could answer that in terms of the effects on an individual or sort of the plan as a whole. I think you're probably asking for the plan as a whole perhaps? In the case of the plan of the whole, the first thing to remember is that this change doesn't apply to anyone who is currently in the DROP. Therefore, there's really no immediate impact. So it would take several years before this would really ramp back up. And we would expect that somewhere in the neighborhood of -- again, there would probably be fewer people in DROP in the future, but say a million and a half dollars per year would be the savings to the Pension Fund. They would put about a million and a half dollars per year less into people's benefits, into their DROP accounts.

COUNCILMAN GREEN: So a million and a half a year for 30 years brought back to present value is what?

MR. LOWMAN: Let's just call it $20 million.

COUNCILMAN GREEN: Thank you.

Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Again, I thank you.

MR. AUERBACH: Thank you.

COUNCIL PRESIDENT VERNA: Our next witness.

MR. McPHERSON: Rob Dubow.

(Witness approached witness table.)

COUNCIL PRESIDENT VERNA: Hi, Rob.

MR. DUBOW: Good morning, Council President Verna and members of City Council. I am Rob Dubow, Finance Director for the City. Thank you for the opportunity to testify on behalf of the Nutter Administration.

I am here to testify and answer questions on two bills related to the DROP. Bill 100542 would immediately terminate the DROP, and Bill No. 110443 would make a variety of changes to DROP, intended to reduce its costs, including changing eligibility requirements and the interest credited to DROP accounts and adding a new option for retirees to take a lump sum benefit at retirement in exchange for an actuarial reduction of their regular monthly pension, also known as a PLOP.

The Administration strongly supports Bill 100542, which would terminate DROP.

As Mr. Auerbach explained, DROP was created with the intent of being a human resources planning tool that would not have material costs. Unfortunately, DROP has had material costs and has not been used as an effective human resources planning tool. The cost of DROP was estimated in studies commissioned both by the Administration and by Council, and while those studies provided different cost estimates, they both came to the conclusion that DROP had a substantial cost, at least 100 million to date and potentially substantially more, and that's a cost that neither the Pension Fund nor taxpayers can afford.

Like Bill 100542, Bill 110443 recognizes that DROP is too costly and it is designed to reduce that cost. While the bill likely would achieve the goal of reducing costs, an analysis by Bolton Partners, City Council's actuarial consultant, concludes that even after the bill's changes, DROP would have a cost. The analysis also makes clear that the exact cost of DROP would depend on future participant behavior, which obviously is not in the City's control.

As you will recall, future behavior has always been one of the unknowns surrounding the cost of DROP, and as participants make the rational decision to maximize their DROP benefit, they also increase the cost to the Pension Fund and to taxpayers.

Continuing to fund DROP, even in a reduced form, imposes an additional burden on a pension system that is only 47 percent funded. This 47 percent funding ratio is one of the weakest among major American cities. Although DROP is not the main driver of the weak financial health of the pension system, it has been a contributing factor. Eliminating DROP will, in our view, in the long run improve the overall health of the system.

The health of the Pension Fund has deteriorated even while the City's pension contributions have increased dramatically. Those pension costs are consuming ever-increasing portions of the City's revenues. In just five years, the pension costs doubled from about 230 million in FY04 to about 460 million in FY09. At the same time, the pension system's funding percent dropped from about 77 percent in 2001 to the 47 percent that we're facing today.

A system as poorly funded as the City's simply can't afford the extra burden of a DROP, even one with the likely reduced price tag created by Bill No. 110443.

There are some concerns that immediately terminating DROP might be more costly to the City compared with the proposed bill to make changes to DROP to reduce its costs. Although the Administration understands those concerns, we do not believe that they are necessarily valid.

The concern about added costs is related to fear that employees will rush to enter DROP before it is eliminated. While employees may be motivated to submit applications to enroll in DROP if they believe the program will be eliminated, that enrollment would only create an extra cost for the Pension Fund if employees choose to enroll at a time that would provide them with greater pension benefits than they would have received based on the date they would have entered DROP if it were not being eliminated. If, on the other hand, employees chose to enter DROP on a date that lowers their pension benefits, a potential rush created by the end of the DROP could actually reduce the pension system's long-term costs.

Before concluding, I'd like to commend Council for its willingness to address this issue and considering ways to reduce the cost of the DROP. Any steps to address the health of the City's pension system are vitally important.

In conclusion, I urge you to pass Bill 100542 to eliminate DROP, and I'm happy to answer any questions you may have.

COUNCIL PRESIDENT VERNA: Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT VERNA: Oh, just a moment, please. Everybody is a little late.

Councilwoman Tasco, did you want to be recognized?

COUNCILWOMAN TASCO: No.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

MR. McPHERSON: Our first witness is Austin Dutton.

COUNCIL PRESIDENT VERNA: Is Mr. Dutton here?

(No response.)

MR. McPHERSON: Jerome Avery.

(No response.)

MR. McPHERSON: Jerome Avery.

(No response.)

MR. McPHERSON: Zack Stalberg.

(Audience members booing.)

(Witnesses approached witness table.)

MR. STALBERG: I'm Zack Stalberg, President of the non-partisan Committee of Seventy. This is Ellen Mattleman-Kaplan --

(Applause.)

MR. STALBERG: This is Ellen Mattleman-Kaplan, Vice-President of the Committee of Seventy. We are here to urge City Council to abolish DROP immediately for all City employees who have not already applied for the program.

The Committee of Seventy can talk endlessly about DROP, and some members of Council think we already have. I will try to keep this simple.

The public hates the DROP program. It has become the symbol for arrogance and entitlement. No program like this one would be preserved in the real, non-government world today.

Next January, at least six new City Council members will be sitting in this Chamber, in large part because of prolonged, intense anger over this pension benefit.

Despite clear evidence of the public's outrage, this Council appears determined to save this unnecessary perk. This is happening at a time when the taxpayer-supported fund out of which lump sum DROP payments are made is already $5 billion short of where it should be in order to honor existing pension promises.

Continuing to provide lump sum DROP payments of whatever size further impacts the Pension Fund assets and requires larger contributions of City tax dollars from the General Fund.

After two years of successive tax hikes, a proposal is on the table to raise taxes for yet a third year. This Council should be focused on reducing the burden on Philadelphia taxpayers, not salvaging programs that would in any way add to this burden.

On the day after Michael Nutter was sworn in as Mayor, the Committee of Seventy asked him why DROP should continue. We were concerned about the effects of the ballooning pension crisis. Three and a half years and several debatable studies later, we are still asking the same question.

We recognize that members of this City Council believe DROP has been misunderstood. There is little doubt that by many people it is. Some members of the Council believe it has been deliberately misconstrued by the news media, the Committee of Seventy and others.

What we believe is that foot-dragging by City Council and by the Mayor, whose position we support today, has allowed DROP to become a festering wound that no one in this city is able to view dispassionately.

Once again we ask, why does Philadelphia need DROP?

DROP provides no benefits for ordinary taxpayers. Only the City employees benefit from DROP. The rest of Philadelphia taxpayers do not. If the City is unable to --

COUNCIL PRESIDENT VERNA: One moment, sir.

Please, let's respect each other. Thank you.

Please proceed.

