COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, April 3, 2013
10:55 a.m.

PRESENT:
COUNCIL PRESIDENT DARRELL L. CLARKE
COUNCILWOMAN CINDY BASS
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM K. GREENLEE
COUNCILMAN BOBBY HENON
COUNCILMAN KENYATTA JOHNSON
COUNCILMAN JAMES KENNEY
COUNCILMAN DAVID OH
COUNCILWOMAN MARIA D. QUINONES-SANCHEZ
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN MARK SQUILLA

BILLS 130178, 130179 and 130180
RESOLUTION 130190

- - -

COUNCIL PRESIDENT CLARKE: Good morning, everyone. We're going to start.

Thank you. This is a public hearing of the continuation of the Committee of the Whole regarding Bills No. 130178, 130179, 130180, and Resolution No. 130190.

Ms. Lewis, please read the titles of the bills and resolution.

MS. LEWIS: Bill No. 130178, an ordinance to adopt a Capital Program for the six Fiscal Years 2014 through 2019 inclusive.

Bill No. 130179, an ordinance to adopt a Fiscal 2014 Capital Budget.

Bill No. 130180, an ordinance adopting the Operating Budget for Fiscal Year 2014.

Resolution No. 130190, providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal Years 2014 through 2018, and incorporating proposed

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

COUNCIL PRESIDENT CLARKE: Thank you, Ms. Lewis.

We'll now hear from the Administration. Mr. Dubow, please come up.

(Witnesses approached witness table.)

COUNCIL PRESIDENT CLARKE: Just let the record reflect OPA was originally scheduled for today, but we moved them up in the schedule. So anyone tuning in expecting to see OPA today, they will not be on today. I anticipate that they will be engaged in a call-back session at some point. Thank you.

Thank you, sir.

MR. DUBOW: Good morning, Council President Clarke and members of City Council. I'm Rob Dubow, Director of Finance. With me is First Deputy Finance Director Cathy Paster and then members of the Finance team are here with us too.

I know we should summarize the testimony, so I'll just hit a couple highlights and then open up for questions.

So the FY14 General Fund budget as proposed for the Office of Director of Finance totals roughly $1.3 billion. That's an increase of almost $57 million over FY13. That increase is caused mostly by increases in fringe benefit costs, including a $48 million increase in pension costs. And the core direct General Fund appropriations for the Finance Department are 12.9 million, an increase of about $300,000 over FY13.

The FY14 budget proposes

$300,000 for funding of a new office, Chief Collections Office, that's created to support our enhanced collection strategy. Currently collections are disbursed across multiple departments where collections are not departments' area of expertise or its core mission. Chief Collections Officer's sole focus would be on enhancing collections through coordination of collection activities citywide and implementation of efficient and best practices across all departments.

The Office of Director of Finance is committed to supporting the Administration's FY14 goal of 25 percent minority, women, and disabled business participation in City contracting. For FY 2013 year to date, we have an overall 31.27 percent participation rate in contracting opportunities for minority and female-owned businesses. Based on the availability of funding for contracting opportunities, the Office of

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Director of Finance has an FY14 participation goal of 30 percent.

I included an attachment to the testimony regarding our participation levels for FY13, whether those contracts were awarded through an RFP, if the service providers are in compliance with living wage requirements, and whether providers are local business entities. We've also included demographic information broken down by gender and race for all departmental staff as well as senior staff only, information on the number of bilingual employees in the department, and information concerning all vacancies within the department.

Thank you for the opportunity to testify. I'd be happy to answer any questions you may have.

COUNCIL PRESIDENT CLARKE: Thank you, Mr. Dubow.

I have just a couple of questions to start. At yesterday's hearing -- and I'm asking you this question because you're the highest ranking Administration official in this room. So to a degree, this obviously falls within your jurisdiction.

During the questions about the School District, Ms. Shorr indicated that the Administration/Mayor supported the $60 million for the School District, and can you tell me where, if anywhere, that that's reflected in the budget that was submitted to City Council?

