COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING AND PUBLIC MEETING
BEFORE COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, October 24, 2001
10:15 a.m.

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BILL 010492 - Creation of a Rainy Day Fund.

BILL 010508 - Amending Section 19-1303(4) of Philadelphia Code, entitled "Authorization to Offer Exemption From Real-estate Taxes on New Construction of Residential Properties."

BILL 010541 - Amending Chapter 19-2600 of Philadelphia Code, entitled "Business Privilege Taxes."

(Full text of all ordinances attached hereto.)

PRESENT: Councilwoman Jannie L. Blackwell, Chair
Councilman David Cohen
Councilman Frank DiCicco
Councilman W. Wilson Goode, Jr.
Councilman James F. Kenney
Councilman Brian J. O'Neill
Councilman Frank Rizzo
Councilwoman Marian B. Tasco
Council President Anna C. Verna

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10/24/01 FINANCE COMMITTEE MEETING

I N D E X

10/24/01 FINANCE - BILL 010492

COUNCILWOMAN BLACKWELL: Good morning. Good morning. We'll begin our finance hearing with regard to three bills: Bill No. 010492, 010508 and 010541.

For the purposes of a quorum, I have to my right Councilman James Kenney; to his right, Councilman W. Wilson Goode, Jr; I'm Jannie Blackwell, chair of the committee; and Councilman Frank DiCicco. So we do have a quorum for the record. Others will be here as well.

We will ask the clerk this morning to read the titles of all bills because some individuals will be testifying on all three, so all three will be read into the records. Will the clerk please do that.

THE CLERK: Bill No. 010492, an ordinance amending Title 19 of the Philadelphia Code entitled, "Finance, Taxes and Collections," by creating a Rainy Day Fund to cushion the impact of unanticipated declines in the City revenues, providing for the circumstances under which City monies must be deposited into the Rainy Day Fund and the circumstances under which expenditures may be made from the Rainy Day Fund, and providing for the custody and management of the Rainy Day Fund, all under certain terms and conditions.

Bill No. 010508, an ordinance amending Section 19-1303(4) of the Philadelphia Code, entitled "Authorization to Offer Exemption From Real-estate Taxes on New Construction of Residential Properties," by expanding the time to make an application for an exemption, under certain terms and conditions.

Bill No. 010541, an ordinance amending Chapter 19-2600 of the Philadelphia Code, entitled "Business Privilege Taxes," by establishing a pilot program under which a credit against business privilege taxes will be given to certain businesses that contribute monies to community development corporations undertaking economic development activities within the City of Philadelphia, all under certain terms and conditions.

COUNCILWOMAN BLACKWELL: Thank you very much.

We will ask our City Controller, Jonathon Saidel, to come to the witness table and to prepare to make his testimony after we hear an opening statement from Councilman James Kenney with regard to Bill No. 010492.

COUNCILMAN KENNEY: Thank you, Madam Chair.

I'd like to take the opportunity to thank the majority leader for scheduling this hearing, and I want to thank you all for coming today.

First, I would like to quickly explain how this bill would work if enacted, and then I would like to explain why I think this bill should be voted out of committee today or as soon as possible.

If this bill passes, each November, the Finance Director would deposit into a segregated Rainy Day Fund 50 percent of the previous fiscal year's unanticipated revenues, as well as 25 percent of the General Fund balance from the end of that fiscal year. This will continue every year that there is a surplus or unanticipated revenues the until fund exceeds 5 percent of the City's average annual revenues.

Expenditures from the Rainy Day Fund would only be allowed if the City is under severe economic distress if PICA certifies that the City has had two consecutive quarters of job loss or that revenues received are down at least 1 percent compared to the previous year. As the charter requires, the Administration and Council could then make an appropriation from the Rainy Day Fund only through the annual operating budget ordinance if also approved by two-thirds vote of the Council.

Please note, this Rainy Day Fund would only receive deposits if there are unanticipated funds, and would never take funds away from any City services, any current operating budget. Money only goes into the fund after all City service needs in the budget are met.

This bill is a culmination of a great deal of work on the part of my staff, PICA, the Controller's Office, and Council technical staff, and is the result of the recommendations made at a hearing held this past January. At that hearing, many officials urged the City to establish such a fund, including Pennsylvania Treasurer Barbara Hafer, Pennsylvania Budget Director Bob Bittenbender, and various bond rating agency officials.

The City is experiencing a serious economic downturn currently. A decade ago, during the last recession, our finances were in such bad shape that we couldn't sell our bonds. If we had started properly saving back in the '70s and '80s, we could have, instead, prevented the ensuing service cuts, tax increases, and increased debt. If we start now -- and it's never too late -- the City can prevent the future fiscal problems of tomorrow while improving our bond rating and earning interest for more aggressive investment.

Thank you for your time and for your consideration of this issue. On behalf of the chairman, I'd like to welcome our controller, Jonathon Saidel. Please identify yourself for the record.

MR. SAIDEL: Jonathon Saidel, Controller of the City of Philadelphia.

COUNCILMAN KENNEY: Madam Chair?

COUNCILWOMAN BLACKWELL: Thank you. Thank you, Mr. Controller, for coming and we certainly welcome your testimony. Please begin.

MR. SAIDEL: Thank you, Madam Chair.

I come before you today to offer testimony on Bill No. 010492, which would establish a Rainy Day Fund for the City of Philadelphia. I applaud Councilman Kenney and City Council as a whole for focusing on this important subject. As you know, I have long advocated for the establishment of a Rainy Day Fund in Philadelphia. It is gratifying to see City Council and so many other supporters pushing towards this worthy goal.

The very notion that I come before you today to talk about setting aside surplus funds in the time of plenty speaks to how far we have come in the City in recent years. As you know, we are only a decade removed from the very dark fiscal days. Now we can use the opportunity afforded us by years of economic growth to make a structural change in our budgetary system so that we can avoid crisis in the future. If we do not fix the problems of today, we will never be able to achieve vision for a better tomorrow.

While Philadelphia currently enjoys a positive fund balance, the product of years of plenty, we can already see that recession and decline will come as part of the normal fluctuations of the business cycle. The development and production of spring fades into the inevitable winter. Our budget must be prepared for these changes. We can create financial mechanisms to hold

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down spending when revenue exceeds expectations and to save money to fund expenditures during economic downturns.

Many states, including the Commonwealth of Pennsylvania, employ Rainy Day Funds or provide reserves to relieve the need to raise taxes or cut spending in times of need and provide a way to cap expenditures in times of plenty. Cities such as San Antonio, Texas, and Baltimore, Maryland, maintain fund balances as a Rainy Day Fund to cushion against fiscal emergencies and recessions. Legally prohibited from carrying forward funds from one fiscal year to the next, New York City employs a budget stabilization account to pledge excess current revenues to meet unforeseen future expenses.

I support Bill 010492 and the establishment of a Rainy Day Fund for Philadelphia. The bill would wisely set aside a portion of unanticipated revenues and unspent funds that could only be spent in times of economic decline. Such a device would achieve two desirable goals:

First, the Rainy Day Fund would institutionalize the City's current fiscal practice which generates funding for contingencies by holding agency spending below approved budgetary levels. By formalizing this practice and involving City Council in the process to decide when and how to spend contingency funds, the Rainy Day Fund would add appropriate checks and balances to wise fiscal procedures.

Additionally, a Rainy Day Fund would complement efforts to restructure the City's taxes in a way that would improve the City's overall competitiveness. In the very near future, I will release my tax structure analysis reports and recommend significant tax cuts and tax changes.

The imposed discipline of a Rainy Day Fund would increase the likelihood that the City will be able to cut its overly burdensome taxes and then meet service demands without budgetary stress.

Some may wonder whether it makes sense to talk about setting aside funds for a rainy day when many are worried about the effect that an economic downturn would have on our city and its budget. I answer that we should save whenever possible, we must address our problems today, or we may never be in a position to enjoy a bright tomorrow. A Rainy Day Fund would not take any money away from any City agency or program. The only way money can be deposited in the fund is if the City generates more money than the budget or if we end the year with a surplus. Simply put, we would only put money into a Rainy Day Fund after meeting our budgeted priorities.

I believe the City should establish a Rainy Day Fund within the Charter-mandated budgetary structure. By creating a Rainy Day Fund, Philadelphia can increase the likelihood that it will be able to sustain an acceptable level of government surpluses over the long run without recurrent need for personnel layoff, service cuts, or tax increases. Such actions would improve the City's long-term economic outlook and improve its image in the eyes of the bond-rating agencies, which could help reduce future borrowing costs.

The creation of a permanent Rainy Day Fund would be an excellent addition to Philadelphia elected leadership's growing legacy as fiscally conservative managers.

I thank you for your attention on this matter and I applaud your efforts to focus concerns on such an important issue. Thank you.

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COUNCILWOMAN BLACKWELL: Thank you very much.

Mr. Controller, you mentioned that several cities have been successful in establishing a Rainy Day Fund. Do you know of cities that have had problems on the other hand and what it would take to -- what cause those problems?

MR. SAIDEL: I think the bill that is before you now has sufficient procedures. An example would be that -- which is in other cities that two-quarters of downturns and labor employment that there be a variety of ways in which you would ensure that money would not be taken out of the system when there is an economic downturn within their economies, both in San Antonio, Texas, and in Baltimore, Maryland.

I think that we overall are the largest city to attempt to do a Rainy Day Fund. That are many states that have a Rainy Day Fund. We all know that the Commonwealth of Pennsylvania has a Rainy Day Fund; though I can only say as the controller of Philadelphia, I wish their definition of when it's raining would be expansive in order to help us here in Philadelphia with our public schools.

But I think that this bill has sufficient parameters upon which a Rainy Day Fund would not be taking money and placing it so that it wouldn't affect our budgetary constraints based upon your passage of the budget in the beginning of the fiscal cycle.

COUNCILWOMAN BLACKWELL: We've also been told that one of the issues with regard to the bill is that monies could only be accessed at certain times and, therefore, if we had some emergency that -- as we had in New York, that the -- we could not access these funds.

MR. SAIDEL: It was my understanding that if -- that based upon the language that I read -- again, I think that Councilman Kenney can speak to that -- is that there is language that if there is a catastrophe or a national emergency of some kind, God forbid, as we needed to do when a couple years ago, we had -- you appropriated an additional $15 million in emergency nature because of the tremendous snow that occurred that was not within the budgetary process at the beginning of the year, that Council would have the opportunity to revisit that and take money from the Rainy Day Fund.

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If you look at our current budgetary practice now, we do, through accounting mechanisms, effectively reduce the surplus based upon the contingency funds that are allowed. What the Rainy Day Fund bill would do is institutionalize that is really, in many cases, the practice that exists today when the contingency fund is set up at the end of the fiscal period, which reduces the surplus.

COUNCILWOMAN BLACKWELL: One final question before I certainly turn the mike over to my colleagues. With the percentages that have been imposed for the unanticipated revenues and the adjusted general funds, what is your position? Are these acceptable for right now, or could we start off with smaller numbers, with the intent to increase later on?

MR. SAIDEL: I have never been wedded to percentages, although if you look back on the history of the Rainy Day Fund had been in existence for the last number of years, we could probably have close to $100 million set aside in the Rainy Day Fund today. I am not wedded to percentages of any kind. I think what is important -- for me the primary focus would be the establishment of a Rainy

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Day Fund and move forward. I think that Council deserves a latitude that if the numbers in the next couple years are too high, you can certainly change that, and I would leave that to your negotiations with the executive branch as to what would be acceptable percentages.

But I think as the bill stands now, you know, 50 percent of unanticipated revenue, since it doesn't affect the operating departments of the citizens of Philadelphia, that in the long run, it would not have an effect upon the services that are deliverable. So I don't find the numbers to be abusive.

But, again, during the process, you know, if you find it in your wisdom to lower the numbers based upon your collective agreement, then that's something that I wouldn't stands against, but I think that the numbers today are appropriate numbers as we move forward.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilman Kenney, bill sponsor, and then Councilman Cohen, I believe you had questions as well.

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COUNCILMAN COHEN: Yes.

COUNCILMAN KENNEY: Thank you very much, Madam Chair.

Jonathon, from the indicators you've seen so far, what do you believe is the economic outlook for the near and long-term future of the City?

MR. SAIDEL: I think, Councilman, that if you look back on the last number of years during the Clinton administration, we were at the greatest economic upturn in the history of our nation; yet Philadelphia still had a loss of jobs and a loss of property value as well as a loss of population. We are a West Belt City: We are the last to feel economic upturn and the first to feel economic downturn. And I believe that we are moving forward towards the constriction of our national economy, and certainly none of us really know what the impact is from the act of war that occurred on September 11th and what effect it will have on our national economy.

But I believe that the years of plenty are past and that we will begin a constriction of our economy in the next few years.

COUNCILMAN KENNEY: Could you elaborate a little bit on what some concerns people may have relative to viewing this bill because of their experience with Harrisburg in some type of draconian measure, you know, to limit the ability of government to serve the people. Do you believe, as I believe -- and could you expound on it a little bit -- that, in fact, putting this type of money aside during the course of our surplus and unanticipated revenue increases actually protects social services, actually protects basic City services? Because over a period of time, if we have the ability to put this money away and to be able to appropriate it through the Administration, with Council's approval, in a time of economic downturn does that not more than likely assure current or acceptable levels of service in times when, in the past, governments have had to cut back on social services, cut back on fire and police protection, cut back on recreation services? Would not this contingency fund -- say, there were $100 million sitting there today -- ensure current and adequate levels of services in an economic downturn?

MR. SAIDEL: Oh, absolutely. I mean, in many cases, use the Commonwealth of Pennsylvania's

Rainy Day Fund as an example of the State's response to us for our additional needs in Philadelphia is that that money is segregated so that their budget during economic downturns does not suffer. Of course, we believe in Philadelphia, many of us, that the level of expenditures of the State for the benefit of the people of Philadelphia is not at the level that we would like it to be, so we believe it's raining in Philadelphia, although it may have clear skies in Harrisburg. You know, that's their position.

I do believe that if we would have had a Rainy Day Fund in the '60s and '70s, the problems that we had in 1989 through 1992, where we went into deficit, which was a violation of the current law, would never have happened because we would have had a cushion and, therefore, not would have had to worry and go to the rating agencies almost every week and say that we would pay the bond payments before we meet payroll. We would never had that problem if we had put money away when this city was an engine that rolled and the suburban counties were agrarian in nature, which doesn't exist today.