MR. STALBERG: Thank you very much.

Only the City's employees benefit from DROP. The rest of Philadelphia's taxpayers do not. If the City is unable to attack its pension problems which Philadelphia's fiscal overseer, the Pennsylvania Intergovernmental Cooperation Authority, has called the City's greatest long-term fiscal challenge, its ability to provide essential services for everyone who lives, works and visits Philadelphia is threatened.

DROP doesn't make government work better. Any pretense that a government-wide perk like DROP is needed in order to keep experienced employees on the job after they might otherwise have retired disappeared long ago. That was the supposed purpose for starting DROP in 1999. It certainly is not necessary in today's economic environment.

DROP helps keep the workforce large and intact. Instead, as Councilman Bill Green told the Task Force on Tax

Policy and Economic Competitiveness, serious steps must be taken to cut the workforce if Philadelphia expects to operate efficiently and without cutting services.

So far, City officials have shown themselves unwilling to make the kind of tough decisions that are vitally necessary for this large, and largely poor, City to reduce the size of government and use the remaining resources smartly. Keeping DROP even in an amended form is one more example of avoiding the tough decisions.

Cost neutrality is speculative at best. Council says its new and improved DROP program will be cost neutral. That is just what the public was told when DROP was hatched in 1999. By Council's latest measure, the 11-year cost of this supposedly cost-neutral DROP program was a mere $100 million.

Most actuaries say that cost neutrality can only be judged by actual experience. Gaining that experience could cost Philadelphia taxpayers a great deal more money.

And while we are waiting to see whether an amended DROP program is truly cost neutral, we can also look forward to the new system for taxing City properties, which we're also told will have a neutral result.

DROP is not entitlement. Eliminating DROP will not deprive any current or future City employees of the full pensions they earn and deserve. It will not move workers from one type of pension program to another.

At a time when most private-sector employees who still have jobs have had their benefits diminished, Council's insistence on rescuing DROP ignores cold economic realities. Instead, Council should be leading the way for overall long-term pension reform.

Philadelphia is not the only government that is scrutinizing DROP programs. San Diego adopted DROP for its employees in 1997. A decade later it shut the program down for any employee hired after July 1st, 2005.

San Francisco is battling over the continuation of DROP for police officers, which is set to expire on July 1.

Efforts to enact DROP failed in New York City.

And then there's Baltimore, which, like this City Council, started down the tweak-it road. But in 2010, a task force created by the then-City Council President in Baltimore recommended abolishing DROP altogether.

The Task Force on Sustainable Funding of Baltimore's city, fire and police pension system said that reducing the interest rate earned on the set-aside DROP payment accounts of employees, which is what Philadelphia seems poised to do, is, quote, "inadequate to address the long-term problems of cost and relevance," close quote, of the DROP benefit. Baltimore's City Council ignored the warning and buckled.

This Council can honor the public's outrage over DROP. It can take the responsible fiscal step and it can help battle the City unions that threaten to go to court to fight even a less costly DROP program.

Or in an effort to hold on to the votes of City workers and their families, City Council can further stoke cynicism in government and make losers out of every other taxpayer.

Thanks very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you, Mr. Stalberg.

MR. STALBERG: Thanks very much, Council President.

MR. McPHERSON: Cathy Scott.

(Applause.)

(Witness approached witness table.)

MS. SCOTT: Good morning, President Verna and members of City Council.

COUNCIL PRESIDENT VERNA: Good morning.

MS. SCOTT: My name is Catherine Scott, President of AFSCME District Council 47. My union represents approximately 4,000 employees in the City of Philadelphia, the First Judicial District and the Philadelphia Parking Authority who are members of the City pension plan. Thank you for the opportunity to testify today.

Before I address this specific legislation, I would like to provide some facts, which I know you as City Council members know, but have been so distorted or misrepresented that they need to be clearly stated.

First, pensions are a negotiated benefit, like wages.

Second, once the contribution has been bargained, pension payments are not taxpayer dollars. They are paid by the Pension Trust Fund to retired employees.

Third, our members pay into the Pension Fund out of every paycheck. If they are in the J plan, they pay 3.75 percent of their salary from the day they start working. If they are in the Y plan, which is a lower benefit than the J plan, they have paid a percentage set by the plan actuaries each year. Our members have never missed a pension payment.

(Applause.)

MS. SCOTT: Fourth, District Council 47-represented employees do not return to City employment after completing their deferred retirement option program.

(Applause.)

MS. SCOTT: Five, the City has failed to make its pension payments, sometimes skipping entire years, sometimes paying less than what they actuarially are required to pay, as is currently happening under this Administration.

As to this proposed legislation, City Council is relying on various actuarial analyses to evaluate the cost of DROP. A Bolton analysis dated June 1, 2011, which has just been testified to, to City Council contains an analysis for Plans Y and J in which our members participate. On Pages 3 and 4, Bolton has multiple assumptions, one of which is two years of wage increases since the Boston College study. As we all know, non-uniformed union-represented employees have not had wage increases since July 2007.

(Applause.)

MS. SCOTT: And step increases in longevity have been frozen by this

Mayor since July 2009.

(Applause.)

MS. SCOTT: Why would anyone accept, much less believe, any cost analysis which can't get basic information like salaries correct?

(Applause.)

MS. SCOTT: Both the Boston College study and now the Bolton study are fraught with incomplete and inaccurate information.

For several years, both the Inquirer and the Daily News have attacked City pensions in general and DROP in particular citing the so-called cost of the program. On June 3rd, 2011, the Daily News switched its attack with an editorial stating, quote, "DROP is no longer about the money," end quote. It acknowledges, quote, "in fact, DROP was always just a raindrop in the tidal wave of pension problems headed for the City. DROP is now about confidence in government," end quote. And I heard

Mr. Stalberg refer to it, too.

Rather what this has always been about is a relentless attack against City employees and defined benefit pensions.

(Applause.)

MS. SCOTT: This most recent bait and switch should be seen for what it is. Just as the citizens of Wisconsin have recognized that attacks against public employees was never about balancing the budget, our daily papers are now revealing their true anti-worker goals.

(Applause.)

MS. SCOTT: The Deferred Retirement Option Program is part of the existing pension program and, as such, is a mandatory subject of bargaining and can only be addressed at the bargaining table for union-represented employees.

Thank you for the opportunity to testify today.

(Standing ovation.)

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COUNCIL PRESIDENT VERNA: Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you, Ms. Scott.

MR. McPHERSON: Tom Jennings and John McNesby.

(Applause.)

(Witnesses approached witness table.)

COUNCIL PRESIDENT VERNA: Good morning.

MR. McNESBY: Good morning.

COUNCIL PRESIDENT VERNA: Kindly identify yourself for the record and proceed with your testimony.

MR. McNESBY: John McNesby, President, Fraternal Order of Police, Lodge No. 5.

(Applause.)

MR. McNESBY: Good morning, members of Council. I wish to thank you for the opportunity to briefly address you this morning.

I have the honor this morning of representing 6,400 remaining police officers of the Philadelphia Police Department. In 1999, each and every one of these officers were promised by this Council that when they are finally eligible to retire, after a lifetime of service to the City, they could elect to participate in the Deferred Retirement Option Program, DROP, as it was then established. Now, some 12 years later, you are considering breaking that promise.