MR. DUBOW: It is not reflected in the budget. As you know, our budget was completed before the School District did their lump sum. That request was part of their lump sum. So in order to support additional funding for the District, we would have to figure out where that would come from, and we would hope to work with Council on that process.

COUNCIL PRESIDENT CLARKE: You're saying we would have to figure that out? So the Administration, that's not their responsibility?

MR. DUBOW: Well, I said what we would want to do is go through a process where we would work with Council on figuring that out.

COUNCIL PRESIDENT CLARKE: But the Administration proactively said yesterday that they support the 60 million. So I would think that that was the responsibility for the Administration to come up with a proposal for the $60 million, not the responsibility of City Council.

MR. DUBOW: I'm really not trying to say it's one entity's responsibility or another. What I'm saying is we would want to work collaboratively on that.

COUNCIL PRESIDENT CLARKE: So would that mean an additional tax proposal?

MR. DUBOW: I don't know. The request really was made just last week. So I don't know what we would do. Like I said, we don't have that done yet.

COUNCIL PRESIDENT CLARKE: So the support of the 60 million was conceptually? I mean, is there -- if you're saying you're supporting $60 million in revenue for the School District, I anticipate any member in this room, City Council, would have some sense of where that money may come from, so --

MR. DUBOW: So at this point, we've gotten the request. We support quality education in the City. So we think it's something --

COUNCIL PRESIDENT CLARKE: We all do.

MR. DUBOW: I understand. And we want to figure out how we could meet that request, and we'd like to work with Council on that.

COUNCIL PRESIDENT CLARKE: But Council didn't say that it supported the $60 million.

MR. DUBOW: I understand. You're asking what the Administration's position is, and I'm telling you what it is.

COUNCIL PRESIDENT CLARKE: So you don't have a proposal at this time?

MR. DUBOW: We do not.

COUNCIL PRESIDENT CLARKE: We should anticipate getting a proposal or a recommendation for the $60 million before the end of this budget process?

MR. DUBOW: As I said, we would like to work with Council on that during this process.

COUNCIL PRESIDENT CLARKE: So is the $60 million contingent on the state putting up the $120 million?

MR. DUBOW: We would hope that the state would put in money, particularly because the state has cut funding over the last couple years while we've been increasing funding.

COUNCIL PRESIDENT CLARKE: That's not what I asked you.

MR. DUBOW: No; I know. But --

COUNCIL PRESIDENT CLARKE: You

know that? Okay. As long as you know that's not what I asked you.

MR. DUBOW: I know.

COUNCIL PRESIDENT CLARKE: I'd be concerned if you thought that's what I asked you.

MR. DUBOW: We support providing additional funding. We have not made that support contingent, although we think that the state should be providing that additional funding.

COUNCIL PRESIDENT CLARKE: Okay. I mean, I'm asking these questions for obvious reasons.

MR. DUBOW: I understand why you're asking.

COUNCIL PRESIDENT CLARKE: I got the call from Dr. Hite on what his public statement was going to be. I got the impression that these things were tied together, teacher contract revisions, facilities master plan, optimum, because I think they would need everything as it relates to their proposal, state funding of 120 and local funding at 60 million, and he gave me the impression that these things were going to be tied together, because he understood that this Council working with the Administration has passed -- put revenue on the table for the School District in the last two years and earlier, as a result of a change in formula, put additional dollars on the table.

MR. DUBOW: Right.

COUNCIL PRESIDENT CLARKE: So I think he understood that any additional funding from the local government would be contingent on some commitment from the state, if at all, because at this point, I haven't talked to any member of Council who said they were prepared to support additional taxes or any other types of revenue.

MR. DUBOW: Yeah. And, I mean, that's -- in terms of their achieving balance, I think that's absolutely right.

They need all of the things you talked about. They need what they have in their budget for labor, they need the money from the State, they need the money from the City, they need the facilities master plan to work. So they do need all those things to be balanced.