I do believe that if we put money aside in the Rainy Day Fund today, in the next few years, we may stabilize, but in the long run, there is always an economic downturn because that's the reason why people use the term "economic upturn." If not, everything would just remain the same. And that we need to discipline ourselves, just the way withholding is taken out of our pay to make sure we pay our taxes, and our pension payments are taken out of our pay. It is very difficult to discipline yourself so that you can reach a level of acceptance to put money aside for a downturn in the economy.

COUNCILMAN KENNEY: What do you believe the impact on the City's bond rating would be if we established and complied with the imposition of a Rainy Day Fund? What do you think the reaction from the rating agencies would be about Philadelphia's creditworthiness?

MR. SAIDEL: I think just the history of my relationship with the rating agencies from the time that I've been controller where we -- in the 1990s, we began to institutionalize fiscal constraints and an accounting process based upon State law and the creation of PICA that forced us to be conservative and realistic in our expended revenues and our expenditures, that ratings improved.

I think with a Rainy Day Fund that it will improve even more because we'll show the rating agencies in New York City that we mean business in relationship to being realistic in our budgetary process and realistic in our savings so that there will not be a downturn in services when -- not just if, but when there is a recession. And every time our rating agencies give us an improved rate based upon the volume of bonds that we do, you know, we, over the life expectancy of a bond, save millions of dollars.

So the Rainy Day Fund should also be looked at as an economic mechanism to save interest expenses, which, if you float a bond, it's a 25-year bond, your grandchildren end up paying for, and so it will save money them money in the future too.

COUNCILMAN KENNEY: Could you explain for me the historical significance and use of the contingency line item? What is it, who created it, and why is it there, in your opinion?

MR. SAIDEL: Well, it's a ... the contingency line item began with Mayor Rendell and his administration, which was effectively to set aside a line that the Rendell Administration believed money should be segregated for unknown contingencies and unforeseen contingencies in the future planning of the Five-Year Plan of the City of Philadelphia. It is effectively a unauthorized and -- an unauthorized Rainy Day Fund.

Thank you for the question.

(Laughter.)

MR. SAIDEL: It is an unauthorized -- it is an unauthorized --

COUNCILMAN KENNEY: It's quite creative.

MR. SAIDEL: It's a creative accounting and setting up unauthorized Rainy Day Fund. What your bill will do, if passed by the Commerce Committee, is effectively institutionalize and set up a procedure that the number is not based upon what the Finance Director feels or the Mayor feels is a number that they can live with, but set up percentages so that there is consistency as we move forward.

COUNCILMAN KENNEY: Thank you.

Finally, one of the ancillary positive fallouts, I believe, of this bill is a tighter budgeting process. It's been my experience here that budgets are often not exactly the tightest documents in the world and there's a lot of wiggle room, so to speak, when it comes to the budgeting of what we anticipate revenues to be.

And the past administrations, and perhaps this current administration, use that process to kind of underestimate what some of the revenues are or anticipated to be; and, therefore, when they come in above, it looks quite nice and it's a, you know, a much -- a pleasant surprise, so to speak.

I've always found that budgets should be more of a tool of government, not simply a way to make the government look better at the end of the fiscal year. And do you believe that the establishment of this fund, especially with the provision of 50 percent of the unanticipated revenues, which would be certified, I guess, quarterly by PICA, would create a necessity for this administration and future administrations to budget much tighter?

MR. SAIDEL: You know, I believe it will, Councilman. The history of the budget in the City of Philadelphia from the 1950s onward till the crisis that occurred a number of years ago was that they were expenditure-driven, and in many cases, the revenue estimates were plugged into what we wanted the expenditures to be, which is not -- is not the way anyone who took first-year accounting would do fund accounting for the City of Philadelphia.

But with the creation of the legislation that occurred in the early 1990s, our government was forced to do a Five-Year Plan and to set up constraints as to what the revenue projection would be based upon a percentage of the year before the money that we list for -- money that would be received from the State government had to be money either that we were told was in the preliminary budget to be passed by the current-year budget in Harrisburg or the number that we received from the year before. So conservative numbers have been in place. I'd always rather see governments have conservative revenue estimates rather than overly optimistic revenue estimates.

There is in the last couple years, and certainly as we move forward at the end of this fiscal period, unanticipated revenue growth when -- and, to tell you the truth, many of the numbers are higher than I anticipated, which is fine, but that we may end up having unanticipated revenue decline the next year.

But I think that the Rainy Day Fund, since it's using a percentage of funds not anticipated and, therefore, not part of your budgetary process, would have no effect upon the budgetary procedures that exist within our government today because we are attempting now to budget based upon the services and the definition of what those expenditures are, i think, in a much more conservative manner than ever done before.

COUNCILMAN KENNEY: As a sideline to that, we're going to hear testimony from the Administration's Chief of Staff that one of the major flaws they believe in the bill is it is structured in a way that would encourage administrations to inflate the revenue projections. What is your opinion on that position?

MR. SAIDEL: Well, I think if you inflate revenue projections in order to avoid a Rainy Day Fund, you effectively have a dishonest budget. And if you inflate revenue projections and as we move forward on a quarterly basis, we find that those revenue projections do not materialize, then they need to be adjusted before we get to the end of the fiscal period, which means that the budgets of the different operating departments and societal needs and the service we provide would then have to be constricted.

So I do not believe that the response should be, by any administration, to artificially inflate revenue projections because of the fact that they don't want to put money in the Rainy Day Fund. And if they inflate the revenue projections and those are the numbers that come in, then that should have been the number that should have been used anyway and that there's a problem in the process of doing revenue projections.

COUNCILMAN KENNEY: Do you believe that PICA could play a role and the Controller's Office could play a role in any administration intentionally inflating revenue projections to avoid the Rainy Day Fund?

MR. SAIDEL: Absolutely. I think an intentional misleading based upon public documents that are presented for the future citizens of Philadelphia to understand the level upon which those services will be provided and the income stream that will provide those services, if they are artificially produced, I think it's against the foundation of a free and democratic society. And certainly I -- and I know PICA -- would be adamant on making sure that the system is in place, that the revenue projections are conservative in nature but also realistic in nature at the same time.

COUNCILMAN KENNEY: Well, as you review the bill, do you have an opinion on the conditions for withdrawal? Do you believe they're restrictive, that they're fair, that they're too lax? What is your opinion on withdrawal?

MR. SAIDEL: No, I think the restrictions are fair. I think that, you know, there is always a balancing approach to any of these types of bills. You have to have an opportunity, if there is an emergency as, God forbid, there was an emergency in New York, that we wouldn't have a Rainy Day Fund but utilize whatever we had for the people of our city, but I also think you don't need it to be broad enough where, effectively, your Rainy Day Fund is merely a passbook where people can just keep dipping into it.

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So I think your bill and the Commerce's bill is effectively balanced in its approach because, in this case, you have to be balanced because you don't really know what's going to happen in the future.

COUNCILMAN KENNEY: Thank you, Mr. Saidel. Thank you, Madam Chair.

MR. SAIDEL: My pleasure.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilman Cohen?

COUNCILMAN COHEN: Thank you, Madam Chair.

Mr. Controller, you know how highly I regard you and your office, and it's always been a pleasure to work with you, and I respect your opinions very much.

Having now dispensed with the niceties, let me deal with the realities.

COUNCILWOMAN BLACKWELL: Excuse me, Councilman. I neglected to note that Councilman Cohen is here, Councilman Frank DiCicco, and Councilman Frank Rizzo. Thank you all.

COUNCILMAN COHEN: It seems to me that the Rainy Day Fund is like one of these new contraptions like term limits that comes in somehow because people don't trust government officials, that somehow technocracy and fiscal conservatism are going to save the day from wild people who believe that government has a responsibility to make life better for people.

It strikes me that the Rainy Day Fund is another device that, if it has any impact, will probably have the wrongful impact, as Rudy Giuliani learned in New York. He was the foremost advocate of term limits and then he found that he didn't like term limits at a certain point, and it stopped him.

I think the Rainy Day Fund is kind of a gimmick and it's aimed at reducing the amount of money for fear that government people might, in a bad exercise of judgment, pass good legislation on behalf of people. And so I believe that that's where this Rainy Day Fund falls in.

There will always be money for economic stimulus no matter what the circumstances are, but the Rainy Day Fund will always be used to take money away to make it unavailable. When we need to expand the health centers, when we need more money for schools, when we need more money for housing, the

Rainy Day Fund is going to, you know, act like a very tight vise around the funding.

I appreciate everything you said in your statement, but I really think that it's just a kind of gimmick, just like term limit, to try to take away the power of the people in making decisions as to who ought to represent them. I think this is aimed at constraining public officials from establishing that government exists by and for the people.

What is your comment, sir?

And one another thing maybe you can address. Did I note in your statement the phrase "fiscal conservatism"? In one of the statements -- I thought it was yours, I'm not sure, and I was very surprised.

MR. SAIDEL: I probably mean "realistic." I use "fiscal conservative" as "realistic," not any relationship to what goes on in Harrisburg or Washington.

COUNCILMAN COHEN: Okay. That helps me in that term.

MR. SAIDEL: Thank you. I'm glad to see you're here, Councilman Cohen. I thank you for the complements. Anytime you begin with a complement, I know that I'm going to be --

COUNCILMAN COHEN: You know what's going to follow.

MR. SAIDEL: I think there was always an argument that we believe that the current level of support for the people of Philadelphia is inadequate, but I think that the Rainy Day Fund would only be operational if next year that we thought that there would be a $200 million increase in revenue stream and that Council and the Mayor believed that that $200 million needed to be spent on health centers, on roads, on potholes, on a transfer to the school system, that that would be incorporated within our current budget and, therefore, there would be no surplus, and there was no exaggerated or unusual blip in the revenue stream that went well beyond what we had anticipated based upon economic forecasts, then the Rainy Day Fund, as the bill indicates, and the bill sits forward, would have no impact upon the expenditures that I know that you for your life have been worried about to service the people of Philadelphia.

But if the budget is set up properly,

which it always must be, and you wanted to increase if we felt that there was revenue for it, additional expenditures that you felt were needed and Council felt were needed for service for the people of Philadelphia, the Rainy Day Fund would have no impact.

If there was a -- if all of the expenditures equalled all of the revenue for a particular year, there would be no surplus, there would be no money put in the Rainy Day Fund. If there was no unanticipated exaggeration and blip in the screen in revenue that comes in, which was not being used in the current budget, there would be no Rainy Day Fund payment.

Right now, if you look at your budgets carefully, you have a contingency number that's placed in there by the last two administrations. That effectively is an unauthorized Rainy Day Fund.

COUNCILMAN COHEN: Well, isn't it true that in the life of government, like in the life of businesses, in addition to unanticipated revenues, there are always unanticipated deficits as well.

MR. SAIDEL: Yes, that's true.

COUNCILMAN COHEN: And that kind of over a period of time, they frequently tend to balance each other out. And whatever techniques you use, the fact is that surpluses that seem to be large and permanent disappear, as is currently the situation with the federal deficits.

Isn't it likely that in Philadelphia -- we haven't seen any statements yet, but I expect that we have felt the terrible impacts from September 11th --

MR. SAIDEL: Yes

COUNCILMAN COHEN: -- in terms of much lessened revenues to the City?

MR. SAIDEL: Well, I think -- I'm sorry, Councilman.

COUNCILMAN COHEN: And I'm just suggesting that I think we're playing with the kind of toy that's got one aim and one aim only, and that is to limit in some fashion, even if it's an imperfect limit, the ability of legislators and executives -- the Mayor and the City Council -- to limit their ability to make the judgments that they were elected to make, how to spend the money available for the best purposes.

COUNCILMAN KENNEY: Could I just -- since this is my "toy," so to speak, I'd just like to comment that the intention of this bill -- well, you termed it as a "toy," so I wanted to make sure that -- it's certainly not -- I did not view this bill as a toy. I just wanted to --

COUNCILMAN COHEN: (Inaudible.)

COUNCILMAN KENNEY: Well, you said "toy," and I just wanted to make sure you understood my --

COUNCILMAN COHEN: It's an economic toy.

COUNCILMAN KENNEY: I understand. I just want the Controller to explain again for the record -- perhaps the Councilman didn't hear him -- that this has nothing to do with taking money away from -- limiting the budgetary ability of this administration or this Council to budget what they think is appropriate for levels of services in every area of government service throughout the City.

Let me give you an example of what I think this is in common person's terms. I am not a gambler, and I don't go to the casino, but I know people who do go. And if you go to the casino on a trip with $100 in your pocket and you play the slot machine and all of a sudden, you hit three bars and you win $100, you take $75 of that 100 and you put it in your pocket to make sure you can eat and get a ride home when you finally go bust. So at least $75 out of that 100 is sitting in your pocket as a contingency in case you have an economic downturn by losing all of your money in the slot machine at the casino.

All I'm saying is that this is not an effort to take away or limit the ability to budget. The Mayor sends a budget, we approve the budget, we change that budget; whatever that budget is, it is. But during the course of the year, as the fiscal quarters go forward, we find out that we have more money coming in than we thought we had, and instead of taking that money and throwing it totally into the General Fund, we take it and put it into a segregated account for safety purposes.

What that does, as I say, as I understand the Controller's testimony, is it gives bond-rating agencies and other governmental entities some confidence that we have a cushion in the event that we have a downturn. This is in no effort a way to constrict the government or constrict the Administration or constrict the Council on any budgeting effort or in any levels of service to the citizens of the City; it's just money that we didn't think was coming in, all of a sudden for some reason came in, and we're going to take a portion of it, not all of it, and put it away for a rainy day.

COUNCILMAN COHEN: Of course, that argument, I think, is a facetious argument.

COUNCILMAN KENNEY: Okay. Thank you, councilman.

COUNCILMAN COHEN: We have a budget, we have a budget, and you never get the money for each specific item, you never get as much as you want. We want trees pruned in Philadelphia; the amount that's budgeted each year is a tiny fraction of what's needed. We have passed bills in Council to provide for the repaving of driveways in the back and retaining walls; what's been (indiscernible)so far is zero because it's said we don't have the money for it but we'll have the money for a rainy fund? To me, that's sheer nonsense.

The purpose of this bill, it seems to me clearly, is to take away from the legislative body and from the executive the power that they were elected to carry out, and that is, if there's more money, maybe we can begin -- maybe we can begin to

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appropriate more sensible amounts of money for things that are desperately needed.

Now, I asked you a question while Councilman Kenney interrupted, so I would like if you would go back to that question and reply.

MR. SAIDEL: Okay. As far as I remember it, the -- let me give you an example. If there are $3 billion worth of revenue that is anticipated coming in for a 12-month period and Council and the Mayor see fit to spend all 3 billion in the budgetary process, then there's no surplus, there's no money put away for a rainy day. If the $3 billion that's generated is equivalent to the revenue that comes in, then there's no unanticipated revenue growth; and, therefore, there's no percentage of any money -- 'cause the money doesn't exist, no money is placed in a Rainy Day Fund.