I am here today to review some basic facts with you regarding the police officers' actual participation in the DROP program, our relationship with the City and basic fairness. Hopefully you will then revisit the wisdom of proceeding with the attempt to unilaterally modify or even eliminate this pension benefit.

I hasten to note that I am here

today only on behalf of your active police officers and the FOP that serves as their collective bargaining representative. While I believe that I have a firm hold on the facts surrounding DROP as it applies to police officers, I make no pretense of understanding DROP's application to the thousands of other City employees who are represented by their three unions. The representatives of those unions are more than qualified to address the interest of their respective members, and undoubtedly will do so before these proceedings come to a conclusion, as we have just heard from Cathy Scott.

The DROP pension benefit was enacted in 1999 for a variety of reasons. From the police officer's perspective, it provided the opportunity to retire with a lump sum of money that was otherwise beyond the economic reach of most officers, at the same time the years of retirement notice provided by the DROP program to the City of Philadelphia and its Police Department with an unprecedented ability to plan for its manpower needs. As I will discuss in a moment, subsequent events have proven the value of this planning ability to the citizens and the City of Philadelphia. While a detailed discussion of the mutually beneficial nature of the benefits flowing from DROP for police officers and the City, suffice to say that, again, at least insofar as police officers and the Police Department are concerned, DROP worked and worked well for all concerned.

Then on July 29th, 2010 a 43-page study by some academics at Boston College was released. It proclaimed that the DROP benefit somehow cost the City $258 million since its inception in December of 1999. Without even reading the extremely complicated document, those who never wish to waste a good crisis seized upon the DROP for a variety of reasons that a cynical person might believe has little, if anything, to do with its actual cost.

At the same time, the media was provided with a constant public drumbeat that could be used to improve dropping circulation. Day after day, we were besieged with unsolicited advice from a bankrupt newspaper that the $258 million price tag was unshakeable --

(Applause.)

MR. McNESBY: -- being as it was the most productive and previously unknown ivory tower dwellers that neither lived in Philadelphia nor spent one hour patrolling their streets.

(Applause.)

MR. McNESBY: If the media was to be believed, the Boston College report might well have been written on two stone tablets and possessed an accuracy that dare not to be challenged. The media demanded that DROP had to go.

But some had the wisdom and

courage to refuse to blindly accept the Boston College report as being infallible. Sensing that the multiple assumptions relied on by the academics as being fact were flawed, this Council demanded and received another less result-oriented review.

In February of this year, nationally renowned Bolton Partners presented their review of the much-heralded Boston College study. To no one's great surprise, Bolton concluded that the Boston College study that some had considered to be of biblical significance was seriously, very seriously, flawed. It missed the mark by more than $150 million, a 60 percent overstatement of the asserted cost of the entire DROP benefit. The report that had for eight months been mindlessly accepted as being irrefutable truth was, in truth, valueless. Indeed, it is so worthless that some members of the media, unrepentant for their blind reliance on the flawed report's value and integrity, now have publicly opined that DROP is not about the money.

In point of fact, by its own admission, even Bolton's numbers can be overstating the actual cost of DROP. Its efforts were limited in reviewing the now discredited work of Boston College, not actually valuing the program's cost. Whether the actual cost is $100 million or is more or less than that amount or even zero, it is for another day and another time.

So where does this leave us? Surprisingly, regardless of whether you wish to cling to the grossly overstated, now discredited guesses from Boston College or the 60 percent reduction of those guesses from Bolton, one inescapable fact remains. Both organizations made it clear that insofar as the Philadelphia police officer is concerned, the DROP program costs this City nothing or, at worst, next to nothing. In point of simple truth for both the officer and the Philadelphia Police Department, the program is working exactly as you intended.

More specifically, if you choose to still believe Boston College, Philadelphia police officers have only delayed their retirement date due to participation in the DROP program by less than two months, a delay that would have little, if any, impact on City costs. Bolton reached the same conclusion. Given the uniqueness of the police officer's pension benefit structure, the value of pension benefits for officers might actually decrease by 2.1 percent. While disagreeing with Boston's conclusions due to faulty data, Bolton nonetheless concluded that the cost of DROP, whatever it might ultimately be proved to be, is not materially attributable to police officers. Indeed, a few days ago, in response to specific questions posed by this Council, Bolton made it clear that not only is there no cost attached to a police officer's continued participation in the existing DROP program, that participation might actually save money for the City.

Despite the fact that there exists no evidence that the participation of police officers in the DROP program as it presently exists results in any material costs to the City, the proposal now before this Council would nonetheless diminish the officers' DROP benefits in total disregard of the facts. To that extent, the pending proposals are based on logic and fact as opposed to media hysteria. We do not understand how either could be justified for police officers that cost the City nothing.

Exacerbating the injustice of stripping police officers of the value of their DROP benefits is the fact that the City has immensely benefited from the stability that only DROP can provide in very difficult times. It is hardly any secret that the City has decimated the ranks of the Philadelphia Police Department in the past several years. Quite obviously, despite the unprecedented hiring freeze in the last several years, the dedicated men and women of the Philadelphia Police Department continue to perform their duties with indisputable professionalism and dedication. More to the point, however, is the fact that the years of specific notice of termination made possible by the DROP afforded the Department manpower predictability during this traumatic period that would have otherwise been impossible to obtain. Only by processing the flow of DROP applications and the predictable date of resignations occurring on that exact date years later, the City was and is afforded an invaluable opportunity to intelligently and effectively react to the sharp and continuing decline of our ranks. In this fashion, the citizens of

Philadelphia have greatly benefited from a program whose costs for its police officers are, at worst, negligible.

Then there is the law. Both the United States and the Pennsylvania constitutions make it clear that pension benefits such as DROP cannot be negatively affected without the participation of its participants. Your City Solicitor's nimble dancing around the decades of adverse court decisions, striking down pension modification efforts indistinguishable from those now before you, while understandable, does not change the inescapable fact that any effort of this Council to strip its police officers of existing DROP benefits is quite clearly inescapably unconstitutional.

Another key fact cannot be ignored. The FOP is not working under an extension of an expired contract. Police officers employed by the City do have a collective bargaining agreement with the

City. It became effective July 1st, 2009 and will not expire until June 30th of 2014.

We achieved that contract through the collective bargaining and interest arbitration procedures of Act 111. Both parties spent a great deal of time, a great deal of effort and a great deal of money to secure that contract. In fact, to get that contract, we went through the longest and most complex interest arbitration proceedings in the history of the Commonwealth of Pennsylvania.

As the City Solicitor told you, Pennsylvania law dictates that those procedures are to be utilized when either party to the contract wants to change a term and condition of employment. The effort to now undermine the integrity of the DROP benefit without negotiation flies in the face of that process, of our efforts to achieve stability in our labor relations process and, quite frankly, in the face of simple good faith.

Again, as your City Solicitor told you, unilateral action to change a term and condition of employment has been prohibited since the inception of Act 111. Even without a contract, the law demands that modifications to pension benefits be accomplished through collective bargaining, not unilateral action. Thus, even if we did not have a five-year contract, unilateral changes to pension benefits are forbidden under Pennsylvania law.