COUNCIL PRESIDENT CLARKE: So my question is -- I want to be clear. I heard you saying that the Administration is going to work with City Council in whatever way you all choose to do that. Will you also be working with the State delegation and the City delegation from the state, in addition to which the republican leadership in the state, to get the 120 from the state?

MR. DUBOW: Yes. Yes, we will.

COUNCIL PRESIDENT CLARKE: That's a part of your strategy?

MR. DUBOW: Yes.

COUNCIL PRESIDENT CLARKE: Okay. We will revisit that a little later.

One quick clean-up question. Earlier in the OPA hearing, there was a conversation about these outreach meetings and I had asked about in particular Strawberry Mansion, and it was said by a member of your staff that they did have a meeting in Strawberry Mansion.

MR. DUBOW: Right.

COUNCIL PRESIDENT CLARKE: And I wasn't familiar with it, and I went up to Strawberry Mansion, as I always do, and talked to the local neighborhood organizations, the NAC, and nobody knows anything about a meeting in Strawberry Mansion.

MR. DUBOW: I think we have the location.

(Witness approached witness table.)

MS. ADAMS: Hi. Anna Adams, Chief of Staff in the Finance Department.

It was at the First Church Worship Center at 2509 North 30th Street, and we worked with Bonita Cummings in your office on that.

COUNCIL PRESIDENT CLARKE: It was an outreach meeting?

MS. ADAMS: It was, yeah. It was an --

COUNCIL PRESIDENT CLARKE: Because she works right down the hall.

MS. ADAMS: It was a meeting about AVI in general as well as the homestead.

COUNCIL PRESIDENT CLARKE: So somebody attended; it wasn't an outreach.

MS. ADAMS: It wasn't one of the drop-in's or the ones that we had in March.

COUNCIL PRESIDENT CLARKE: That was what we were talking about.

MS. ADAMS: It wasn't a drop-in. It was a regular kind of community meeting that we specifically talked about AVI and the homestead.

COUNCIL PRESIDENT CLARKE: But there was a drop-in meeting?

MS. ADAMS: It was not a

drop-in meeting.

COUNCIL PRESIDENT CLARKE: Which is what we were talking about that day.

MS. ADAMS: Yeah. It was just part of our broad kind of AVI outreach.

COUNCIL PRESIDENT CLARKE: Somebody from the Administration came to a meeting?

MS. ADAMS: We had a few people. We worked with your office and we had a couple of people from OPA. We used it mostly as sort of helping to fill in the homestead applications. We sort of used it as a workshop to help people fill out the homestead applications and then worked with other people. They could work in their community, fill out the homestead applications. It was primarily a homestead meeting.

COUNCIL PRESIDENT CLARKE: You're saying that there was a partial workshop in that meeting?

MS. ADAMS: Yeah. They ended

up -- I wasn't actually at the meeting, but they ended up bringing lots of homestead applications and then walking through how people could fill out the homestead application, in the hope that then people could also work with people in the neighborhood to help them fill out the homestead application. And so that was the intent of the meeting.

COUNCIL PRESIDENT CLARKE: How did we publicize that meeting?

MS. ADAMS: I don't know. I can find out how that was publicized.

COUNCIL PRESIDENT CLARKE: All right. Because, I mean, the meetings that I've attended, there were like robo calls. People say, The Mayor called me, told me to come to a meeting. They actually thought it was the Mayor.

MS. ADAMS: I'm not sure. I think we worked with a neighborhood organization, but I can find out the details and we can submit that to the Chair.

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COUNCIL PRESIDENT CLARKE: All right. I mean, I'm going to find out, because, as I said, she works down the hall.

MS. ADAMS: Exactly.

COUNCIL PRESIDENT CLARKE: We were talking about drop-in meetings.

MS. ADAMS: This was not a drop-in.

COUNCIL PRESIDENT CLARKE: You said it was across the City.