So if the budget is equal, in essence, there's no money put aside for a Rainy Day Fund. If the revenue estimates are equal to the money that comes in, then there's no Rainy Day Fund money put away. If there's a deficit, there's no money put away. We're not supposed to be a deficit anyway, but there's no money put away.

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I think that to me, the Rainy Day Fund is equivalent to withholding that is taken out of our pay. In the beginning, when income tax was set up, there was no withholding. The government thought that everyone would pay their taxes on April 15th. No one paid their taxes on April 15th 'cause they spent the money during the year -- certainly on the necessities of life. But now we withhold, the same way we withhold our pension contribution to the Pension Board, because none of us are disciplined enough to -- I know I'm not -- to not spend the money on my four children, and then April 14th, have to give them $10,000 to put in for my retirement.

The way the system set up, if the budget is actual, realistic, it will not have any effect upon spending levels unless there's unanticipated revenue growth or there's a surplus that's created that was not intended. COUNCILMAN COHEN: Well, if the Rainy Day Fund ever had any impact, I think it might be if it were a momentary shower, but if it were really a rain storm, you'd find the Rainy Day Fund wouldn't be there, it wouldn't be very much money, it would be of little use, it would create a false sense of security. It would be a means by which, instead of government taking significant steps to deal with real live facts as to the need for taxation, of the need for expenditures, instead of that, the Rainy Day Fund would always be an excuse, we have a reserve.

But what I would like to see, Mr. Controller, is an analysis. Take a five-year period before we ran into the fiscal problems you referred to before in the days of Mayor Goode. I would like to know, if this bill had been in effect for the five years prior to that time, what would have been the impact on dealing with the circumstances as they developed in Mayor Goode's administration?

I've seen nothing good come from the Rainy Day Fund in Harrisburg. It hasn't been used for the good of the people; it's just been an idle fund most of the time or been used for special purposes of the governor for a particular slush fund of some kind or other. I have all kinds of questions.

MR. SAIDEL: I can only tell you that I would never equate the leadership in Philadelphia with the disciplining leadership that I've seen in Harrisburg for the last number of years. So I think that as long as we have effective people like yourself and the people that are in front of me and a budgetary process that is realistic, that the money that is set aside in the Rainy Day Fund has no impact upon the services that you believe, based upon your approval of the budget, need to be done for the 12-year period that that budget covers.

Bit I would not equate the problems that we have had in Harrisburg with a lack of leadership with the leadership of the members of City Council in this city for the last eight years.

COUNCILMAN COHEN: Well, your answer's very tactful, and we thank you for it.

MR. SAIDEL: Thank you.

COUNCILMAN COHEN: But would it be possible to get that kind of an analysis as I've suggested? Could we go back over all of the fiscal records that are available and tell us what would have happened during the days of the economic problems you referred to do if there had been a Rainy Day Fund in existence the prior five years, a Rainy Day Fund based on the premises --

MR. SAIDEL: I am not the sponsor of the bill, but I will certainly acquiesce and I will have my office look back on whatever period of time you want. I don't know if I have the numbers as to what the unanticipated revenue growth was for those periods, but I could certainly tell you if there was a surplus.

Don't forget, our books were a little different in the old days as compared to the way they're structured now.

COUNCILMAN COHEN: Wasn't there a major factor in the economic difficulties that existed during Mayor Goode's administration -- when Wall Street -- and when I say "Wall Street," I mean in general the combination of all of the stock brokerage houses, the rating agencies, and so forth -- decided that without Philadelphia ever having been in default, that Philadelphia bonds were risky, that instead of considering Philadelphia's situation from the viewpoint of the fact that it had never once defaulted, that one way or another, it had always met its obligations. Wall Street, as I defined, it arbitrarily decided that Philadelphia was a bad risk.

Wasn't that a major component of why we were in difficulty during Mayor Goode's administration on funds?

MR. SAIDEL: No, I think -- it would take me a long time to answer that question properly. But based upon my experience with the rating agencies in the early 1990s, many of the problems that governments in the past before Wilson Goode, Mayor Goode, had not dealt with came to fruition during the real-estate tax dramatic decline in the late '80s and what were irresponsible budgets for the last 50 years; all of that came together. And the forecasting that we had of our cash payments in many cases did not show that we could meet our current obligations and would become insolvent.

With the creation of PICA, the Rendell Administration took advantage, they bonded out the deficit, which was not an available mechanism by Mayor Goode at the time. If he would have had the same opportunities that the PICA legislation created years before, I don't believe we would have been in the crisis that we were at that point.

But I don't think that the rating agencies and the dramatic decline in our rate was arbitrary because I think we contributed to the fact that we deserved the decline because we could not secure and

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guarantee that we would meet all of our obligations in a timely manner. And if that happens, then we would have been insolvent and we would have been down to junk bond status, and the State could have had an opportunity to take us over.

COUNCILMAN COHEN: All right. I think I -- I won't follow up with that with you, but i will save the rest of that part of the question for Mr. Vignola.

But it's always been my judgment that Mayor Goode was given an unhappy rating unjustifiably, that the actions of Wall Street at that time were in direct opposition to every standard that it had ever applied previously. I'll let Mr. Vignola deal with the rest of --

MR. SAIDEL: I can only tell you that that's not correct, but I can also tell you that Mayor Goode was unjustifiably criticized because of problems that he did not create that came to roost in his backyard during the latter part of his administration during his second term, which really were created by irresponsibility in government both on a city, state, and federal level for a long period of time, long before I even started in public schools.

COUNCILMAN COHEN: Well, let me finish as I started. Sometimes it seems to me your office's audit is the only beacon of light we have on financial matters in the City.

MR. SAIDEL: Thank you.

COUNCILMAN COHEN: And I thank you very much personally for that.

Thank you, Madam Chair.

MR. SAIDEL: Thank you, Councilman.

COUNCILMAN KENNEY: Just one follow-up, Madam Chair, if I may.

COUNCILWOMAN BLACKWELL: Certainly.

Before you do, Councilman, let me note that Councilwoman Marian Tasco, Vice Chair, is here also.

Thank you.

COUNCILMAN KENNEY: Just one follow-up, and I know your staff is going to do its best to --

COUNCILWOMAN BLACKWELL: I'm sorry. We did not mention the President earlier. Thank you Mr. Pizzi. But our president is here, Anna Verna.

Thank you.

COUNCILMAN KENNEY: Thank you, Madam

Chair.

Just one follow-up relative to Councilman Cohen's request for the staff to try to cull through the information back in the '80s to determine what would have been in a Rainy Day Fund. You do have the information that what we would have in a Rainy Day Fund, if we had established one in 1990, and you had testified earlier that that amount would be about $100 million?

MR. SAIDEL: A little over a $100 million.

COUNCILMAN KENNEY: Would that $100 million be available, as we speak today, to help fund some of the problems facing the Philadelphia School District?

MR. SAIDEL: I believe that those funds would have been available based upon the downturn of the economy for whatever the leadership of Council and yourself included and all members of Council as well as the Mayor thought would --

COUNCILMAN KENNEY: And is it in fact true that we are currently in two consecutive quarters of job -- Councilman, I'm -- Councilman, I just want to make sure -- this is part of what your question was and I want to make sure that you hear the answer.

The Controller said that while he is looking for information on the Goode Administration, if we had established a Rainy Day Fund in 1990, 1991, we'd approximately have $100 million in the Rainy Day Fund today as we speak, and that money would be available to help with things like paying for the Philadelphia School District.

And are we not in a period of time where we've experienced two consecutive quarters of job loss?

MR. SAIDEL: Yes.

COUNCILMAN KENNEY: So, therefore, it would have triggered, as we speak today, the availability of up to $100 million to help the School District of Philadelphia.

MR. SAIDEL: I don't want to say -- I don't want to --

COUNCILMAN COHEN: It would have been taken away from important City services in order to create fund.

COUNCILMAN KENNEY: No. See, that's the flaw of the argument here is that we -- the Administration gives us a budget and a Five-Year Plan. We pass that budget, we have the authority to

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change that budget to increase City services if we want to; we choose not to. And if during the course of that fiscal year, there's money available, then we put it away. We would have had $100 million to help the schools today if we had established this fund in 1990, which he's not listening to me, but that's okay.

Thank you, Mr. Controller.

MR. SAIDEL: May I be excused?

COUNCILWOMAN BLACKWELL: I have questions from Frank DiCicco and from Wilson Goode before you leave, Mr. Controller.

COUNCILMAN DICICCO: Mr. Controller, by the way of example, if individual Councilpeople started putting money into the Rainy Day Fund, how long do you think we could last without redistricting?

MR. SAIDEL: Do you want to rephrase that question?

COUNCILMAN DICICCO: No further questions.

COUNCILMAN COHEN: Right now City Councilmembers need a Rainy Day Fund for their paycheck. But it's not there and it will never be there when needed.

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COUNCILWOMAN BLACKWELL: Thank you.

Councilman Goode?

COUNCILMAN GOODE: Thank you, Madam Chair.

Thank you for your comments regarding the Goode Administration. Aside that, it puts some things into context.

I want to thank Councilman Cohen for his comments and actually, I guess, to a certain extent, show some support for this bill in the sense that had there been a Rainy Day Fund established during the '80s, which was the greatest period of economic growth in recent history, which Mr. Pizzi, under his leadership as Commerce Director can attest to, there would have been tons of money flowing in before we went into an economic recession.

MR. SAIDEL: That's right.

COUNCILMAN GOODE: It was a national economic recession in the late '80s which triggered the events of the early '90s.

MR. SAIDEL: That's right.

COUNCILMAN GOODE: And this bill is dealing with a prospect and a likelihood of a future economic recession. So we can put this in the context of national economy as opposed to political administrations. But in terms of economic factors, it is very true that with that period between 1983 and 1987 in particular on huge job growth in this City, that that would have contributed tons of money that would have helped us as we reached the point of economic recession.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any other questions for Mr. Saidel?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. SAIDEL: My pleasure, ma'am. It's always a pleasure to be here.

COUNCILWOMAN BLACKWELL: Mr. Pizzi, we're sorry to hold you. Don't blame us, blame Jonathan.

(Witness comes forward.)

COUNCILWOMAN BLACKWELL: Thank you. Please identify yourself for the record.

MR. PIZZI: Thank you, Madam Chair. My name is Charlie Pizzi, from the Greater Philadelphia Chamber of Commerce, and I'm here to testify on

Bills 010492, 010508, and 010541. The sponsors of the 1 respectively are Councilman Kenney, Councilman DiCicco, and Councilman Goode.

The Chamber supports Bill 010492, creating a Rainy Day Fund, under certain terms and conditions, to cushion the impact of unanticipated declines in City revenues, as was previously mentioned. The PICA Board and State oversight board charged with overseeing City finances also has recommended the implementation of a Rainy Day Fund. The Chamber concurs that this is a valid and proper public function to set aside a portion of revenues in order to minimize future revenue shortfalls and deficits, provide greater continuity and create predictability in funding of vital government services and minimize the need to increase taxes to balance the budget during periods of economic distress.

Indeed, we have been most fortune in recent years to enjoy a healthy fiscal stability, but we are all painfully aware that this is changing. The economy has suffered a stunning blow, and it may well take months before we see signs of recovery. Frankly, currently, they're calling for a recovery at part of the third quarter. A formal plan now could greatly reduce the need for the cumbersome task of layoffs and budget cuts down the road; or even worse, the decision of whether to raise taxes or reduce services to offset revenue loss.

It is my understanding that during the City Council Legislative Oversight Committee hearing in January of this year, all witnesses, including those from the Administration, favored the creation of this fund. This bill formalizes the process that the City has had in place for years and sends a strong message to Wall Street and bonding agencies and can only have a positive impact on our sagging economy.

This, action, however should not be used in place of tax cuts and other necessary measures to attract and retain jobs and residents to the City. While a worthwhile tool, it is just that; it should not be viewed as cure to our economic challenges.

Thank you for this opportunity to speak to you on behalf of this ordinance.

COUNCILWOMAN BLACKWELL: Thank you.

Are there any questions with regard to

this bill?

(No questions.)

COUNCILWOMAN BLACKWELL: All right, there Pizzi, if you would like, you can give testimony on all bills so that we don't hold you.

MR. PIZZI: Thank you, Madam Chair.

If there are any questions on this further, I'd be happy to respond in writing.

COUNCILWOMAN BLACKWELL: Thank you.

MR. PIZZI: Bill No. 010508, which expands the time frame during which applicants may apply for tax abatement on new residential construction.

You may recall that the Chamber supported the original bill, Bill 226, creating a tax abatement program as an incentive for people to stay or move into the City. During my testimony before this legislative body last week, one of my major concerns I addressed was the lack of new housing in the City, the fact that we are losing our competitive edge to the suburbs. We need more incentives like this to lure people back into the City, back into our neighborhoods.

Although the Chamber supports the legislative intent, we are requesting that an amendment on the effective date of this bill be entertained in order to make it effective coterminously with the date that the Governor actually signed the enabling legislation, extending the abatement period from three to ten years, or December 18, 2000. We ask for this amendment in the spirit of fairness and at the request of the Greater Philadelphia Association of Realtors, who have done a great deal of work on these bills and who have a vested interest in this matter

I will tell you aside, when I was Commerce Director, we came into a lot of problems where people would miss the application process because they had to do it at the time that they applied for building permit and, therefore, according to law, weren't capable of applying.

I would also ask that as we move forward after this bill sunsets, that we re-look at the time period which we consider. We were originally at three, we're now at ten; we may want to find ourselves a place in the middle going forward.

So that is the conclusion of my support for that bill. Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

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Councilman DiCicco?

COUNCILMAN DICICCO: Thank you, Madam Chair. Thank you, Mr. Pizzi.

I will be offering an amendment this morning to address both of those issues. The thing that always concerned me, as it did you and other members of the community, was the process by which someone applies, and I think we're going to be able to address that in the amendment, where it will be the date of the CO, and at least that the buyer will be able to take full advantage of it in the event that a developer either does not take out the proper forms or misses a deadline, what have you. So we'll address those two issues.

Mr. Glancy's here to answer any questions later, but we're trying to figure out what is the best date. We have a date in March of 2000 -- was it 2000?

MR. PIZZI: March 1, 2000 and prior to June 30, 2002.

COUNCILMAN DICICCO: All right, so we will work out a date before the end of this session this morning and we will finalize that amendment, but those two issues will be dealt with today.

So thank you for testimony.

MR. PIZZI: Oh, thank you. And I think this also helps the neighborhood initiative as well program.