In summary, to the extent that moral or legal justification for a unilateral modification of the existing DROP program is premised upon the unanticipated costs of this program, that justification, if it does exist, is totally inapplicable to the police officers of the City of Philadelphia. Two very expensive studies have now demonstrated that insofar as police officers are concerned, the DROP program is working exactly as it was anticipated and that any costs is, at very worst, negligible.

Thus, no economic justification exists to attack DROP benefits for Philadelphia police officers. Whatever other problems exist with this program, it works and it works well for Philadelphia police officers and for the citizens of Philadelphia. We have secured and enjoyed the very valuable pension benefit while citizens have been the beneficiaries of manpower stability that would be completely impossible without the predictability provided by the DROP program.

On a more basic level, every member of this Council has at one time or another expressed admiration, respecting gratitude to the members of the Philadelphia Police Department. Whether it be for cleaning up the streets of your district to make them safe for our citizens, making a spectacular arrest based on great police work in a high-profile case or risking their lives so that others might live, you have all been gracious in your praise and gratitude of our police.

Now a litmus test exists as to whether that gratitude exists beyond words. We are asking to be judged on our own costs and our own merits and to thereby avoid a fight that makes no economic sense. You are being afforded an opportunity to demonstrate in a meaningful fashion that our dedication, our sacrifice and our performance justifies judging us on our merits. Whatever problems DROP may present to you or the City, those problems are simply not present in the existing DROP program as it exists for Philadelphia police officers.

Finally, there is the simple question of law. While I will defer a detailed discussion of the law to the lawyers, I will nonetheless simply point out that a fair reading of the City Solicitor's understandable effort to justify unilateral action on your part effectively states that the facts and equity are against the City. Whether you consider the constitution, Pennsylvania labor law or our contract, any effort at all to unilaterally change our pension benefits can and will be rejected. The weak and inconclusive opinion by the City Solicitor in that regard can hardly offer you any real solace as to the legality of what you are considering. Given the absence of any real economic impact upon the City by maintenance of the DROP benefit for Philadelphia police officers, do we really need to disrupt and even potentially destroy our good-working relationship over protracted litigation that your own lawyer doubts you can win? We have a contract, and ask nothing more than you abide by it and the legal process that produced it.

I sincerely appreciate the

opportunity to spend a few minutes with you today. As had been seen from the tremendous complexity of the two reports that you have already received, the issue of DROP and its cost implications is not a simple one. Knee-jerk reactions in response to contrived controversy in the media will not produce a just result.

To the extent that the City wishes to address the terms and conditions of employment with its Philadelphia police officers based on the facts and needs of the City, we welcome the opportunity to do so at the collective bargaining table, not through endless litigation or in pages of a newspaper that cannot exist without any controversy.

Again, thank you for your time and your consideration.

(Applause.)

COUNCIL PRESIDENT VERNA: Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you again. We appreciate your coming in to testify.

MR. McPHERSON: Our next witness is Aaron Proctor.

(No response.)

MR. McPHERSON: Aaron Proctor.

(No response.)

COUNCIL PRESIDENT VERNA: Is Mr. Proctor here?

(Witness approached witness table.)

COUNCIL PRESIDENT VERNA: Good morning. Welcome.

MR. PROCTOR: Good morning.

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

MR. PROCTOR: Aaron Proctor. I'm actually going to be brief because I think Zack Stalberg said probably half of what I was going to say.

But I'm just a lowly taxpayer.

I don't belong to any major union. I don't work for the City. So pretty much the general feeling with that is that my opinion doesn't matter.

The point is this: I think that the guy from the FOP getting up here is a fine thing, because I think that police officers and firefighters, people like that, put their lives on the line. They're first responders. They put their lives on the line for the City. They do the right thing. I think that they're being screwed over, though, by other people who are in DROP that are just pencil-pushers making $80,000 a year, taking trips to the Caribbean with Councilmen and things like that.

So here's the deal: Why do we have a program that doesn't reward people who actually put their lives on the line and rewards people who are elected officials that are supposed to be public servants? I just feel that this is the wrong thing for Philadelphia. I feel that we're running out of money. I'm tired of paying a higher sales tax. I'm tired of paying a higher property tax. I'm tired of being penalized because I'm not a taker. And I just think that DROP should be eliminated, and that's all I have to say.

COUNCIL PRESIDENT VERNA: Thank you very much.

(Applause.)

MR. McPHERSON: Our next witness is David Krain.

(Witness approached witness table.)

MR. KRAIN: Good morning. My name is David Krain. I'm a social worker at DHS and I'm also a shop steward in Local 2187, which is part of DC47. I'm only 31, so I don't have a chance at getting DROP for at least another 29 years, so I don't have that kind of inherent interest in it.

I'd like to thank the Councilmembers that do have the courage to actually go through the studies and look at the different issues that come above instead of falling down to the Administration's woes.

I think that so far talking to my members in my shop and a few other people, being a younger person in public service, we've basically been attacked for the last three years. We haven't gotten a raise. Healthcare costs have gone up, and when it comes time for the budgetary crisis, it's on the back of the workers. For some reason, there's somehow a myth that City employees don't pay taxes. We pay taxes, and we keep paying them. And I think that's one of the strange myths. If I could somehow not pay taxes, you could take the DROP check. But I think one of my main concerns is for the younger people who would like to get into public service, there doesn't seem to be any goal to look forward to it. I chose to get into public service for the greater good, take a smaller salary, then hope by the time I reach my age of retirement, I'd be able to have some kind of sustainable life.

And my last message to Council is if they accept what the Nutter Administration continually tries to pass, the message they'll be sending to the public service employees who are about 40 and younger would be that you'd better hope you die before you retire, because nobody cares about you.

Thank you.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much for your testimony.

MR. McPHERSON: Our next witness is Joseph Mahoney.

(Witnesses approached witness table.)

MR. MAHONEY: Good morning, Councilwoman.

COUNCILWOMAN TASCO: Good morning. Would you state your name for the record and please begin your testimony.

MR. MAHONEY: My name is Joe Mahoney and I'm Executive Vice-President of the Greater Philadelphia Chamber of Commerce, and I thank you for the opportunity to be here today to present testimony on Bills 100542 and 110443.

I also thank you for the opportunity to comment on the future of the Deferred Retirement Option Program and the future as a planning tool for the City government.

DROP has proven to be a costly planning tool for government. During times which demand that government conserve each dollar, the cost of the existing DROP program has been a drain on the citizens of Philadelphia. With an estimated cost at between 100 million and 258 million, all agree that the current program cannot be maintained in its current form. The task that lies before you is to determine whether to make changes to the program or to eliminate it entirely.

One of the objectives of the sponsors of Bill 110443 was to reduce the cost of DROP. While the legislation appears to accomplish the goal initially, it is unclear what the cost of the program will ultimately be because of the variable nature of the interest rate on the one-year Treasury bond. With current rates at historic lows and an expected end to the Federal Reserve's quantitative easing program, most economic observers would expect that interest rates would begin to rise. Also, we believe that many eligible employees will gravitate to the known returns of the existing DROP program given the guarantee of a 4.5 percent rate rather than the 0.2 percent rate of the one-year bond.