MR. DUBOW: Yeah. I actually didn't --

COUNCIL PRESIDENT CLARKE: I asked this because Strawberry Mansion is one of the lowest responding areas as it relates to homestead applications. We're getting ready to do a mass mailing to that neighborhood, and when you said we had a meeting --

MS. ADAMS: This was just a broad sort of in general AVI meeting. It wasn't a drop-in.

COUNCIL PRESIDENT CLARKE: But

you attended the meeting?

MS. ADAMS: I didn't attend.

COUNCIL PRESIDENT CLARKE: I'm saying not you.

MS. ADAMS: OPA.

COUNCIL PRESIDENT CLARKE: It was the City's meeting. It was a meeting --

MS. ADAMS: We worked with Bonita in your office to -- it was a specific OPA homestead meeting, but it wasn't a drop-in.

COUNCIL PRESIDENT CLARKE: All right. For the record, she's not in my office.

MS. ADAMS: Oh, sorry.

COUNCIL PRESIDENT CLARKE: She works for the Chief Clerk.

MS. ADAMS: Okay.

COUNCIL PRESIDENT CLARKE: She's a great worker, but that's her community. So I just didn't want you people to think that somehow you were working directly with my district office.

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MS. ADAMS: Okay.

COUNCIL PRESIDENT CLARKE: Okay. I had to check, because I went to the NAC and they said, We have no idea what you're talking about.

MS. ADAMS: Okay. But we can submit all of that in writing so you can see.

COUNCIL PRESIDENT CLARKE: All right. Thank you.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Mr. President.

Ms. Dubow, you know I'm not finished with the School District yet. Let me ask my few questions very directly, because I want to move on to another topic within my time period.

Based on the School District's $60 million request, does the Administration intend to amend its budget proposal?

MR. DUBOW: Not at this point.

We don't have a specific proposal for how to do it, so there's no amendment.

COUNCILMAN GOODE: The question was, does the Administration intend to amend its budget proposal?

MR. DUBOW: I think we would intend for the budget to be changed by the end of this process.

COUNCILMAN GOODE: Will the Administration be making any amendments to this budget proposal?

MR. DUBOW: I imagine at some point we will. We don't have any planned right now, but --

COUNCILMAN GOODE: But you always amend the budget.

MR. DUBOW: Exactly.

COUNCILMAN GOODE: So the Administration does make amendments.

MR. DUBOW: Yes.

COUNCILMAN GOODE: Because the Administration commented in the newspaper that it doesn't introduce bills in Council, but a bill does not need to be introduced in Council in order for the $60 million request to be handled.

MR. DUBOW: Say that again. I didn't --

COUNCILMAN GOODE: I said there was a comment in the newspaper by the Administration that it does not introduce bills in Council, but that bill has already been introduced. Therefore, the Administration does amend bills that are already introduced or are asked to --

MR. DUBOW: Right. We propose changes and we transmit bills.

COUNCILMAN GOODE: So I'm assuming in the budget process, you will be asking for amendments, and because you support the $60 million request, if we don't offer those amendments, then you will ask for those amendments to be offered?

MR. DUBOW: We will offer amendments. I mean, as we always do, we'll offer amendments to the budget.

COUNCILMAN GOODE: So what will

the property tax rate be to accommodate the $60 million request?

MR. DUBOW: I don't know. I mean, I also don't know --

COUNCILMAN GOODE: Can you forward that to the Chair.

MR. DUBOW: Yeah. I also don't know that that's what we would propose. We can give you that math, but --

COUNCILMAN GOODE: The question was simply what would the tax rate be to accommodate the $60 million request.

MR. DUBOW: We can give you that.

COUNCILMAN GOODE: In 2000, tax-abated properties had a value of about a hundred million. By 2012, tax-abated properties were worth well over a billion dollars and the annual forfeited taxes were over a hundred million dollars. What's the total value of tax-abated properties according to the reassessment?

MR. DUBOW: We can get you

that.

COUNCILMAN GOODE: What does that represent in terms of forfeited tax revenue?