COUNCILMAN DICICCO: That's always been my argument for four years.

MR. PIZZI: And we appreciate your efforts, Councilman.

COUNCILMAN DICICCO: Thank you.

MR. PIZZI: Finally, I would like to testify, Madam Chairman if it's okay --

COUNCILWOMAN BLACKWELL: Yes.

MR. PIZZI: -- testify on Councilman Goode's bill and that's Bill 010541, creating a pilot program under which a credit against business privilege taxes will be given to businesses that contribute $100,000 per year in cash in order to qualify -- to a qualifying community development corporation, or as we all know 'em, CDCs.

Not only does the Chamber support business privilege tax credit, but we also view this bill as an economic mechanism that could greatly enhance the Mayor's Neighborhood Transformation Initiative by leveraging private-sector investment in the redevelopment of economically disadvantaged neighborhoods. If the pilot program is successful, and I hope it is, I would encourage the doubling or tripling of the number of eligible businesses in the future. We have seen success that can be achieved by using tax credit to stimulate neighborhood-based economic-development solutions.

The history of our Philadelphia Plan, which leveraged business support for CDCs through credits against the State's corporate net income tax, proved to be a potent spark for development in the neighborhoods. We have firsthand experience with this, so that is why we applaud the efforts of this bill. And recognizing that it would be a pilot bill, we can take and choose from it the things that work and the things that don't. But this is a great way for businesses to access direct investment into the neighborhoods in which they reside.

We started out wanting to have three to five companies participate in the State's program and we finished up with 12. So right now, the Philadelphia Plan's in 12 neighborhoods and was all modeled after the Allegheny West Program, which is a very successful program that has done more than 4 to

500 units in new housing since its establishment.

So we applaud the efforts of this and we look forward to analyzing the results of this pilot program.

COUNCILWOMAN BLACKWELL: Thank you. One question -- and we thank you also, Denise Gorin (ph), for being here.

How do you ensure in this bill that the little small neighborhood CDCs that want to help don't get swallowed up by the certainly large ones who have membership fees, etc., who don't really the need the kind of support that we can give? I mean, the intent of the bill, I'm sure, from its sponsor is to try to help neighborhoods and small residential and commercial strips to get some support.

MR. PIZZI: I think the key, Madam Chair, is to ensure that they're accountable. Any organization, large or small, needs to be accountable once they receive these funds. If they demonstrate that accountability through quarterly accounting of how they're using the money, that would be helpful.

I think the way we have worked it from the

State's perspective is the companies sit on the boards of the local CDCs and help the local CDC put in the necessary accounting practices so that there is accountability. The companies do not -- they work with the CDC to determine the projects but do not -- are in support of what the neighborhood wants as opposed to -- it doesn't work where the companies want to tell the CDC what to do. But there needs to be a partnership, and that helps those small CDCs especially.

COUNCILWOMAN BLACKWELL: Thank you.

Are there any other questions for Mr. Pizzi?

Councilman DiCicco?

COUNCILMAN DICICCO: Thank you.

My question is actually to the sponsor of the bill, Councilman Goode. I support the bill -- I don't know how I missed not signing onto the bill, but maybe later I'll make sure my name is attached to it.

I just had a concern as to why we would be limiting it to -- I know that it's a pilot program, but why would we limit it only to ten businesses, why wouldn't we look to do it for any business?

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COUNCILMAN GOODE: Only because of revenue, only because of revenue implications. And we're starting off as a pilot program. I'm pretty sure it's going to be successful. I think the Philadelphia Plan model is probably the premier model for community development in Philadelphia.

As part of this bill also, the Revenue Department is supposed to analyze the program on an annual basis, give a report to the Mayor and Council, and we can change this program as it goes along to better it and/or to expand it.

MR. PIZZI: To that point, what the State has done, it started the same way. It started with a small number of businesses and then it allocated a certain amount of revenue that could then be designated and split up accordingly to the number of businesses that you wanted to do it for.

COUNCILMAN DICICCO: How do we determine what businesses?

COUNCILMAN GOODE: As the bill's currently constructed, it's on a first come/first served basis. There's an agreement with the Revenue Department, which is a multi-year agreement. So the Revenue Department will devise an agreement that

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will be a ten-year agreement with the business saying that they will give essentially what amounts to a million dollars over ten years.

COUNCILMAN DICICCO: Thank you. Thank you, both of you.

MR. PIZZI: Madam Chair, in conclusion, I just want to say that these three pieces of legislation really send a strong signal that the City is willing to work and make this city competitive. And each one of these bills -- one for housing, one for financial accountability and one for economic development stimulus -- sends the right message, and this Council should be proud of the work that is shown within these three bills.

COUNCILWOMAN BLACKWELL: Thank you, Mr. Pizzi.

The Chair notes that Councilman O'Neill is here for our committee hearing.

Councilman Kenney, do you have a question?

COUNCILMAN KENNEY: Thank you, Madam Chair.

I just wanted Mr. Pizzi's opinion on some of the testimony you've heard earlier, specifically Jonathon Saidel's testimony that if we had established a Rainy Day Fund in Philadelphia in '91-'92, we'd have approximately $100 million sitting in reserve in the Rainy Day Fund. In this particular period of time, we have experienced two consecutive quarters of job loss, and we are sitting there, looking at a school system that is terribly ailing for money.

Would this not, in your opinion, be a perfect time to use $100 million to help with our fiscal situation at the School District, which is probably the main reason, besides taxes maybe being second, the main reason why we've lost a number of residents in the City over the last 10, 15 years that we've lost?

MR. PIZZI: There's no question about it. It really bring fiscal accountability, it gives it discipline, it puts discipline within the fiscal process, and we would have had that money and we're going to have to find the money.

COUNCILMAN KENNEY: Yeah, as we're rattling around, looking for 60 or $75 million to meet whatever responsibilities Harrisburg believes we have, whether they are valid or not, but the point is that we have to meet them at some point in time. Wouldn't it be wonderful to have $100 million sitting there for the School District of Philadelphia, without having it affect any long-term service levels or budgeting priorities or other kinds of services we need to deliver to the citizenry.

I think this example is the perfect example as to why this is a prudent thing to do, and I think should have done it in the past, but I believe it's better late than never.

MR. PIZZI: That is true.

And in all respect to Councilman Cohen, this is a new initiative by municipal and state governments to use, but it's a new practice, and we should use all of the new practices that strengthen the economic viability of our city.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Any other questions for Mr. Pizzi?

(No further questions.)

COUNCILWOMAN BLACKWELL: Thank you very much, Mr. Pizzi, and Miss Gorin.

Joe Vignola, PICA, our former colleague.

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(Witness comes forward.)

COUNCILWOMAN BLACKWELL: Welcome, good morning. Please identify yourself for the record and begin your testimony.

Next will be our chief of staff. Just so she has a sense of timing, next will be the Chief of Staff. Thank you.

MR. VIGNOLA: Good morning --

COUNCILWOMAN BLACKWELL: Good morning.

MR. VIGNOLA: -- Councilwoman Blackwell and members of the City's Finance Committee. My name is Joseph C. Vignola, and I am the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority, known as PICA.

I would like to digress briefly from my testimony to introduce someone, and by way of introduction, I have to make an explanation. For ten years of PICA's existence, we are blessed by having as my deputy Peter Golato. Peter Golato, a longtime accountant, who worked well with the City of Philadelphia, both with the Council and with various administrations, passed away on September 19th. And I, on behalf of the PICA Board, would like to inform you of that fact because you've

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seen Peter here from time to time.

But I'm also pleased to announce that the Board accepted my recommendation of Mr. Maury Munson, who you've seen here from time to time when he was Deputy Budget Director for the City of Philadelphia. He was chosen to be the Deputy Executive Director. Mr. Munson is now my deputy executive director at PICA.

So I thank you for that brief indulgence, Madam Chair.

Madam Chair, I am pleased this morning to testify regarding the adoption of a Rainy Day Fund for the City of Philadelphia. Much of my testimony this morning is a summary of previous testimony presented before the Legislative Oversight Committee this past January and mirrors PICA White Paper No. 9, "Philadelphia's Fiscal Challenge: Finding a Way to Save," copies of which I have distributed to the Sergeant-at-arms.

Preliminary figures for Fiscal Year 2001 show that the City is ending with a positive fund balance of over $226 million, a figure which is likely to rise. Despite this ninth consecutive year of positive fund balances, PICA continues to stress the City's need to proactively prepare for unidentifiable -- excuse me, for identifiable and unknown fiscal threats that may impede continued fiscal stability and prosperity. The Administration has already been sending warning signs about shrinking revenues in the first quarter of the current fiscal year and new efficiencies, which would result in possible service cuts.

Rainy Day Funds are created to serve as an alternative to raising taxes, cutting services, or increasing debt, practices that most municipalities, and in particular Philadelphia resorted to in the past when faced with economic recessions.

Forty-four of the 50 states and many large municipalities have either created a Rainy Day Fund or some type of stabilization reserve. The central concerns that I believe that City Council needs to consider are: Can the City create a Rainy Day Fund and what parameters should be adopted for contributing monies and utilizing monies of this Rainy Day Fund?

The most often-cited obstacle to the creation of a Rainy Day Fund in Philadelphia is the Home Rule Charter, which has been interpreted to require a balanced budget. PICA staff strongly recommends that the City reinvestigate the legal potential for creating a Rainy Day Fund as a component of a balanced budget. The Five-Year Plan, mandated by the PICA Act, may well be the catalyst for the creation of such a fund.

In its proposed Five-Year Plan, Fiscal year 2002 to Fiscal Year 2006, the City indicated an intent to save $127.5 million through the end of Fiscal Year 2002. The City designated the savings as "funding for future obligations." In previous plans, they were titled "funding for contingencies." This process presumes that a short-term emergency fund is legal. However, since this contingency fund can be used for any purpose, regardless of an emergency status, it does not rise to a level of a Rainy Day Fund that is designed with sharper restraints.

If it is feasible for the City to plan to save money in the Five-Year Plan, then it is within the City's means to create a savings plan with the same intent and restrictions as a Rainy Day Fund. The City, in conjunction with this Council, could develop legislation to guarantee that funds are carried over from year to year.

At the same time, it is incumbent on the City and this Council to establish parameters determining the annual percentage of General Fund dollars to be allocated to the fund, the purpose for which the money can be spent, and the maximum amount of money that can accumulate in the fund. With many diverse interests pushing and pulling on the City's funding capabilities, contributing to a Rainy Day Fund may be sidetracked if year-to-year appropriations must be made through City Council.

Unanticipated revenues are like free money. The City's Five-Year Plan is in balance without accounting for these funds. Setting aside a significant portion of these dollars, such as 50 percent indicated in this bill, is an ideal way to build a Rainy Day Fund without impacting on the existing priorities of the Administration.

Most municipalities decide to set a maximum limit on the amounts of dollars in a Rainy Day Fund so that that level in a Rainy Day Fund are justifiable over such decisions as reducing taxes or directing dollars towards operating expenses. The 5 percent indicated in this legislation is

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considered a standard practice among Rainy Day Funds.

The most critical set of factors concerns withdrawals. Exacting limitations should be placed on withdrawals to assure the use only in a time of emergencies, economic downturns, or revenue shortfalls. As defined in the proposed legislation the City would currently qualify for withdrawing funds from the Rainy Day Fund, as the first two-quarters of calendar year 2001 had job losses according to the Bureau of Labor Statistics.

This fact raises the interesting question of should we be funding a Rainy Day Fund in a recessionary period? My answer to that is yes, if the resources are available.

The mechanism outlined in this legislation provides for funding only if there are excess monies. Using the preliminary 2001 numbers, the City would take half of unanticipated revenues, nearly $47 million, and one-quarter of the remaining fund balance, just over $33 million, and have an $80 million Rainy Day Fund, while maintaining a positive fund balance of $146 million.

Parenthetically, Madam Chair and members of the committee, this $80 million is over 50 percent of the amount that would be allowed to be included in a Rainy Day Fund, given the 5 percent cap.

So if the current fiscal year continues with weaker revenues and ends the year with a small fund balance, then little or no dollars go into the Rainy Day Fund. Contributions to the fund correlate to the City's fiscal realities.

Philadelphia can prepare for our future fiscal uncertainties by creating a Rainy Day Fund. Other municipalities under the same charter restraints as Philadelphia have found ways to put funds aside for the seeming inevitable downturn in the economy.

The question for Philadelphia is not, Can this be done? but does the City want to take the strides to get it done in a timely manner?

With that, I conclude my testimony and invite any questions you may have.

COUNCILWOMAN BLACKWELL: Thank you very much.

Questions?

COUNCILMAN KENNEY: Thank you, Madam

Chair.

Mr. Vignola, your testimony in support of the bill, do you believe that the establishment of the fund through the mechanism of this ordinance is appropriate and legal?

MR. VIGNOLA: Yes, I do.

COUNCILMAN KENNEY: Thank you.

COUNCILWOMAN BLACKWELL: Mr. Vignola, it is my understanding that having a Rainy Day Fund Can positively affect our city's bond rating. Can you tell me whether PICA has taken a position on this issue?

MR. VIGNOLA: Madam Chair, last January, when I testified before the Legislative Oversight Committee, before my testimony, I believe there were three representatives from various bond-rating agencies, and they all strongly urged the establishment of a Rainy Day Fund and said it was one major factor in considering the stability or the upgrading of the City's bond rating.

I believe that given the economic circumstances that we find ourselves in this fiscal quarter that, yes, it would definitely have a positive effect on what the City bond rating will be.

COUNCILWOMAN BLACKWELL: So in other words, you feel that the parameters of this -- also, can you tell us whether the parameters of this bill, in your opinion, can be changed to even improve a bond rating even more than anticipated here?

MR. VIGNOLA: Madam Chair, by way of parameters, you mean, do you want to put more money in the Rainy Day Fund? I mean, I don't -- I don't understand what you mean by "changing." Like instead of 50 percent, make it 60 percent instead of 25 percent?

COUNCILWOMAN BLACKWELL: Just changing the numbers, how that would affect the bond rating.

MR. VIGNOLA: Up or down. I think that the philosophy of having a Rainy Day Fund contributes substantially to what rating agencies think would think of the City of Philadelphia's credit rating when it goes to the market to sell any of its long- or short-term debt.

So yes, I do. And no matter what those parameters are.

COUNCILWOMAN BLACKWELL: This question deals with the time frame for emergency expenditures. If requests from this fund can be done only with PICA certifying it, what is the worst-case scenario in getting the money? Let's say for the School District bailout or a labor dispute, is PICA in a position to slow the City down if it needs to act or react immediately? Where's your input there?