The sponsors of the bill have taken precautions to prevent a, quote, "run on the bank" by allowing employees eligible for the current program to receive those same benefits by providing a window of opportunity for them to sign up for participation. This will ease initial costs, but will make the final costs associated with the program more difficult to estimate.

In addition, the City's pension plan is underfunded and will need serious attention in the next several years to ensure its stability.

Most private-sector employees today do not enjoy the availability of a defined benefit plan. A major issue with public-sector defined benefit plans is that their underfunding is often addressed via additional payments supported by either increased taxes or diversion of public funds from other uses. DROP only exacerbates this tension and problem.

While the sponsors of the bill work to address costs associated with the current program, the issue that is difficult to gauge will be the public perception associated with a restructured plan rather than the elimination of a plan that seemed difficult for citizens to justify. We believe that making adjustments in the plan will not satisfy those concerns. All have seen the pushback which took place during election season and recognize that citizens across the City do not support continuation of the program.

Given that reality, along with the difficulties associated with estimating what DROP will continue to cost the City, we support Bill No. 100542, which would eliminate the program in total.

Thank you for your consideration.

COUNCILWOMAN TASCO: You want to testify, Ms. Earley?

MR. EARLEY: No.

COUNCILWOMAN TASCO: Thank you so much for your testimony.

MR. MAHONEY: Thank you.

MR. McPHERSON: Our next

witness is Karen Brown.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good morning. Would you state your name for the record and please begin your testimony.

MS. BROWN: Yes. My name is Karen Brown and I'm a candidate for Mayor.

I came here today to speak about DROP, and I listened to many other people who have spoken. DROP has been discussed in many manners today, but truly the reason why we're here is because we're in an election year, and the election officials have heard the voice of the voters. The outcry that they have given over this issue has cleared this room. It has made room for new blood in Council. It's a long time coming.

DROP was put in place for our core services, our core services like the firemen and police, who are the least paid in this city. Yet because of the mockery that our elected officials have made of this system, it now wants to be removed, corrected, adjusted. It should have never been for the elected officials.

(Applause.)

MS. BROWN: DROP means drop, not go home and return the next day.

We can't use our current situation and our overspending and the budget crisis to remove something that was put in place for the people who truly do what every voter wants, protect our city and provide services no one else can do.

Our elected officials are public servants. They should have never gotten into a program that was not for them. And to now remove it and penalize those it was in place for is a mockery again.

DROP is something that the

people of this city have looked forward to secure that the core services that we need to keep our city running get what they need, to make it beneficial and to make it be what it should be, a badge of honor for those who do what no one else would.

To remove DROP because of a mockery or to use the situation of overspending to correct a pension deficit is another absurdity that this Administration has put on its voters.

Thank you.

(Applause.)

MR. McPHERSON: Our next witness is Chester Skaziak.

(Witness approached witness table.)

COUNCILWOMAN TASCO: Good morning. Would you state your name for the record, please, and proceed with your testimony.

MR. SKAZIAK: My name is Chester Skaziak. That's S-K-A-Z-I-A-K.

My statement is my opinion and my opinion alone.

I'd like to say good morning, Ms. Tasco and distinguished members of Council. I reside in the Bustleton section of Northeast Philadelphia. I was appointed to the Fire Department on March the 6th of 1978 and served as a firefighter for 28 years, seven months and 20 days. My concerns today is the elimination of the DROP option for firefighters and police officers.

Mayor Nutter has said one pension is enough. Another comment from his office said the deck chairs need to be reorganized. The media has reported that firefighter overtime is costly to the City to the sum of $3 million. I shall try to set the record straight.

Let me start by stating that it is my belief that the police officers and firefighters who DROP are not a financial burden to the Pension Fund. These figures are a set amount, unlike the employees in the other City departments who have their pension calculated based on overtime.

I entered the DROP on November the 11th, 2002 and resigned on November the 15th, 2006, and my pension is $2,600 a month, and it is the only pension I receive from the City. There are many opinions on the DROP and its cost. I shall now share my findings with you.

On October the 27th of 1998, the Pension Fund was 51 percent funded, and the City was preparing to sell $1.25 billion in bonds. This was to bring the Pension Fund up to a level of 81 percent funded, what I see as a contributing factor of the Pension Fund's problems. On the above date, hearings were held on Bill No. 960598. Ben Hayllar, Finance Director, testified on Page 5, Line 5, quote, "Therefore, the legislation would apply only to the 532 non-represented employees who in 1996 earned 3.083 million in overtime. In the past, the

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Pension Board's actuary calculated that this increased benefit would increase the City's costs to the pension by approximately $520,000 a year, depending on the amount of overtime issued," unquote.

My question to this Council is, how much has the overtime cost the General Fund these past ten years?

Mr. Mattia on Line 2 of Page 17, quote, "To give you a good example, we were here in '96, December when we brought this up. In my title, if I go out today, I go out with $32,869. My secretary would got out with $39,856. My mechanic would go out with $38,586. My group leader would go out there with $47,386. So my group leader would go out with $15,000 more than me, my secretary would go out with $7,000 more than me and my mechanic would go out with $6,000 more than me. That's very, very unfair," unquote.

My question is, do these

figures represent 80 percent of their wages for that year? In his earlier testimony, he stated that they could only receive up to 80 percent of their salaries for pension purposes. The firefighters and police can earn up to 100 percent. In December '96, my earnings were $41,000 a year.

What Mr. Mattia failed to mention is that he was entitled to a Social Security pension paid for by the City of perhaps as much as $1,500 a month, or $18,000 a year, plus the $32,856, equalling $50,856. This wasn't enough. City Council gave in and passed the bill to give them overtime. In essence, he will be receiving overtime for the rest of his life. In the meantime, Mayor Nutter wants to furlough police and firefighters, brownouts, reduce overtime in these departments. How much did those other employees collect? Not to mention that their contributions to the Pension Fund are much less. The explanation is that they pay into the Social Security fund of 7.65.

I'd like to remind you that someone testified here that Plan J pays 3.75 into the Pension Fund. I was paying 6 percent into that Pension Fund.

Then there was also a Mr. John Crapper who testified. He was Chairperson of the Association of Managers. He spoke in favor of the bill. He requested that the committee go back three years and make it retroactive, which it did. Soon after, the City borrowed the 1.25 billion in 1999 to raise the funded level to 81 percent. It is my belief that this piece of legislation contributed to the 47 percent funded level it is today.

Before I continue, this bill was signed into law on January 8th of 1999.

Here is an example of the results of this piece of legislation: A firefighter earning $42,000 entered the DROP on January of 2001. He received a DROP amount of $145,000 and a pension of $2,719 a month, or $32,648.

Another City employee earning $38,000 entered the DROP the spring of the same year, I believe April. He received a DROP amount of $175,000. Was it because of his overtime earnings? He is also collecting a Social Security pension which was paid for by the City in the sum of $1,600 a month. I suspect combined he is collecting pensions totalling $55,000 a year. I remind you, he was earning 38,000. How is this possible? How can two individuals hired at the same period of time, the firefighter earning $4,000 more a year than the other City employee, receive $30,000 less in DROP money?

It is for examples such as this that police officers and firefighters should have their pensions based on the level of 2.5 percent for every year of service. The City is responsible for the inequity and unfairness of the pension as it stands.