MR. DUBOW: Understood.

COUNCILMAN GOODE: Does Center City still need a ten-year tax abatement?

MR. DUBOW: I think that's an issue we should discuss, but probably better to discuss with the people in the Commerce Department who have a better sense of development in Center City.

COUNCILMAN GOODE: What percent of tax-abated properties are in Center City?

MR. DUBOW: We'll get you that.

COUNCILMAN GOODE: And what does that represent in terms of forfeited tax revenue?

MR. DUBOW: We'll get you that too.

COUNCILMAN GOODE: Does the Administration have a position on my Bill No. 120651 to modify the tax abatement?

MR. DUBOW: I think we think that it raises real issues. We want to talk about it, but we don't have a pro or con position on it yet.

COUNCILMAN GOODE: Okay. Should the abatement be modified?

MR. DUBOW: Again, I think that's something that we should talk about during this process, and we should include the people from the Commerce side.

COUNCILMAN GOODE: Should existing homeowners be forced to subsidize developers' costs and tax cuts for developers and new homeowners? In other words, that burden would be borne by existing homeowners. That's not really debatable regardless of what the Commerce Department says. So should the existing homeowners be forced to subsidize developers' costs and tax cuts for developers and new homeowners? That's a philosophical question.

MR. DUBOW: It's a

philosophical question, and I think part of the answer to the philosophical question is, do you believe that those incentives led to increased economic activity that increased the tax base so that it helps those homeowners in other ways.

COUNCILMAN GOODE: But if the point is to subsidize developers' costs, you could spread that among other taxes. You could offer some sort of developers tax credit as opposed to actually putting the burden directly on existing homeowners. There are other ways to do it if what you're actually doing is simply subsidizing developers' costs.

MR. DUBOW: Right. However you do it, there'll be a cost and a benefit to it, and the cost will be borne by taxpayers and the benefit will go to taxpayers.

COUNCILMAN GOODE: But the question is, should it be borne specifically by existing residential homeowners? Should existing residential homeowners have a larger burden because of developers' costs and to offer tax cuts to developers and new homeowners?

MR. DUBOW: So --

COUNCILMAN GOODE: Because you could actually offer a developers' tax credit structured program, have that money that would come out of the operating budget, then it has to be replaced by what you think the benefits are. And so if you want to talk about a cost-benefit analysis and you think that it's going to benefit the City, there are other ways to do it rather than putting the burden on existing homeowners.

MR. DUBOW: I think it's definitely worth looking at the best way to do it.

COUNCILMAN GOODE: Last thing. I asked in the previous meetings for five-year schedules on labor costs, tax cuts, and fund balances. Is that ready yet?

MR. DUBOW: That should be ready by the end of the week.

COUNCILMAN GOODE: Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Mr. President.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN GREENLEE: I had questions on something else, but just one more thing on the school funding. I think Ms. Shorr said yesterday in response to Councilman Goode's question that where they didn't know exactly the amount, but -- I'm paraphrasing -- that it was suspected that they were going to ask the City for more money. I guess my question would be, as we all talk about transparency these days, was it really fair for the Administration then not to have any money put into the budget? The way Ms. Shorr -- and maybe I misinterpreted what she said, but the way Ms. Shorr talked yesterday was that it seemed to be an understanding at least for a while -- now, I don't think she described what "a while" was -- that there was going to be a request for money from the City, and now the City -- now the Administration at least is saying they support the 60 million.

MR. DUBOW: I think we understood that the District had really severe fiscal challenges and that they were trying to figure out how to balance their budget and that one of the possibilities was that they were going to ask us for money. I don't think we had any sense of kind of the amount or whether there was going to definitely be an ask. I think we thought there was going to be, but there wasn't certainty around that.

COUNCILMAN GREENLEE: Well, I

guess we'll talk more about that.

On the Chief Collection Office situation, I know that's still being formed, I guess. I know the person was announced today and all, but in your written testimony, you have the revenue collection is disbursed across multiple departments where collections are not the departments' area of expertise or the core mission.