MR. VIGNOLA: The answer to that is no, the thrust is the two quarters of job loss in the City. And as I previously testified to, so far for calendar year 2001, we've had those two successive calendar quarters of job loss.

The other criteria is a change, you know, in the revenues, which is monitored monthly, and the City reports to PICA in its quarterly manager's report. The PICA Board meets regularly, on a monthly basis, and also has the ability to meet on an emergency basis. So the time frame to react would not be a delay on PICA's part. We could be prepared to meet the certification requirements of the legislation.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there other questions for Mr. Vignola?

Councilman Cohen?

COUNCILMAN COHEN: Mr. Vignola, the bond rating agencies, they like it when cities set up Rainy Day Fund?

MR. VIGNOLA: That was their testimony before the Legislative Oversight Committee in January, yes. From the conversations I've had with bond raters, yes, they do.

COUNCILMAN COHEN: Bond-rating agencies like it when cities develop economic stimulus funds, right?

MR. VIGNOLA: Yes, sir.

COUNCILMAN COHEN: They like it when cities invest in businesses or make tax abatements, right?

MR. VIGNOLA: I -- I don't know about that. I never had the discussion with bond-rating agencies about that.

COUNCILMAN COHEN: But you read about what they do, right?

MR. VIGNOLA: I read about what they do, but I don't know if they, you know -- the bond rating agencies would like it if the City spent no money for anything, just have taxes.

COUNCILMAN COHEN: Tell me when you've ever seen a bond-rating agency issue a good report when a city provides more money for the health needs of its people.

MR. VIGNOLA: Oh, they did it to Philadelphia. They increased our rating in '94 from junk bond status to creditworthy status because we started providing more services to the citizens of Philadelphia than were provided, you know, in the first years of the 1990s.

COUNCILMAN COHEN: Good. Do you have any documentation of that in your office that you could submit to me? I would like to see it.

MR. VIGNOLA: Well, I will forward you the newspaper articles that I have in regard to, you know, Philadelphia regains its bonds-rating status, and I'll photocopy copies of the budget that show we were increasing expenditures in the City at the same time.

COUNCILMAN COHEN: Well, I would like very much to see any documentation that you have in which a bond-rating agency, whether it's Fitch's or Standard & Poor or Moody's or -- there are four of them, I missed one of them -- whenever they have exhorted cities to spend more on behalf of city neighborhoods.

MR. VIGNOLA: No, well, you didn't -- you didn't -- that was not the original question, Councilman. The original question was, did you ever see bond-rating agencies increase a city's ratings when they were spending more on social services? And I said all we have to do is look to Philadelphia in 1994 when the bond-rating agencies changed our bond rating from what was the equivalent of a junk bond status to a creditworthy status, and --

COUNCILMAN COHEN: Well, I don't think they did it for the reasons you're stating.

MR. VIGNOLA: But what the reality is, we were spending more on City service, we were putting more police officers on the street and --

COUNCILMAN COHEN: Well, I understand they would approve of that, they would approve of anything that fits within the substance known as "fiscal conservatism," which means nothing for the ordinary people but everything for business people.

MR. VIGNOLA: Well, that flew in the face of what we all did here in City Council in 1992, '93, '94, and '95, when we put more police officers on the street, we provided for child welfare support and more health-care support, you know, for our citizens at the time of which, you know, people said Philadelphia wasn't going to survive. And as a member of this Council back then --

COUNCILMAN COHEN: Well, we knew Philadelphia was going to survive.

MR. VIGNOLA: -- and I felt very strong about that.

COUNCILMAN COHEN: We knew Philadelphia was going to survive. Philadelphia had a perfect record of not a single delinquency ever with respect to any bond payments due, but Wall Street closed its doors on us.

MR. VIGNOLA: There were many savings-and-loan associations in the '70s and '80s who had that same perfect record, who were taken over by the federal government. So, you know, the past is no predictor of the future.

So, Councilman --

COUNCILMAN COHEN: Well, some things are predictors. For example, one can predict that when you talk in terms of fiscal conservatism, you mean take away rights, don't give rights, don't give services to the people, or do it in a very limited fashion, concentrate on economic development, cut taxes, particularly business taxes.

(Applause.)

MR. VIGNOLA: I respectfully disagree.

COUNCILMAN COHEN: Isn't that the concept of fiscal conservatism?

MR. VIGNOLA: I respectfully disagree that that is fiscal conservatism. You can be a fiscal conservative and still provide for the much-needed services -- police, fire, L&I, libraries and health care -- of the citizens of any city, in particular Philadelphia. And I was pleased to be a part of this Council that did that very thing.

COUNCILMAN COHEN: Well, Council was not --

MR. VIGNOLA: Don't forget --

(Indiscernible, parties talking over each other.)

COUNCILMAN COHEN: -- some of its members continually to put it in that position.

MR. VIGNOLA: Councilman, during the worst time of my --

COUNCILMAN COHEN: They always deny it but they always do it.

MR. VIGNOLA: -- during the worst time of my fiscal history --

(Indiscernible, parties talking over each other.)

MR. VIGNOLA: You're giving the court reporter fits.

COUNCILWOMAN BLACKWELL: Are there any other questions for Mr. Vignola?

COUNCILMAN COHEN: Well, one last question.

COUNCILWOMAN BLACKWELL: Certainly.

COUNCILMAN COHEN: Give me your comments. You heard me say, because I think you were in the room, to Controller Saidel that I believe this is just kind of an economic toy we're dealing with. It's a fashion thing but that its main purpose is to put limits on the current executive and legislative bodies on their spending activities.

MR. VIGNOLA: I strongly disagree with the word "toy." It is not a toy; it is reflecting the fiscal realities of the government at all levels -- at federal, state, and local level. And the way this bill is crafted, it is not taking away from any current revenues.

COUNCILMAN KENNEY: None.

MR. VIGNOLA: -- especially as presented this by this Council and this administration. And the Five-Year Plan that goes to PICA, this is using the unanticipated and excess revenues and the unanticipated excess surpluses that this Council and this administration have conservatively and strongly fought for in its budgeting practices, you know, to make available for the future generations of the citizen of Philadelphia.

COUNCILMAN COHEN: Well, it's my view that if this bill were effective -- that is, if it could be enforced -- it would be directly in violation of the Home Rule Charter because it would take away appropriating power from the Council. The Mayor's Office may feel it does something with the executive -- I don't know about that, but I know -- I believe it would violate the Home Rule Charter.

Secondly, I believe the reason it does not probably violate the Home Rule Charter is that from what I see, there is no effective mechanism so that if the executive decides to pay no attention whatever to this, the executive is free to do so, in which case, we're just spinning our wheels.

MR. VIGNOLA: Well, Councilman, I know you've litigated many issues in which you said the executive has failed to pay attention to Council, you know, the Council bills and mandates, you know, going way back, you know, to the '70s and '80s.

COUNCILMAN COHEN: Absolutely.

MR. VIGNOLA: You know, I would hope that all administrations, you know, even if they disagree with legislation that's passed either without their signature or over their veto, they would listen to the appropriate legislation.

What this bill does is appropriate, is fund a Rainy Day Fund on a continuing basis, given a specific formula up to a specific maximum.

And if I may digress and go back to a question that Councilman Kenney asked all of the other speakers but me -- and I wish you had asked me. I would have to say that Councilman Kenney was wrong in how much money from 1990 would be in this Rainy Day Fund. If there no limit, it would be double the 100 million; it would be 200 million. But with the limit that is on this bill, it would be, given what the average would be, it would be between 130 and $140 million, plus accrued interest for that period of time so much so that the interest earned may keep the fund maxing out without any further contributions from the City General Fund in any way, shape, or form, whether there is unanticipated revenues or unanticipated savings as a result of the General Fund.

COUNCILMAN KENNEY: And, God forbid, that should be available for the schools.

MR. VIGNOLA: It would be available through the appropriate appropriation methods of City Council --

COUNCILMAN COHEN: Well, why did this Council have the right to limit the appropriating power of the next legislative body?

COUNCILMAN KENNEY: It's not.

COUNCILMAN COHEN: Maybe the citizens have to suffer through with this particular Council, but why should we have the power to limit the appropriating power of the next Council that --

COUNCILMAN KENNEY: It doesn't.

MR. VIGNOLA: The way I read the bill, it does not do that because it's only dealing with unanticipated revenues, revenues that this Council already ordained were not in the Operating Budget and not subject to --

COUNCILMAN COHEN:  Well, maybe the next Council elected in 2003 will have a different notion.  Why shouldn't it be free and not be bound by the legislation, if this legislation --

MR. VIGNOLA:  Well, then you could say, Why is a future council bound by the spending of a prior council?  I mean, you spent money already. The money's been appropriated and spent; it's been spent -- it's been allocated to what is called the "Rainy Day Fund," but in a technical sense, it's still been spent, it's still been expensed by the City on its books.  It's in a restricted fund but it's still been spent out.

COUNCILMAN KENNEY:  In that regard, why should we borrow money?  We're being asked to borrow $250 million on a blight bond encumber the citizenry for the 20 years.  We shouldn't do that because the next council may not want to do it.  You can make that argument on every borrowing we make.

COUNCILMAN COHEN:  Look how much we've been asked to borrow for the stadiums, much more than the 250 million for the blight.  Evidently, stadiums are more important than blight.

COUNCILMAN KENNEY: Whatever we borrow, we're encumbering the future citizens and the future councils of this city over the next 20 years.

COUNCILWOMAN BLACKWELL: Well, let me say that I think this issue -- and in fact, all three bills on the calendar today really get to the heart of the philosophy of Councilmembers of this legislative branch on our authority, on the executive branch government's authority, and on certainly what the role of government should be. I think this is a great example to explore those issues. And I would submit that I suspect that discussion is not over on any of these issues and that we'll be discussing them at least until it's time for a vote.

So certainly we are -- I think they're very, very important issues to examine our philosophy.

COUNCILMAN COHEN: Madam Chair, may I respectfully say that I think the third bill by Councilman Goode stands in a different position entirely; that's a very specific bill which is going to help strengthen neighborhoods because community development organizations live in neighborhoods. In my judgment, it is a very sound bill. The other two bills are in an entirely different category. But I agree they're going to be providing a wealth of debate for quite a while.

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. VIGNOLA: Thank you.

COUNCILWOMAN BLACKWELL: Thank you, Councilman DiCicco.

On Bill 010508, Nancy Kammerdeiner, the Revenue Commissioner; Diane Lucidi, Association of Realtors; L. Gerald Rigby, a resident; and Dave Glancy, Board of Revision of Taxes. You want to come forward.

I'm sorry, we're going to ask everybody to hold up and ask Mr. Dubow to testify on this bill. Then on the next bill, we'll ask those people who are here if you want to testify, then certainly we'll come right up.

Is Rick Sauer here? Oh, there you are, certainly. Sorry to hold you up. Thank you for your patience.

(Witness comes forward.)

COUNCILWOMAN BLACKWELL: Thank you, Mr. Dubow. So we assume you are Joyce Wilkerson.

MR. DUBOW: I am Joyce Wilkerson for the morning.

Actually, I'm Rob Dubow, the City's budget director, and I'm here to offer testimony on Bill No. 010492, which would establish the Rainy Day Fund.

As we've testified before, the Administration supports the goals to be accomplished by the establishment of a Rainy Day Fund; however, we can't support this bill as it's proposed. Any such measure needs to be structured within the frame work established by the Charter and be sensitive to the City's current fiscal needs. Unfortunately, we think that Bill No. 010492 is not.

We think the bill could actually hurt the General Fund at the precise moment when it needs help. Conversely, at times when we most need funding, the bill would make it very difficult to access any Rainy Day Funding.

We believe that the bill has the following flaws:

It's structured in a way that would

encourage the administrations to inflate their revenue projections;

its required contributions can be far too large; and

its conditions for withdrawals are too restrictive.

There are also various legal problems with various aspects of the bill, and I handed to the Sergeant-at-Arms a memo from Ken Trujillo stating some of the problems that he sees with the ordinance.

I'm going to skip the part of the testimony that goes through the components of the ordinance 'cause I think you all know that.

The situation the City finds itself in today provides an example of the problems the proposed ordinance would create. Under the ordinance, the City would have to deposit into the fund 25 percent of its fiscal '01 ending fund and 50 percent of unanticipated revenues. Based on the City's preliminary actual results for FY '01, our fund balance was $230 million and our unanticipated tax and locally generated non-generated revenues were about $131 million.

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Given those results, the ordinance would require that on November 15th, we deposit $122.9 million into the fund. As you're all aware, we'd be making that extraordinarily large deposit at a time when the City's facing severe fiscal challenges.

The City's been losing jobs since the beginning of the year, and as a result, wage tax collections have slowed considerably. In fact, during the first quarter of FY '02, there was essentially no growth in wage tax revenues. The budget assumed the wage tax revenues would go to about 3 percent this year. If those patterns continue for the full year, our wage tax collections will be about $25 million lower than the amount included in the budget, even after adjusting for the higher base that we had in '01.

At the same time as we're suffering through the slowing of our revenues, we're facing increased costs. As a result of the terrorists' attack of September 11th and their aftermath, the City has incurred a series of security costs. While we're still collecting complete data from departments, we anticipate that in FY '02 alone, we will have millions of dollars in additional costs directly related to enhanced security.

Moreover, while the bill would require us to make extraordinarily large contributions, it would make it exceedingly difficult to access that moon when it's needed. The restrictive Rainy Day Fund provisions means that the earliest we could have access to the Rainy Day Fund would be in March, when the budget's passed. And even when expenditures -- even then, expenditures would be only possible of two-thirds of City Council approved.

Additionally, since expenditures from the fund are tied only to revenues, we would not have access to the fund to cover any unanticipated increase in expenditures.

In addition, the practical problems that the City's current fiscal condition make clear, there are some long-term problems with the proposed ordinance. The proposal that we deposit 50 percent of unanticipated revenues into the Rainy Day Fund is problematic.

Since, as I've discussed, the Rainy Day Fund is largely beyond the control of the Administration, the administrations may prefer to keep money under their control rather than to see it go into a Rainy Day Fund. The best way to for the Administration to prevent money from going into the fund would be to increase revenue estimates. This is because by increasing those estimates, a mayor would reduce unanticipated revenues. As you know, inflated revenue projections often lead to downward spiral of overspending and deficits.

The proposal that we base the deposit on prior year's ending fund balance also creates a problem. By the time we have the unaudited financial results of the prior year, we'll have completed one-third of the current fiscal year. And, as has happened this year, our financial position may have been changed substantially.

The criteria for making withdrawals from the fund also could inadvertently give the administrations incentives to inflate revenue projections. As structure, the ordinance does not tie access to the Rainy Day Fund directly to budget results, but instead, ties access only to revenue shortfalls, which again increases the incentive to inflate revenue projections.