The same year, 1999, Bill No. 990708, which is a COLA for the retirees, was signed into law. I mention this bill, for it is my belief that the overtime issue has a detrimental effect on the PAF distributions also. Because as I know it, the PAF funds and the pension funds are commingled. I understand the stock market has an effect on the Pension Fund. However, can you explain there was no PAF distribution for years 2004 through 2007 for the retirees? This concerns me, for I am nearing that time of my life where I too would expect a return of the Pension Fund earnings, which brings me to Bill No. 030827, signed into law January the 31st of 2003, an ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending Section 22-305 relating to the maximum benefit limitations imposed by the Internal Revenue Code 415. This was a generous piece of legislation raising the base pension benefit from a maximum of 90,000 up to a level of 160,000. This was passed in stealth fashion in Room 696 on the 6th Floor. If you felt Bill No. 030827 was a necessity, I discern fully the ramifications of this piece of legislation, though I doubt seriously the public's knowledge of it.

Since 1985, the State and the City leaders have been chipping away at the benefits of the City employees' pension. First, the percentage -- I'd like to mention that the example that they gave today was for those hired before 1987.

First, the percentage earned each year was lowered from 2.5 to 2.2 percent, then again so that after 20 years of service, the reward is, your percentage is lowered to 2 percent. Then this past year, it was lowered to 1.75

percent for 20 years and nothing after that. Here again, those other City employees were to be given Social Security in Plan '10 and DC, while newly hired police officers and firefighters are to earn 35 percent after 20 years and nothing more, and now a further reduction on the interest on the DROP funds at a time when this Council has in committee a Bill 100497, which would give the Pension Board the ability to hand out no-bid contracts on the pension funds. Where does it end? When the Pension Fund requires the leadership of our elected officials, they answer by reducing the benefits of all but themselves. If you want the pension rate of 3 and a half percent to remain for elected officials, restore the civil service percentages of 2.5 percent for all.

In conclusion, it is the Pension Board's finances that brings us to this place in time. My question to the author and to those of you responsible for this bill, to include the City Solicitor, what does Section (f) of this ordinance mean? I posed this question to the Executive Director of the Pension Board through an e-mail. He informed me that it has been turned over to the Law Department for review. This is very disturbing to me. We make laws and don't know what they are. Let the record show that each member of Council has been given a copy of Bill No. 030827. My suggestion is to read Section (f). I've waited eight days and no answers. There are, I suppose, 1,100 lawyers working for the City earning overtime.

I thank you for the opportunity to speak on this issue.

There is also another matter I would like to bring up before I leave, and there's a Foreign Buyer Casualty Insurance Fund. They call it points. A point is a thousand dollars. There's $2,000 for each firefighter and police officer and $1,000 for each other City employee, which go to the City from this fund and it's received from the state. It goes into the General Fund. When a City employee enters the DROP, the state no longer gives us that money. If 1,000 police officers and firefighters are in the DROP, it comes out to a million and a half. I saw in today's paper that there was some 11,000 people who had been in the DROP over the course of the last 12 years. I think the City has missed out on an opportunity of some $15 million by not getting our state officials to send that money to the City. And I say that because while we're still employees, for the state's purposes, we are retired once we enter the DROP. I think it's a matter that you should research. And I thank you all for your time.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you, sir.

Our next witness.

MR. McPHERSON: Judith

Samans-Dunn.

(Witness approached witness table.)

COUNCIL PRESIDENT VERNA: Good morning. Welcome. Please identify yourself for the record.

MS. SAMANS-DUNN: I'm Judith Samans-Dunn. I thank you for this opportunity to talk before Council.

I am here. I am a taxpayer. I am not representative of any class of employees because I am in the prohibited class. That means I am a non-representative City civil servant. I have worked for the City now for 31 years.

I would like to point out that I do two very complex jobs for the City. My bosses, if you ask them, do not want me to retire. I am already eligible to join the DROP.

As a non-represented employee, contrary to what Mr. Skaziak may have said, I do not earn overtime. I earn comp time on the many evenings when I stay late and the many extra hours that I put in to get my work done, and I give a lot of it back to the City, because although I'm using personal leave time right now, I don't find enough time to use all my leave time. I am the kind of person the City wants to keep. I may be representative of the non-rep employees.

So the intent of the DROP was to keep somebody like me, is to keep me here and keep me working where my bosses want me, and I think it's very important to point that out.

Mr. Dubow pointed out that one of the points of DROP was to do some planning so that we could have succession. Well, it's very hard to do that when the Budget Office will not allow a trainee to be hired to learn my very complex work until after I'm gone. So DROP or no DROP, that's really tough.

I didn't do a budget analysis for the overall DROP. I did a budget analysis for me, for my family. I don't really intend to retire right now. It's not my point. But if City Council were to decide it's best to end the DROP right now, I have no choice. I would have to jump into the DROP this minute, because from a personal perspective, I can't not do that.

I'm not alone in the City. I think we really need to examine -- I heard a very small number of employees, but there's an awful lot of people that I know who have the years and the age to retire who would immediately have to jump into the DROP. Can the City afford what that's going to cost when that hits the pension four years from now? I don't think they want us to all flee. I think adjusting it to make it cost neutral is very appropriate.

I'll also take exception to Mr. Stalberg calling those of us who are in the City employee, which he did by reference, of calling us large and inept.

I take exception to that. I work very hard.

I don't have anything else to say on that.

(Applause.)

MS. SAMANS-DUNN: I'll just add, actions have reactions, and please calculate it very carefully. Do I think maybe it should not be 4 and a half percent interest earned on money going into the DROP? I think this is a very appropriate way to evaluate what the costs are. And I just wanted to put my two cents in.

Thank you.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you very much. Thank you.

Our next witness.

MR. McPHERSON: Mark Zeitz, Z-E-I-T-Z.

(No response.)

MR. McPHERSON: Fred Fisher.

MR. FISHER: My turn at last.

(Witness approached witness table.)

MR. FISHER: Good morning.

COUNCIL PRESIDENT VERNA: Good morning.

MR. FISHER: My name is Fred Fisher. I am a retired City employee. I live on my pension. I live on my Social Security.

You know, I hear a lot of fancy words today, but it's very obvious to all of the people outside of this room that DROP is double dipping. It's being paid for your day's work and your pension at the same time. It's ridiculous. And, you know, if you look at this program -- I was going to say some other things like, you know, the Mayor said to drop it. The people who ran this year to be renominated for the position, Mr. Rizzo, Mr. Tartaglione, were both not renominated basically because of DROP. So the public did speak on DROP in its voting these two people not to be renominated.

You know, I don't think you should be ignoring the public's opinion. It's at your peril.

And the other thing I wanted to say is this: If you look at the DROP program, if you look at the DROP, there's only two groups of people who are benefiting from it, the politicians and the public employees. The taxpayers are getting no benefit whatsoever from these hundreds of millions of dollars wasted by paying people four years pension and four years salary at the same time. It's ridiculous. It's not real world. And I'll tell you the truth, I feel that this -- it's a conspiracy between the politicians and the public employees, because they're buying the public employees' vote, his or his wife's vote, his children's vote if they're old enough, all of his friends and relatives, You got to vote these politicians in, they're going to keep us -- they're going to give us this big lump sum. Whoever heard of people walking out of here -- it's ridiculous -- with hundreds of thousands of dollars under their arm in lump sum payments? This is crazy.