When you say "the department," you mean the Finance Department; is that what you're referring to?

MR. DUBOW: So, for example, if you look at EMS collections for the Fire Department, that collecting is not their core mission. So we have a very low collection rate on the EMS.

COUNCILMAN GREENLEE: Okay. I got you. So you're talking about each of those individual departments?

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: So I guess Revenue, that's one of their core missions, I guess, right?

MR. DUBOW: Revenue focuses on tax collection, and while the Chief Collection Officer will work with Revenue, I think a lot of the Chief Collection Officer's work will be on those non-tax revenues, things like EMS revenues, the trash fee collection, code violation notices.

COUNCILMAN GREENLEE: So how many departments -- when you say "across multiple departments," do you have like how many that is or could you get us a list of those departments at all that in some ways collect money?

MR. DUBOW: Yeah. I can find that for you.

It's Fire, Streets, Police, Finance, L&I, a little bit in Records, Revenue, Water Revenue. I think that's it.

COUNCILMAN GREENLEE: And I guess one of the things that's going to be done through this office is to have all those departments working together in some way?

MR. DUBOW: Yes, coordination.

COUNCILMAN GREENLEE: Well, that brings up -- and I know Councilman Kenney I think raised this question the other day -- about this whole sharing of information and what is legal and all. Is that going to be looked at again sort of and what legally we could -- because it seems like the more information that should be shared, obviously the better the results.

MR. DUBOW: Right. And one of the prime examples that the Councilman brings up regularly and that we've been working on and need to improve is the coordination between Revenue and L&I, and that's a high priority.

COUNCILMAN GREENLEE: That's a big one, I think.

MR. DUBOW: Yeah. I know they meet regularly. Their systems -- the communication between their systems needs to be improved.

COUNCILMAN GREENLEE: And I know there seemed to be at least some disagreement about how much information could be released. I know -- I guess he's former Commissioner now Richardson --

MR. DUBOW: Not quite, but will be soon.

COUNCILMAN GREENLEE: Soon, yeah. (Continued) -- seemed to have that concern. I never quite totally understood that, but I would think if that could get worked out, that could -- because if L&I can access Revenue records, I mean, that would -- and address this and all that kind of thing, I think it would give the possibility of bringing a lot more money in.

MR. DUBOW: Yes.

COUNCILMAN GREENLEE: You talk about fringe benefits.

MR. DUBOW: Yeah.

COUNCILMAN GREENLEE: Can you

define that a little bit better.

MR. DUBOW: Sure. So the fringe benefit, the largest is pensions, but it also includes healthcare costs, workers comp, Medicare, FICA taxes, life insurance, legal services, unemployment comp, tool allowance.

COUNCILMAN GREENLEE: Is that broken down?

MR. DUBOW: It is. It's in the budget detail for the Finance Department. It's kind of in the back of the section.

COUNCILMAN GREENLEE: All right. All right. Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Oh.

COUNCILMAN OH: Thank you, Mr. President.

The projected fund balance is $114 million; is that correct?

MR. DUBOW: For FY13 in the

Plan, the projected fund balance is 128.

COUNCILMAN OH: 128. So is that money accounted for in the proposed budget?

MR. DUBOW: It is accounted for in the budget and in the Five Year Plan.

COUNCILMAN OH: In what manner?

MR. DUBOW: So what the budget shows is all of our revenues, all of our obligations and then the difference between them. And when you take the difference between them and add them to the prior year's fund balance, you get a new fund balance. So, for example, for FY13, we end with 128 million. In FY14, that fund balance goes down to 80 million. So it's $48 million lower, which means in total our expenditures for '14 are $48 million higher than our revenues.

COUNCILMAN OH: Okay.

MR. DUBOW: So the fund balance goes down again in '15 after the 1 percent sales tax expires and then goes back up, and by the end of the Plan, it has reached 89 million roughly.