By increasing revenue projections, and

administration would increase the likelihood that actual revenues would fall 1 percent short of projections, and as a result, make it more likely that the administration would be able to draw money from the Rainy Day Fund.

The ordinance also ignores the possibility that a budget crisis could be created by expenditures that are higher than original projections and created by factors independent of the local economy. The fund, for example, would not be tapped to help cover expenditures resulting from the events of September 11th absent a decline in revenues.

The requirement that two-thirds of the members of City Council approve any expenditure from the Rainy Day Fund also impedes appropriate access to Rainy Day dollars. The requirement would mean that even if the majority of City Council and the Mayor agreed that the time to use Rainy Day Funds was upon us, a minority of Council could stop that from happening.

Our Home Rule Charter does require two-thirds vote of Council, but only when the executive branch and the majority of the legislative

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branch have disagreed. Here, there would be agreement between a majority of City Council and the Mayor. There is no need for an additional check and balance.

See no reason to depart from the standard of the majority approval imposed by the Home Rule Charter with respect to the Council's adoption of the Operating Budget and subsequent transfer ordinance.

The Administration requests this matter be held to enable the Administration and Council to explore more fully workable solutions.

Hope these comments have been helpful, and I'd be happy to answer any questions.

COUNCILMAN KENNEY: Mr. Dubow, with all due respect, I know this is not your -- you're basically reading testimony that was provided to you.

The most troubling part of the testimony and the position of the administration is not one of the mechanics of this bill; it is simply almost an admission that the budgeting process and this administration would be encouraged to be dishonest, that basically the passage and implementation of this bill would create a circumstance for you to lie about revenue estimates --

MR. DUBOW: No, that's not --

COUNCILMAN KENNEY: -- and lie about -- basically what you say -- basically what it says is --

MR. DUBOW: That's not what it's saying at all.

COUNCILMAN KENNEY: Let me finish.

MR. DUBOW: Okay.

COUNCILMAN KENNEY: Because basically what you're saying is that this bill, which is trying to impose some fiscal discipline, would encourage, encourage you to be dishonest in your numbers. And to me, that is more troubling than your opposition to the bill, because what you are basically saying is, Look, pass this bill and we're just going to give you different numbers to make it unworkable.

And to me, that is insulting, and I think it's terribly unfair. And I really do believe it speaks to this administration's inability to cooperate with anything.

And let me tell you, I get a letter here today to Councilmember Blackwell this morning --

this issue has been on the agenda since January. We had extensive hearings with extensive numbers of witnesses who are experts in these fields, who testified in favor of this bill. Not one word has been talked about by this administration on this bill till this morning when Joyce Wilkerson hands Chairman Blackwell a letter saying, Please recess and we'll talk about it later.

You guys only want to talk about something when it gets finally on the agenda. Where was all of the discussion prior to this?

And for you to sit here, with all due respect, and tell me that this bill is going to create a situation where you guys are going to be forced lie about your number of times, I think that's a disgrace, I really do.

And while we're at it, while we're at it, depending on Mr. Trujillo's position that somehow the establishment of this fund is outside the scope or the ability of the Charter, well, do you want to explain to me what a contingency line item is and who created that and what act of Council or act of the Charter allowed for a contingency line item so administrations -- this past one and this one -- can hide money when they want to hide it and use it for when they want to use it for, but are not willing to institutionalize a process to put money aside for when this economy goes down the tubes and we're back looking at 1991 again.

I mean, I'll tell you what, it is very troublesome to hear an official of this government say that a bill passed by this Council is going to force them to lie about their numbers. It's a disgrace.

MR. DUBOW: Let me respond --

COUNCILMAN KENNEY: Go right ahead.

MR. DUBOW: -- to each part of what you said.

We are not saying we would lie about our numbers.

COUNCILMAN KENNEY: What are you saying?

MR. DUBOW: What we're saying is that there's a reasonable range of what you can project for revenues.

COUNCILMAN KENNEY: "Inflate the number" is what you said. "Inflate" means putting forward something that's not accurate, that's an inflation. You deflate it and you inflate it.

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MR. DUBOW: It would encourage us to have higher revenue estimates.

COUNCILMAN KENNEY: That makes me feel much better.

MR. DUBOW: Our revenue estimates still have to be within a reasonable range or they wouldn't be approved by PICA, but our estimates would probably be higher.

COUNCILMAN KENNEY: You're basically confirming my concern and suspicion that somehow, you're going to thwart the efforts of this Council if this bill passes by simply giving numbers that aren't accurate.

MR. DUBOW: No, what we're saying is that's the incentive this creates.

COUNCILMAN KENNEY: Okay.

MR. DUBOW: And that's what it does.

COUNCILMAN KENNEY: The incentive for you should be -- is to be as tight and honest and forthright as possible. Not to figure out way to jerrymander the numbers and move it around so it makes it look better. I mean, the whole budgeting process is of concern to me based on your position.

COUNCILMAN COHEN: Councilman Kenney does not express everybody's view, saying that what you're trying to do --

COUNCILMAN KENNEY: Go ahead.

COUNCILMAN COHEN: You interrupted me. You followed my statement

As I understand it, you are saying that you need certain unlimited powers, or at least not limited in the way in which the Rainy Day Fund would limit it, but you need certain powers to be free to arrive at estimates in your budget message, and that this bill would be a restraint on you beyond reasonable limitation. That's what I take basically from what you're saying. Is that accurate?

MR. DUBOW: What we're --

COUNCILMAN COHEN: I think you have a right to it. I don't think we ought to artificially limit you.

MR. DUBOW: We're --

COUNCILMAN COHEN: And when it comes from fiscally conservative sources, I am very, very suspicious that the purpose of this bill is to make less services available to the people of Philadelphia. Let me be as frank and as open as I can possibly be on that.

COUNCILMAN KENNEY: You can also be inaccurate, too, so go ahead.

COUNCILMAN COHEN: I think it will be absolutely accurate.

MR. DUBOW: Well, I don't agree. I think that the purpose of the bill -- I don't agree that the purpose of the bill is intended to limit the services provided to citizens of Philadelphia. I believe that it's provided -- it's intent is to --

COUNCILMAN COHEN: He's being very tactful with you.

COUNCILMAN KENNEY: It can't, the bill can't do that.

MR. DUBOW: Well, no, I agree with the overall purpose of the bill.

COUNCILMAN KENNEY: Then read it.

MR. DUBOW: It's fiscally responsible, and the Administration supports the concept of a Rainy Day Fund; we just don't support the way that it's structured here.

COUNCILMAN COHEN: Do you have a proposal for restructuring?

MR. DUBOW: That's what we want to work with the Council on.

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COUNCILMAN KENNEY: You know, I don't mind working with anybody but, Rob, in all due respect, this thing has been out there, and I believe that this offer to work with the Council is an offer to delay the process and to put it on the back burner until we get around to it.

I think that the time is right to start this savings putting $122 million away in an account that allows us the kind of cushion that we need this year and in the next year will create a situation that we may not have to cut services, we may not have to raise taxes four or five or six years from now if we find ourselves in this condition.

And the thing that is totally inaccurate about Councilman Cohen's characterization of this bill is that go through a budget process, we get the budget from the Mayor, we examine that budget, we agree with it, we pass it or we change it and pass it. And all of those services that we agree to are all funded for that particular fiscal year and for the Five-Year Plan.

COUNCILMAN COHEN: But, Councilman Kenney --

COUNCILMAN KENNEY: Councilman, let me

finish, let me finish.

COUNCILMAN COHEN: -- we're always unhappy with the budget in certain areas and we finally accept it.

COUNCILMAN KENNEY: May I finish, may I finish or --

COUNCILMAN COHEN: Well, you just --

COUNCILMAN KENNEY: I'll wait, I'll wait and see if I can finish. Am I allowed to?

COUNCILMAN COHEN: To the same extent I was.

COUNCILMAN KENNEY: Okay, good. Thank you.

COUNCILMAN COHEN: But no more.

COUNCILMAN KENNEY: All of those services are budgeted. No money -- as you know, no money goes into this fund unless revenues are exceeding what we anticipated in budgeted for. So to characterize this bill as somehow taking away the ability for the government to serve its citizens is inaccurate because we pass the budget and we all agree to the level of services being provided in that particular budget. Come the first quarter, come the second quarter, come the third quarter, we have more money than thought we were going to have, so why not be prudent and take a portion of that money and put it aside for the time when don't have the money that we anticipate coming in.

To me, that is not trying to hurt the citizens of this city; that's trying to create a fund to protect the level of services that we're providing to date and be able to extend those level of services into the future.

To say this somehow that this is taking money away from social programs and other things, first of all, the social program mandates are what they; they're mandates, and we can't take it away anyway if we wanted to.

But the point of the matter is that this is money that gets put aside as a result of unanticipated increases in revenue, and if there are no anticipated increases, nothing goes into the fund. And I don't see how anybody could be against saving, I really don't.

MR. DUBOW: Well, I agree. I'm in favor of saving.

I'd also say that a part of the cushion that we have is our fund balance that we have built up over the years.

COUNCILMAN KENNEY: Which is decreasing as we speak, is it not?

MR. DUBOW: Yes, it is.

COUNCILMAN KENNEY: Okay, substantially decreasing.

MR. DUBOW: It's decreased in '01, that's right, and that would have happened whether we had a Rainy Day Fund or not.

COUNCILMAN KENNEY: No, but if we had a Rainy Day Fund, we would have that cushion, even though the fund balance was decreasing.

You still need to explain to me the legality of the contingency line item.

MR. DUBOW: The fund balance, though, would be lower, 'cause we --

COUNCILMAN KENNEY: Yeah.

MR. DUBOW: Yeah. It's just a matter of where that -- being in the Rainy Day Fund instead of being in our fund balance is really what it would amount to.

COUNCILMAN KENNEY: The legality of the contingency line item, how it got created, why it's there, and how does it serve the taxpayer?

MR. DUBOW: I don't know how it got created 'cause that was before I was budget director. I mean, it serves the taxpayer in the exact same way you're saying the Rainy Day Fund does. It gives us a cushion, against, you know, future years' contingencies.

COUNCILMAN KENNEY: So why not institutionalize that cushion?

MR. DUBOW: We agree, I agree that there should be Rainy Day Fund. What we want to talk about is the best way to do it.

And to go to your -- I'd be happy if we set a specific date for the next hearing so that -- to ease your worry that we're just trying to delay.

COUNCILMAN KENNEY: Well, it's been my experience -- and with all due respect to you because you've been -- we have had discussions about this and you've been honest with me. I think that many of these efforts to delay legislation is simply that; it's to delay it, it's not to discuss it.

So, I mean, I understand your position and it's for the record, but I have very little faith in the ability of this administration to deal with this Council on many issues, including this one.

MR. DUBOW: The other thing I'd like to talk about is the specific example you're giving of the School District money. This year, in theory, that would work. You could access the fund if there was an agreement with the State and we came up with an amount that should be transferred to the School District.

If revenues weren't going down this year, we couldn't do that; you could not access the fund the way this bill is structured.

COUNCILMAN KENNEY: So what you're saying is it's -- I would say it's better late than never, and you're saying we're too late so we should never.

MR. DUBOW: No. What I'm saying is that the -- the example you're giving of helping the School District only works this year 'cause revenues are down. But if revenues were up and we still had an extraordinary expenditure that was not budgeted, even if everyone agreed that we want to spend that money, we wouldn't be able to do it the way the bill is structured.

COUNCILMAN KENNEY: I understand.

MR. DUBOW: That was the point I was trying to make.

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COUNCILMAN KENNEY: Do you have questions? Councilman Cohen, do you have anything?

MR. DUBOW: One other thing about a withdrawal from the Rainy Day Fund if there were $100 million in there and we decided we wanted to move that over to the School District, that would become a recurring obligation under Act 46, which has been our concern all along. So it wouldn't be just a 100 million; it would be a 100 million year.

COUNCILMAN KENNEY: Well, let me just spin my opinion and dispel any notion that any solution to the School District coming from Harrisburg will not include a one-time only payment from the City. That I can almost -- I mean, from every element of Harrisburg -- the legislature, Governor's Office -- that I've had access and been able to talk to, whatever our number is going to be, it's going to go recurring, so we better plan for it.

And if we're going to prioritize City services, I don't think anyone in this Council would argue that probably education is number one. And if we've got to figure out a way to fund that because that's the solution to the problem, then you better get ready to have it be recurring. And that's -- I mean, there's no scenario that I can see where it's not going to be a recurring obligation. And for us to walk around here saying, "Well, we think we may be able to stop it from recurring," it's fantasy.

MR. DUBOW: I don't disagree. But I also think if we're talking about 100 million, I think that's way above the level of where it would be recurring.

COUNCILMAN KENNEY: I wasn't saying we needed to take the whole 100 million; I would have been happy with 75.

COUNCILMAN COHEN: Yeah, but, Councilman Kenney, for playing poker, don't you demand the other side to come forward first? Everybody knows that whatever we may pay in addition from the City is going to be small compared to what the State has to pay if we're to have an effective school system.

COUNCILMAN KENNEY: The way they're talking now, it's going to be equal.

COUNCILMAN COHEN: Well, there's no way of solving the schools' problem on an equal basis, there's no way the City of Philadelphia can pay half of what's needed.

COUNCILMAN KENNEY: Well, when you're

playing poker with Harrisburg, they're holding four aces and you're holding a pair of deuces.

COUNCILMAN COHEN: Well, then you've got to be open and say that Harrisburg is defaulting on its obligation. They've got to come first.

COUNCILMAN KENNEY: No, I don't disagree that Harrisburg is falling down on their obligation; I think you have to look at the reality of situation, which is you don't hold the cards -- we don't hold the cards here.

COUNCILMAN COHEN: No, we can't have two sides bidding with Harrisburg, each side offering. The Mayor has been given the power, against my choice and my will -- and I may have been the only one that voted against that ballot question -- maybe it was a second vote. I did not think the Mayor should be given the total responsibility, but when he was given the control of the School Board, then I think we've got to let it to the Mayor to make the first move on money. I don't think it appropriate for the City Council to do that under those circumstances.

COUNCILMAN KENNEY: Councilman, you're making two separate -- you're making two opposite arguments in the same --

COUNCILMAN COHEN: And neither of us should be making that offer.

COUNCILMAN KENNEY: On one hand, you're saying that this bill, 492, takes away your appropriations power; and on this argument, you're making it that we shouldn't have the appropriations power and we should leave it to the Mayor. Which one is it?