You're raising my taxes 10 percent this year. You're talking about 10 percent again or a soda tax. Meanwhile, the population of the City, the public employees, have ballooned while the City's population has decreased by 30 percent. Your office has increased by hundreds of percent of people and so has the Mayor's. It's shameful.

I think this program is going to go down as one of the most shameful things in the history of the City of Philadelphia. And, you know, if I were looking at from above and seeing what was going on, how this money was being wasted, there is no benefit to the taxpayer for people collecting this money, and you people here who are supposed to make a decision, you're recipients. Ms. Verna, you're getting, what is it, $800,000 -- I'm sorry; $580,000. I'm sorry.

COUNCIL PRESIDENT VERNA: I don't think it's that much.

MR. FISHER: Five hundred eighty thousand dollars. You're sitting here. You should recuse yourself, all of you here. All of you here should recuse yourself. You are not qualified to judge on this one. You are receiving a benefit from it. How can you say whether it's good or bad when you're walking out of here with hundreds of thousands of dollars?

This is the most shameful thing that ever happened to the City of Philadelphia. I'm sure somebody will write a book about this one day, and it will not be a happy thing. It's a black mark on the City of Philadelphia, and you are stealing from the taxpayers.

The DROP program should be renamed, not Deferred Retirement Option

Plan, but Pick the Taxpayers' Pocket Plan.

That's all I have to say.

MR. McPHERSON: Our next witness, James Callis.

(No response.)

MR. McPHERSON: James Callis.

(No response.)

MR. McPHERSON: Jody Della Barba.

(Witness approached witness table.)

COUNCIL PRESIDENT VERNA: I know you're not James Callis.

MS. DELLA BARBA: They just called me.

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

MS. DELLA BARBA: My name is Jody Della Barba.

COUNCIL PRESIDENT VERNA: Jody, just a moment.

(Pause.)

COUNCIL PRESIDENT VERNA: Please proceed.

MS. DELLA BARBA: Good afternoon. I am 57 years old and a lifelong resident of Philadelphia. I have also owned a home and paid real estate taxes since 1978. I am a City employee with the First Judicial District and I am not in the J plan. Therefore, I have to wait three more years until I would be eligible for DROP. I have not had a raise of any kind for four years because I am not in the union.

I ask that City Council not stop DROP for City employees. I ask that you consider only modification where no one could collect DROP payments and return to a City job.

I believe I speak for hundreds of City employees like myself in saying please consider that I am coming close to my retirement and look forward to the modest lump sum DROP would award me.

I stay in the area when I shop,

eat out, buy gas for my car, et cetera, as does my family. I believe that City employees always are the scapegoat for the Administration and the media when there is a budget problem.

(Applause.)

MS. DELLA BARBA: We, the City employees, have to live here. We have to pay taxes here. We did not run away from Philadelphia to New Jersey or the suburbs. We are the backbone of this city that we serve well.

Please do not stop DROP. Please.

Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

(Applause.)

COUNCIL PRESIDENT VERNA: Austin Dutton.

(No response.)

COUNCIL PRESIDENT VERNA: Jerome Avery.

(No response.)

COUNCIL PRESIDENT VERNA: Is Jerome Avery here?

(No response.)

COUNCIL PRESIDENT VERNA: Do we have anyone else who is not on the list that would like to testify?

Please approach the witness table.

(Witness approached witness table.)

MR. GAULT: Thank you, Council President. My name is Bill Gault and I represent the 4,500 Philadelphia firefighters and paramedics, and I want to be very brief, because a topic wasn't touched on.

Firemen can retire at age 50. We don't collect Social Security and we don't get Medicare unless we pay into it. We get five years of medical when we retire. The DROP would give us about 150,000, 170,000. What we would do with that is buy medical coverage.

The thing in our job,

firefighters and medics, is the latency periods that the cancers and the diseases that don't get us until ten years later. So I just wanted to tell you's, it's for -- we buy medical coverage with this.

Every major city in the United States, firefighters, cops, most city workers, get lifetime medical. Philadelphia, we get five years. The only way a blue-collar person could save any kind of money is with that DROP, and that's all this is, is a savings account. We give up 10 percent of our pension on the end and put it into the savings account in the Pension Fund, which is our money, because the City hasn't put in their obligations in 20 years. But it seems the media is harping like we're all getting rich here. City workers are not getting rich.

That's all I have to say. Thank you very much, and I'll take any questions.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you.

Please approach the witness table, sir.

(Witness approached witness table.)

MR. MARINO: My name is Jim Marino. I'm a 33-year employee in the Recreation Department. Currently my civil service title is a Recreation Leader 3. However, the work assignments that I hold, I am the Race Director of the Blue Cross Broad Street Run as part of my duties, I am the Assistant Parade Director for the Mummers Parade, I am the Golf Camp Administrator, I am the Emergency Preparedness Coordinator for the Department of Rec as a liaison to Office of Emergency Management, and I am also the Assistant Athletic Program Director for the entire City.

I am 53 years and seven months. I am eligible to retire when I turn 55. I am in the J plan. And the changes that this proposal brings about directly affects me, in that if I have to wait until I'm 57 to join the DROP plan, I will have more than my 35 years of City service and I will not be eligible to increase my pension for 2 percent a year, as some people have said we are entitled to. So when I reach 35 years, at 55, I will not be able to join in until I'm 57. And there are other employees similar to my situation in the Recreation Department and other departments, especially the Library. I believe that there is another avenue that needs to be explored for certain employees like myself who have gone above and beyond our job titles for a number of years, have not been compensated to that level and have done an extremely large amount of good work for the City of Philadelphia.

I'm very proud of what I've done, and I have done a lot more than a lot of other people, and I'll challenge anybody to put up their work ethic against mine. And I want you to consider that when you make your final decisions.

COUNCIL PRESIDENT VERNA: Thank you, sir.

(Applause.)

COUNCIL PRESIDENT VERNA: Is there anyone else who would like to testify who has not been called?

(No response.)

COUNCIL PRESIDENT VERNA: I understand that Pete Matthews is scheduled for 12:30.

(Pause.)

COUNCIL PRESIDENT VERNA: I understand that Mr. Matthews is on his way up to the Chamber. He's on the first floor.

(Pause.)

MR. McPHERSON: Our next witness is Pete Matthews.

(Witness approached witness table.)

COUNCIL PRESIDENT VERNA: Welcome.

6/8/11 - WHOLE - BILLS 100542 & 110443

MR. MATTHEWS: Good afternoon.

COUNCIL PRESIDENT VERNA: Please identify yourself for the record.

MR. MATTHEWS: Pete Matthews, President, District Council 33. As you know, I was scheduled at 2:30. That's why I had to hurry getting over here. So don't get too upset. I usually try to be on time.

COUNCIL PRESIDENT VERNA: I appreciate it. Thank you.

MR. MATTHEWS: Are we ready?

COUNCIL PRESIDENT VERNA: Please proceed.

MR. MATTHEWS: Thank you.

Members of City Council, thank you for this opportunity to come before you and testify on the proposed amendments to the DROP program.

I am here today to tell you District Council 33's view of the DROP legislation. DROP is an extremely important benefit to Philadelphia's rank and file workers. This benefit is part of the collective bargaining process. Changes that the City implements outside of the collective bargaining process will have legal consequences.

Pennsylvania law has long recognized that pensions constitute wages and working conditions, and employers like the City of Philadelphia are obligated to bargain with the representative of its employees for any changes, including changes to pensions.

Pennsylvania law also requires public employers to maintain existing contractual provisions after a collective bargaining agreement expires. The City may not implement new terms and conditions of employment, whether or not those conditions are contained in the contract or not, where the employees covered by the contract have continued working.

This is exactly what has been going on for the last three and a half years as we continue to bargain with the

City for a new contract. We have continued to work without any disruption of service to the taxpayers under the terms and conditions of our existing contract, including the provisions related to pensions and DROP.

In fact, City Solicitor Shelley Smith in a letter to City Council President Verna on October 1, 2010 confirmed that the changes to DROP are a collective bargaining issue and that the City should not implement any changes without violating our collective bargaining agreement.

I am submitting with this statement a detailed opinion from District Council 33's legal counsel which will give you all of the relevant legal citations and caselaw that backs up our position.

The DROP program, as originally conceived, was designed to be both a management tool for future planning by the City as it related to the workforce needs, as well as a way to promote existing employees to replace those who leave and to create opportunities for City residents to enter the City workforce.

Thank you for the opportunity for comment on this proposal.

Questions?

COUNCIL PRESIDENT VERNA: Are there any questions from members of the Committee of Mr. Matthews?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, thank you.

MR. MATTHEWS: Great. I like making my point quickly. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

(Applause.)

COUNCIL PRESIDENT VERNA: This concludes our public hearing. We will now go into our public meeting, and the public meeting will be recessed. We will meet back here at 1:30.

6/8/11 - WHOLE - BILLS 100542 & 110443

(Recess.)

COUNCIL PRESIDENT VERNA: This is the public meeting regarding Bill No. 100542 and Bill No. 110443.

The Chair recognizes Councilman O'Neill regarding Bill No. 110443.

COUNCILMAN O'NEILL: Madam Chair, I offer an amendment to Bill No. 110443. It's been circulated. I'd like to hand it up.

COUNCIL PRESIDENT VERNA: I'm sorry. Did you say it was circulated?

COUNCILMAN O'NEILL: Yes. I believe everybody has a copy. If they don't, I have copies here. It's been discussed.

COUNCIL PRESIDENT VERNA: Does everybody have copies?

COUNCILMAN O'NEILL: If anybody needs a copy, I have it.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Madam President, would it be appropriate to have an explanation of the amendments for the record so that the record is clear as to what the amendments do?

COUNCIL PRESIDENT VERNA: Certainly.

Councilman O'Neill.

COUNCILMAN O'NEILL: I would prefer, instead of having Mr. Auerbach go over, I can say it in a nutshell. The amendment would remove the two-year wait provision after eligibility for pension. It's a two-year wait to enter DROP after eligibility for pension. It would remove it for police and fire employees.

COUNCIL PRESIDENT VERNA: Councilman Kenney, do you have --

COUNCILMAN KENNEY: I wanted it for the record.

COUNCIL PRESIDENT VERNA: Very well.

Councilman O'Neill, are you putting that in a form of a motion?

COUNCILMAN O'NEILL: Yes. I would move the adoption of the amendment.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that the amendment as proposed be adopted.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

COUNCILMAN KENNEY: No.

COUNCIL PRESIDENT VERNA: So the record will indicate that everyone voted in the affirmative for the exception of Councilman Kenney who voted no.

The motion carries.

COUNCILMAN O'NEILL: Thank you.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Madam President, I offer several amendments. One is an amendment to Bill No. 110443. The amendment has to do with the effective date of a member's participation in DROP, and it reads, "The effective date of the member's participation in the DROP shall be the date provided on the member's application, provided that such date shall only be the beginning of a full pay period and shall not be earlier than 90 days" -- here is the amendment -- "nor more than 180 days after the date the application has been filed." And because we just found out that people have been pre-registering and we were not aware of that. So this allows them from 90 days up to 180 days to file.

COUNCIL PRESIDENT VERNA: Any questions from members of the Committee?

(No response.)

COUNCILWOMAN TASCO: I move for the adoption of the amendment.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that the amendment be adopted.

All in favor will indicate by

saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

(No response.)

COUNCIL PRESIDENT VERNA: The ayes have it and the motion carries.

Councilwoman Tasco.

COUNCILWOMAN TASCO: This is an amendment to Bill No. 110443. The Option 5 of Section 22-306 of the Code states that, "This Option shall not be available to a member who" -- "at any time" is added -- "has elected to participate in the Deferred Retirement Option Plan under 22-310." Added is, "A member who elected Option 5 and is subsequently rehired shall not, after such rehire, be eligible to elect Option 5 again, nor be eligible to participate in the Deferred Retirement Option Plan."

Option 5 is if they take the lump sum, they cannot come back, work and then collect that, nor can they participate in the DROP program again.

The second part of that is --

COUNCIL PRESIDENT VERNA: Can we vote on that. Is it all part of one amendment?

MR. AUERBACH: Yes.

COUNCIL PRESIDENT VERNA: Okay. Councilwoman Tasco.

COUNCILWOMAN TASCO: The next is a technical amendment -- these are both technical amendments -- that will be added to the bill that we introduced, the 110443, which was not added. It adds, "Eligibility of elected officials. No elected official shall be eligible to participate in the DROP, except: (i) this provision shall not affect the DROP eligibility of an elected official who entered the DROP before this subsection became law; and (ii) an official elected to office before September 18, 2009 shall remain eligible to participate in the DROP during such term in office and during any successive term or terms of office to which such official is reelected."

I pass the amendment up.

COUNCIL PRESIDENT VERNA: Thank you.

Any questions from members of the Committee?

(No response.)

COUNCILWOMAN TASCO: I move for the adoption of the amendments.

COUNCIL PRESIDENT VERNA: Do I hear a second?

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that the amendments be adopted.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

(No response.)

COUNCIL PRESIDENT VERNA: The ayes have it and the motion carries.

This concludes our public meeting -- the Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Madam President, I move that Bill 110443, as amended, be reported out of Committee with a favorable recommendation and that the rules of Council be suspended so this bill can be heard at Council's next session.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that Bill No. 110443 be reported out of Committee with a favorable recommendation, as amended; further, that the rules of Council be suspended so as to permit consideration at our next session of Council.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

COUNCILMAN KENNEY: No.

COUNCILWOMAN BLACKWELL: No.

COUNCIL PRESIDENT VERNA: All right. I just heard one no. Is there another no?

Oh, Councilwoman Blackwell.

The record will reflect that all of the Councilmembers voted in the affirmative, with the exception of Councilmembers Kenney and Blackwell.

Thank you all very much. This concludes our public meeting.

(Committee of the Whole concluded at 2:15 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 June 8, 2011, and that this is a true and correct transcript of same.

MICHELE L. MURPHY

RPR-Notary Public

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