COUNCILMAN COHEN: On the School Board in negotiating with the State, the Mayor has been given a special responsibility. I disagree with his having that responsibility, but the Council in its wisdom decided he ought to have it, and I think if you give it to him, you got to let him exercise that initiative. And if we disagree with him, we ought to let him know, but privately.

I think the City has got to adopt a uniform policy, and that's why I welcome the meeting that I understand is finally going take place between the Council and the Mayor to have unified approach to this threat that came from Harrisburg's legislation yesterday.

COUNCILMAN KENNEY: After 18 months --

COUNCILMAN COHEN: What kind of a legislative is it that in a single day introduces a bill and passes the bill through both Houses?

COUNCILMAN KENNEY: One that can.

COUNCILMAN COHEN: Huh?

COUNCILMAN KENNEY: One that can.

COUNCILMAN COHEN: Yeah.

COUNCILMAN KENNEY: Why did they do it? They can do it, that's why.

COUNCILMAN COHEN: It's not responsible legislative effort.

COUNCILMAN KENNEY: Mr. Dubow, thank you for your testimony.

Anyone else to testify on Bill 492?

(No response.)

COUNCILMAN KENNEY: Bill No. 508: Nancy Kammerdeiner, Diane Lucidi, Gerald Rigby, and Dave Glancy. You can come up as a panel if you'd like.

(Witnesses come forward.)

COUNCILMAN KENNEY: Just for the record, Bill No. 508 is an ordinance amending Section 19-1303(4) of the Philadelphia Code, entitled "Authorization to Offer Exemption From Real-estate Taxes on New Construction of Residential

Properties," by expanding the time to make an application for an exemption, under certain terms and conditions.

COUNCILMAN KENNEY: Councilmember DiCicco would like to put into the record a proposed amendment to Bill 508 so that the people testifying have an opportunity to testify based on the proposed amended bill.

COUNCILMAN DICICCO: Thank you, thank you Mr. Chairperson.

Proposed amendment to Bill No. 010508: Section 1, Section 19-1303(4) of the Philadelphia Code is hereby amend to read as follows:

Authorization to offer exemption for real estate on new construction of residential properties. Procedure for obtaining exemption, subsection 1. At the time a building permit for residential construction is applied for, the Department of Licenses and Inspections shall notify the applicant by a printed notice of the possibility of a tax exemption under this ordinance within 60 days of the date that the building permit is issued, or (scratch 180 days) 365 days of the date that the certificate of occupancy of the property is issued provided that the certificate of occupancy is issued after (strike December 17th) March 1, 2000 and prior to June 30, 2002, the applicant shall apply to the Board of Revision of Taxes for an exemption. The application shall be forms prescribed by the Board of Revision of Taxes and must be filled within the specific period of time.

Section 2, the effective date of application. This ordinance shall take effect immediately.

Thank you.

COUNCILMAN KENNEY: Thank you very much. That's for the record.

Who would like to lead off with their testimony?

COUNCILMAN COHEN: Could I ask the Councilman if he would, in normal English, explain what this amendment does.

COUNCILMAN DICICCO: Well, under the bill that we previously passed that provides for a ten-year exemption on new residential real estate construction, there was a lot of confusion at the time that bill was passed -- well, there actually were two bills. There was a bill that was passed

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and signed into law on December 18th of 2000, which was the bill that was agreed to under the Rendell Administration, and that was a ten-year abatement on a sliding scale.

MR. GLANCY: Let me just correct you. December of '99.

COUNCILMAN DICICCO: December of '99.

Because one District Councilperson had requested that his particular district be excluded from that legislation, it was found to be, under the Uniformity Act, invalid; the legislation was null and void.

Under the Street Administration, I proposed a new bill that provided for a flat ten-year exemption for new residential real estate construction, which this Council passed on June 22nd of 2000. The Mayor, I believe, signed it in September of 2000.

MR. GLANCY: September 12th

COUNCILMAN DICICCO: Enacting legislation was passed on December 17th or 18th of 2000.

MR. GLANCY: On the 18th.

Excuse me. I'm David Glancy, Board of Revision of Taxes.

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The legislation passed Harrisburg, Councilman, on the 11th of October of 2000.

COUNCILMAN DICICCO: Of 2000.

MR. GLANCY: 2000. The Governor signed it on the 18th of October of the year 2000, but the legislation said that it took effect 60 days from the date that the Governor signed the bill. So the effective date of that legislation was December 18, 2000.

COUNCILMAN DICICCO: And as a result of that, there were a number of individuals who, because of the ten-year abatement, purchased new homes in the City of Philadelphia, and developers began developing those new homes because they saw the benefit to the ten-year abatement.

There were a number of people who were not included who are not being able to take advantage of the ten-year abatement because of the timing. They were under the impression that when Council passed the bill in June of 2000, that they, in fact, would have been entitled to the abatement.

And under the current process -- and, Mr. Glancy, you can correct me if I'm wrong -- it is the developer who needs to file for the tax abatement and subsequently, in turn, transfers that abatement to the buyer of the home.

What that in effect has done there -- as an example, I know some people who put deposits on homes in April of 2000. They moved into their home in September or October of 2000 and they're excluded from the ten-year abatement because of the timing of the legislation that came out of Harrisburg. And we if rolled it back 60 days, they still would not be able to -- we still would not capture those folks in the ten-year abatement.

So discussions with the Board of Revision of Taxes, with the Administration -- I believe Nancy Kammerdiener will testify in support of this bill as well -- and the Board of Realtors and a number of other folks, and they all agree that this should be rolled back, in fairness, to a date prior to June of 2000, and also to change the process by which one applies for the application for the abatement and offer that opportunity to the buyer as opposed to the developer. Because in some instances, we've found developers were lax in making application for that exemption, even though people were under the impression that they thought they would get the ten years.

MR. GLANCY: That's a fair statement, Councilman; I think you said that very well.

If I could just add, however, that it really -- my understanding of this amendment really is one of equity. These folks who were caught in what I'll call "the transition period" are homeowners where the intent of Council was that they should, in fact, get this ten-year abatement. That is my understanding of this.

And what this amendment attempts to do is to rectify that situation so that all of those homeowners who thought they were going to get a ten-year abatement -- and, quite frankly, maybe there were some who didn't really realize it, but most of them thought they were going to get a ten-year abatement, didn't get it because of the vagaries of the legislation passing here and then having enabling legislation pass in Harrisburg.

COUNCILMAN COHEN: Do you have any idea of the number of people involved?

MR. GLANCY: I'm sorry

COUNCILMAN COHEN: Do we have any idea of the number of people involved? Do we have a number?

MR. GLANCY: Yes. We have approximately -- and I'm getting a better count. What we did in my office was go back to January 1st of the year 2000 -- we just picked that date as a reasonable date. And from January 1, 2000 up to December 18, 2000, the effective date of the legislation, there are about 285 applications for a new residential abatement.

So those folks would automatically, if this legislation were passed, if this amendment were passed, those folks would automatically get a ten-year abatement, because when you file for an abatement, you simply file for a -- we call it a "1456A," which really amends Section 19-1303(4) of the code. You're attempting to get an abatement. You don't say, "I want a three-year" or "I want a 10-year"; you want the abatement that's in effect at the time you file roughly.

And those folks who file, if this takes effect the way it is written -- and I it is fair the way it is written. If it takes effect March 1st of the year 2000, which really is -- cutting through all the language, that is what's going to happen. Instead of it being an effective date of 12/18/2000, it will be really March 1st of the year 2000.

All of those folks who have filed for and got a three-year abatement will, in effect, automatically get a ten-year abatement.

Your next question, I'm sure, is: What does that cost? I would think the answer to that question is about -- again, we're rough on this and I know we'll have better numbers probably later today, but the cost is probably no more than 3, three, $3.5 million over 7 years. So it's about $500,000 a year to the real-estate tax base.

COUNCILMAN COHEN: All right, thank you.

COUNCILMAN KENNEY: Thank you very much.

Whoever's ready to go first, please proceed with your testimony by identifying yourself for the record.

MS. LUCIDI: Good morning

COUNCILMAN KENNEY: Good morning.

MS. LUCIDI: My name is Diane Lucidi.

COUNCILMAN KENNEY: Diane, you have to pull that microphone real close to you and Speak directly into it.

MS. LUCIDI: My name is Diane Lucidi, Greater Philadelphia Association of Realtors. I'm here to support this amendment to Bill No. 010508.

First of all, let me say that we commend City Council for your continued support and efforts to promote and stimulate home ownership in Philadelphia. You all have a copy of the testimony, which we're not going to go through; we just want to be as brief as possible on this.

This proposed amendment basically is a clarification on the original Bill No. 226, which was proposed as a thank-you, a thank-you to those Philadelphians who chose to stay in Philadelphia and to invest their money in the City. And they did what they were told to do: They stayed. So they're entitled to this abatement for the 10-year -- the 10-year real estate tax abatement. This bill adds clarity to the time frame of the application and to the effective date.

And with that being said, you have our support, we support this legislation and hope that City Council does as well.

COUNCILMAN KENNEY: Thank you very much for your testimony.

Whoever is next.

MS. CAPOZZI: I'm up here to answer any

questions, but I concur with this testimony, which is a clarification to 226.

COUNCILMAN KENNEY: Barbara, you have to identify yourself for the record.

MS. CAPOZZI: I'm Barbara Capozzi, and I'm a Realtor in South Philadelphia.

This amendment clarifies Bill 226, which I thought was clear, but there was some interpretation questions. It clarifies that, and we're thrilled about it.

Thank you.

COUNCILMAN KENNEY: Nancy, please identify yourself for the record.

MS. KAMMERDIENER: Nancy Kammerdiener, Revenue Commissioner.

With the amendment amendments that have been placed on the floor to clarify -- or to make this amendment tighter and easier to implement, we have no objections to it moving forward.

COUNCILMAN KENNEY: Thank you.

Any questions for Miss Kammerdeiner?

(No questions.)

COUNCILMAN KENNEY: Thank you very much.

I'm sorry. Councilman Cohen?

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COUNCILMAN COHEN: Mr. Chairman, I gather it's your feeling that this abatement program was important to encourage the building of homes in Philadelphia.

COUNCILMAN KENNEY: Who is that addressed to?

COUNCILMAN COHEN: Well, to whoever of the panel feels it appropriate to reply.

MS. LUCIDI: The answer is definitely yes.

COUNCILMAN COHEN: Yes. Well, it seems to me that we ought to go deeper and find out why there is so few construction of new homes that we've got to go to the point of giving tax abatements to encourage people, 'cause instead of the tax abatement being paid by all of the taxpayers in Philadelphia -- that's the effect of the tax abatement -- it seems to me that those who artificially create the extraordinarily high cost of building in Philadelphia ought to be the ones that are responsible for covering the costs of this abatement.

And so I'd like to know -- Mr. Glancy, I address this one to. Does your board have any information that would be helpful to the Council to discover why it's necessary for us to adopt this extraordinary method of ten-year tax abatements to encourage the building? Do you have any thoughts on the matter or any information that could help this Council develop programs that would make abatements unnecessary or put the cost of the abatement on the people that 'cause the inflated costs associated with building in Philadelphia?

MR. GLANCY: I surely have thoughts and I'll share them with you. As to empirical evidence considering the fact that we never really had a ten-year abatement that was used in any great way until October 4th of the year 2000, I would kindly ask if you could give us, say, another year to gather that information and then make recommendations based on that empiric evidence to see: A, if the ten-year abatement has, in fact had an effect in encouraging development; and B, what kinds of development have been encouraged by that. Is it residential or is purely commercial? And just kind of make some analyses that way.

I think we can do that, and we will do that 'cause we were intending to do that anyway, and we'd be very happy to share that with City Council.

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As to my own personal thoughts about tax abatement, at one time, Councilman, to be very honest with you, I thought that they were -- I won't use the word "toy," that's been used too much here today. I thought they were giveaways that maybe really didn't incent [sic] anything, and this is not that long ago -- I would say ten years ago.

It has been my experience -- now, this is more anecdotal, obviously, as opposed to having empiric evidence, but it's been my experience that given the very, very intense competition, not only across the country, for businesses and for residences, but certainly in our own backyard, the intense that we fight every day with the five-county suburban area, plus the other two or three counties in New Jersey, that if we don't have in Philadelphia something to offer folks by way of financial incentives -- we many amenities that we can offer somebody who wants to live in Gloucester County. We can say, Why would you do that? Philadelphia has so many other amenities. And that's true and people do listen to that.

But where it comes to financial amenities, I think that -- it has been my experience anecdotally that the three- and five-year abatements have been looked upon as being rather nice but not something that has moved somebody to make a financial decision.

Developers will say -- I use this example, and I've said this all across the country when I've about abatements, and I have spoken in other cities. I have said that -- what I hypothetically call "the California test," where a developer is sitting in California -- and this is truly hypothetical -- and is studying every abatement in the country or every place in the country where I want to build my development, and when I have looked at Philadelphia in the past seen, and I've seen a three-year abatement for new residentials and a five-year abatement for some commercial properties, I say, Hey, that's great, that's nice. But that doesn't make me move, it's not a deal-maker.

But a ten-year abatement -- and, again, this is purely anecdotal, because we still have to work on the empirical evidence. A ten-year abatement, however, I believe that theoretical developer sitting outside in California or really in Montgomery County, if we look at it, you know, very closely, says that ten-year abatement, that makes some sense for me when I crunch the numbers for all of the other things I have to do and all the other places I have to do it.

So, again, it is my sense -- and these are my thoughts -- that a ten-year abatement does in fact bring in businesses, bring in residences. And then what we have to do is to see if we theoretically are losing some real-estate tax base -- and we are, it's not the full amount of that development, but over time we are. How does that balance out with other revenues and other taxes and other things that new people into our city bring.

I've seen studies by the Center City District, and I'm sure you have, that really says that other taxes absolutely outweigh what you give up in the short-term dismissal of real-estate taxes.

So, I mean, I'm being a little wordy, and I don't want to, you know, spend a lot of time with it, but that's really my sense on this, those are my thoughts, and we'll be real happy to put together some empirical evidence, but I think we need to see it first because we've just really started this project with October 4th of the year 2000.

One final thing I should add is that in '97, this Council passed the ten-year abatement for the conversion of old office buildings and old institutional buildings into apartment buildings roughly. I got to tell you, we had about 35 applications or 40 applications where those conversions took place, and I am convinced that that would have never happened but for the ten-year tax abatement. Those office buildings weren't going to be office buildings anymore; you know, nobody who had -- who wanted to rent office space was going to rent space in those older office buildings, it wasn't going to happen.

And I believe that that ten-year incentive really did, in fact, make a difference. That's why I think that these ten-year incentives will, but I would still like to see the empirical evidence.

Thank you.

COUNCILMAN COHEN: Could I just summarize. Briefly tell me if you think it's all wrong or partly wrong or partly right or all right. What you're saying adds up to me to indicate that when you make the financial incentive high enough, you attract people who you otherwise don't attract, and that the difference between three and five years and ten years seems to represent a substantial change, an increase in the financial incentive, and that induces people to move.

MR. GLANCY: That is correct. I would agree with you.

COUNCILMAN COHEN: All right. Now, wouldn't there also be another way, if we could lower the cost of the original acquisition by doing something about the labor costs, the materials required in the building, if we could investigate why is it that the cost is so high in Philadelphia and find a way of cutting down the costs so the costs in Philadelphia County for building is no greater than in the suburban area. That would seem to me to reduce the need for this other incentive. Maybe not eliminate it, but maybe reduce it.

MR. GLANCY: I think what you just said at the end is really where I come down. I don't see it as being either/or. I agree with you that -- I mean, I've read the same articles about our brethren and the construction rates, charging a higher rate in Philly than they do in the 'burbs.

COUNCILMAN COHEN: Well, that could be

part of it, but I understand that in the City, there are all kinds of materials required for building that are not required in the counties. Maybe there's justification for it, maybe there's not, but I think it's time we investigate every aspect of building costs in the City.

MR. GLANCY: I would agree. But, again, I would tell you, I think it's not an either/or; I think it's both. If we can lower the costs of living in the City and still have financial incentives to bring in new folks, I think it's a win/win.

COUNCILMAN COHEN: Well, you may be right.

Thank you very much.

COUNCILMAN KENNEY: Thank you very much.

Any other questions for these witnesses?

COUNCILMAN DICICCO: Just for the record, we were supposed to have testimony from a Mr. Gerald Rigby, and with your indulgence, Mr. Chairman, I'd just like to summarize some of his comments, and I think they will go to some of the questions that were raised by Councilman Cohen.

COUNCILMAN KENNEY: Please.

COUNCILMAN DICICCO: The letter is

addressed to me and it goes as such:

"I write to express my appreciation for your sponsorship of a proposed amendment to the above-referenced bill, Bill No. 010508. As empty-nesters, Helen and I decided to sell our large house in the suburbs and move to a new smaller residence. The discussion among us as to whether to move spread over two years, largely because of our desire to move into the City, which was not shared by Helen.

"In December of last year, we ultimately agreed to purchase a new home being built on Lombard Street in your district, in the 1st Councilmatic District. In the discussions leading to our signing the agreement of purchase, we were advised that the property at 230 Lombard Street had a three-year tax abatement, but that a bill then pending before City Council would likely extend the abatement to ten years. The ten-year abatement possibility was a factor in our ultimate decision to relocate to Center City Philadelphia.

"Our home is one of 48 homes being built on the site of the former Abbott's Dairy. I understand that 42 of the homes will, in fact, receive ten-year abatement."

Mr. Rigby's home being one of the pioneer first six homes may not qualify for the ten-year abatement because of the original building permit for the home was pulled subsequently before the enactment of Bill No. 010508. So I think this letter addresses a couple of things. One, it addresses that this family decided to make a move because the ten-year abatement was incentive and also the fact that I think that people like this should be entitled to it, and it's important for us to roll back that date to capture those folks in that abatement process.

Thank you. Thank you, Mr. Chairman.

COUNCILMAN KENNEY: Thank you very much. Thank you for your testimony.

Anyone else to testify on Bill No. 508?

(No response.)

COUNCILMAN KENNEY: Seeing none, we will now move to Bill 010541, an ordinance amending Chapter 19-2600 of the Philadelphia Code, entitled "Business Privilege Taxes," by establishing a pilot program under which a credit against business privilege taxes will be given to certain business that contribute monies to community development corporations undertaking economic development activities within the City of Philadelphia, all under certain terms and conditions.

Mr. Sauer, please.

(Witness comes forward.)

COUNCILMAN KENNEY: Please identify yourself for the record and proceed.

MR. SAUER: My name's Rick Sauer. I'm the Executive Director of the Philadelphia Association of Community Development Corporations, which is a citywide association of 78 CDCs and other organizations involved in neighborhood revitalization activities. I'm here this afternoon to voice our strong support for Bill 541.

Just a little background. The State of Pennsylvania's Department of Community Economic Development currently administers the State tax credit program locally known as "the Philadelphia Plan" to encourage businesses to enter into a ten-year partnership with community-based organizations to undertake neighborhood revitalization activities. The program has a strong track record, with eleven partnerships currently in place between businesses and CDCs here in Philadelphia.

The benefits of the program go beyond the annual transfer of funds between the business and the CDC as the partners work together to advance mutually agreed upon goals for neighborhoods revitalization.

Bill 541 builds on this effective State program to further stimulate private-sector investment and neighborhood revitalization here in Philadelphia by establishing a pilot program that's been alluded to.

A growing number of CDCs are undertaking economic-development activities as part of their comprehensive approach to neighborhoods revitalization. They recognize the important roll that economic development plays in the process of the neighborhood stabilization and growth.

Out of our membership, about 18 CDCs are currently actively involved in economic development and the activities cover the gamut, from supermarket and other retail development to commercial development, other efforts to strengthen local business associations in commercial corridors, to creating jobs. Many of the groups, too, are also linking their housing development, their workforce development, and their other community development activities to economic development in order to have greater impact on the neighborhoods.

As you know, sponsors of economic development housing projects, etc. have the daunting task of assembling a wide range of financing to make a project happen, whether it's from local, state, or federal sources, whether it's through banks, other corporations, private foundations. It's a very complicated process, but a key to the success of one of these projects is actually their ability to leverage private-sector resources into the projects.

COUNCILMAN COHEN: I'm having some difficulty hearing you.

MR. SAUER: We believe that Bill 541 strongly recognizes the important role that CDCs have to play in neighborhood economic development and help ensure that there's a steady annual flow of funding to support that work in this area, and we strongly urge you to release the bill from committee today.

Thanks for the opportunity to testify, and

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we certainly look forward to work with the City as well as other businesses in Philadelphia to make this successful pilot program. Thank you

COUNCILMAN COHEN: I have one question. Mr. Sauer, I understand there's some legislation, and I don't know whether it's federal or state -- I don't believe it's City -- that provides that where a community development organization participates, whether it's a partner or plays some role, say, in the opening of a business together with a person in the private sector or a corporation and the private sector, that there's some special funding arrangements available.

To your knowledge, is there such a possibility under existing law?

MR. SAUER: Well, there's certainly a number of incentives, tax incentive to businesses to open businesses in lower-income neighborhoods. You may be referring to recently passed federal legislation (inaudible) tax credit that does provide -- encourage further private-sector investment in lower-income neighborhoods around that, and that program is just becoming operational now, and funding will hopefully be available for it longer.

COUNCILMAN COHEN: Well, I'm specifically thinking of a situation. We've had an empty supermarket site at the Broad and Godfrey -- Broad and Stenton in northwest Philadelphia. The place has been vacant, and efforts at obtaining private supermarket stores have been unsuccessful, except that there was a local businessman about a mile away who is prepared to open but does not have sufficient financial resources on his own. He's been told that if he accepts as a partner a local community development organization, there may be more funding options available possible to achieve sufficient finances to permit that may make it possible to achieve sufficient finances to permit that partnership with the community development, plus the private operator to open the supermarket.

Does that sound like a fanciful tale, or does it sound like a possibility?

MR. SAUER: There are a number of cases where a local CDC has partnered with a for-profit corporation to enter into a business venture.

COUNCILMAN COHEN: I'm sorry, I'm having such trouble hearing you.

Is there anything wrong with the microphone?

MR. SAUER: There is certainly a number of examples where such a partnership has been successful. The CDC can oftentimes access resources that a particular for-profit corporation could not, so by creating that effective partnership, you could create a supermarket or open another business venture opportunity, yes.

COUNCILMAN COHEN: How are you reachable?

MR. SAUER: I can give you my card.

COUNCILMAN COHEN: Okay. After the hearing would be fine.

MR. SAUER: Sure.

COUNCILMAN COHEN: No further questions.

COUNCILWOMAN BLACKWELL: Councilman Goode?

COUNCILMAN GOODE: Thank you, Madam Chair. I want to thank Mr. Sauer for being so patient today; he's been in Council for the last couple of weeks on a number of different issues, and I'm sure he'll be here in the future. And I just want to thank him also for convening a policy committee to look over this bill and other bills, and I've really enjoyed the process.

Thank you again.

MR. SAUER: Well, we certainly appreciate your support, Councilman.

COUNCILMAN GOODE: Thank you.

I want to make some other comments about this bill, very quick comments. One of them was that this bill, in terms of technical view --

(Interruption.)

COUNCILMAN GOODE: I wanted to make other comments about this bill, one of which was in terms of its technical review. This bill was reviewed by the policy committee of PACDC, the Philadelphia Association of Community Development Corporations, a citywide association of 78 community-based organizations. It was also reviewed by the Tax Policy Committee of the Greater Philadelphia Chamber of Commerce. It's also a bill that was drafted by the City Council technical staff, and I again thank the Council President and her staff for that support.

The purpose of this bill was real clear: It's financial support for CDCs, it's incentive for private investment, it has a focus on community-based economic development. The meaning of this bill is to create a flow of private dollars of big business to nonprofits (inaudible) to neighborhood=based small business and economic developments.

The private investment will come from several different areas. It will start with big business, it will then go from private nonprofits, and it will end up impacting small businesses. These type of ten-year partnerships have had and encouraged major private investment. The Philadelphia Plan has been noted as an example. I think this is a good model, it can be worked on as a pilot program. And once again, I thank PACDC for their support and the Chamber of Commerce.

Thank you.

COUNCILWOMAN BLACKWELL: Thank you. Thank you very much.

This will end our public hearing.

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COUNCILWOMAN BLACKWELL: We will now enter into our meeting portion of this hearing.

The Chair recognizes Councilman Kenney before we do that.

COUNCILMAN KENNEY: Thank you very much, Madam Chair.

On Bill No. 010492, based on the Administration's testimony on their philosophical support for a Rainy Day Fund, I would, with the Chair's agreement, which we have discussed previously, that the bill will be moved out of the committee with this motion, but I will engage in conversation with the Administration and hold the bill until we come to some conclusion, holding the bill on the calendar.

So I would like to move Bill No. 010492 out of committee with a favorable recommendation.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in favor?

Opposed?

The ayes have it. Therefore, Bill No 010492 is being reported out of this committee with a favorable recommendation.

COUNCILMAN COHEN: Note my dissent.

COUNCILWOMAN BLACKWELL: With one no-vote, and that is from Councilman Cohen for the record.

I will now entertain a motion for the amendment to Bill No. 010508.

COUNCILMAN DICICCO: Thank you, Madam Chair. I move for the adoption of the amendment to Bill No. 010508.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that the amendment to Bill No. 010508 be approved.

All in favor?

Opposed?

The ayes have it and so the amendment to the bill is passed.

We will now entertain a motion on Bill No. 010508, as amended.

COUNCILMAN DICICCO: Thank you, Madam Chair. I move for the adoption of Bill No. 010508. As amended.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in favor?

Opposed?

COUNCILMAN DICICCO: Excuse me, Madam

Chair. I also request a suspension of rules.

COUNCILWOMAN BLACKWELL: All right. It has been the --

COUNCILMAN COHEN: I oppose the suspension of rules.

COUNCILMAN KENNEY: Okay.

COUNCILWOMAN BLACKWELL: All right. The record will reflect that Bill No. 010508, as amended, has been approved, with one dissension

COUNCILMAN COHEN: I'm only objecting to the suspension of rules. I think we've begun to automatically adopt a suspension of rules rather than a providing a special reason for it, and I'm concerned about that. I think bills ought to go in the normal -- unless there's some special reasons for the special.

COUNCILMAN DICICCO: The reasons is because I think the clock is ticking. There are a lot of people out there who have fallen short of that date, and I want to get this bill done so that they'll feel more comfortable in knowing that the abatement will apply to them as well.

COUNCILMAN KENNEY: Second.

COUNCILMAN COHEN: All right, then I'll

withdraw my objection.

COUNCILMAN DICICCO: Thank you.

COUNCILWOMAN BLACKWELL: Therefore, Bill No. 010508, as amended, is being reported out of committee with a favorable recommendation and a recommendation for a suspension of the rules so as to be considered at our next session of City Council.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: The Chair will entertain a motion with regard to 010541.

(Indiscernible, committee members talking over each other.)

COUNCILWOMAN BLACKWELL: I'm sorry.

COUNCILMAN KENNEY: We need to vote on the amended bill.

COUNCILMAN DICICCO: The amended bill.

COUNCILWOMAN BLACKWELL This has taken so long. All right.

COUNCILMAN COHEN: I move the adoption.

COUNCILWOMAN BLACKWELL: Let's do it again so it's clear on the record.

The committee has voted to approve the amended bill, 010508.

All in favor?

Opposed?

With a suspension of the rules.

The ayes have it and, therefore, Bill No. 010508, as amended, has been approved and reported out of this committee with a suspension of the rules so as to be considered at our next session of Council, okay?

All right. We will now entertain a motion with regard to Bill No. 010541.

COUNCILMAN COHEN: I move the adoption of the bill.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: Thank you. It has been moved -- and we also need a suspension of the rules. Councilman Cohen, would you support a suspension of the rules?

COUNCILMAN COHEN: I'd like to ask Councilman Goode if there's any particular reason for a suspension.

COUNCILMAN GOODE: Absolutely. I do not want to get into too many NTI issues, but this bill shows strong supports for CDCs and will allow them to go out and track other private investments, even

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with a quick consideration. At this point, we're contemplating NTI and people are talking about projects being held up in the CDBG pipeline. These CDCs have to actually turn economic development as of needs of broadening their portfolio. And so it's important that this bill move as quickly as possible.

COUNCILMAN COHEN: All right. Then i would request a suspension of the rules.

COUNCILWOMAN BLACKWELL: Thank you. It has been moved and seconded that Bill No. 010541 be reported out of committee with a favorable recommendation and also a recommendation for a suspension of the rules so as to be considered at our next session of Council.

All in favor?

All opposed?

The ayes have it and so it is passed.

Let me thank everyone who is here, thank you for your patience, and have a good day.

(Proceedings end at 12:49 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia's meeting of the Council Committee on Finance of Wednesday, October 24, 2001, are contained fully and accurately in the stenographic notes taken by me upon, and that this is a true and correct transcript of same.

RE: Bill No.'s 010492, 010508, 010541

____________________________________,

Josephine Cardillo

Registered Professional Reporter
and Notary Public

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