COUNCILMAN OH: Okay. So I understand your answer. Can you tell me a little bit about the Grants Revenue Fund. I see that money comes out. What is the total size of the Grant Revenues Fund?

MR. DUBOW: Hold on one second. So one big difference between -- so the Grants Revenue Fund for '14 is roughly $1.4 billion.

COUNCILMAN OH: And is all that money -- in other words, I assume this is a fund of available monies with some parameters around it or parameters.

MR. DUBOW: Really mostly specific parameters. That money is for -- let's say we get a grant from the federal government and we need appropriations to spend it. That grant money goes into the Grants Fund and then we can spend against the appropriation. We also, however, in the Grants Fund, unlike in the General Fund, put additional appropriations in there in case we get other grants that we hadn't anticipated before the year, so that we're able to spend them if that money comes in.

COUNCILMAN OH: So this amount of money includes money that you are setting aside and if you get approved on a grant, you may spend the money from the fund, and then basically the fund will come in later to replace the money that you spent? No?

MR. DUBOW: So you get a grant. You have an appropriation you can spend against once you've gotten the grant. That's what the Grants Fund provides you.

COUNCILMAN OH: Okay. So the money comes into that fund and then you spend it. You don't spend ahead of time. You don't have additional monies for matching funds or anything like that?

MR. DUBOW: So there are times when there are matching requirements.

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COUNCILMAN OH: So you appropriate a certain amount -- you will put money into that fund that is not grant funds.

MR. DUBOW: Well, the matching funds are usually required to be spent out of the General Fund. So you can spend out of the General Fund to match a Grants Fund amount. So you could get a grant that will say we're giving you $800,000 and you have to spend $200,000. That $200,000 would come out of the General Fund.

COUNCILMAN OH: So what is the available amount of money in the Grants Revenue Fund that could be spent for various types of projects that has not been spent yet, not spoken for?

MR. DUBOW: So there's a line in the Finance portion of the Grants Fund that's called "provision for other grants," and that's about a hundred million dollars.

COUNCILMAN OH: Okay. So

there's a hundred million dollars that could be spent on something.

MR. DUBOW: Only if specific grants come in.

COUNCILMAN OH: Okay. So how much money is in the Fund for Philadelphia, now called the Mayor's Fund?

MR. DUBOW: I'd have to get back to you on that. I don't know how much is in there.

COUNCILMAN OH: That's not accounted for in this budget?

MR. DUBOW: That's right.

COUNCILMAN OH: Because that is a separate thing altogether?

MR. DUBOW: Yeah. Yes. But I can get you that dollar amount.

COUNCILMAN OH: Okay. So the Fund for Philadelphia, what are the parameters around it?

MR. DUBOW: What I can do is get you the amount and give you kind of a write-up on what the parameters are.

COUNCILMAN OH: Okay. So what I'm going to be interested to know is, I understand it's a 501(c)(3), it has a bylaw, it has a specific legal requirement including number of Board members, quorum and other things.

MR. DUBOW: Right.

COUNCILMAN OH: And at least at one point in time there were 11 members. They had to include private sector, community, and the last I saw there were less than the full number of Board members, and the entity had a change of name and a change of mission. And I want to understand at what point did that change, why did it change, and what is the difference between the Mayor's Fund now as it functions as to what it was before based on the amount of money and what it did. It will help me understand what role it plays in funding the City.

MR. DUBOW: Okay. We will get you a response on that.

COUNCILMAN OH: Okay.

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

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Mr. President.

I just wanted to announce that I had a milestone in a social media tech -- my social media tech life the other night or late afternoon when I learned about the $60 million request for the School District on Twitter when Dr. Hite tweeted it. I immediately called the Council President, thinking, well, you know, maybe there's been some discussion that I didn't know about, and he was unaware of the tweet either. And the reason I raise it is twofold.

Number one, we've all been around here a long time, and $60 million is what it is and it can only come from certain areas. So where is it going to come from, number one.

Number two, the $120 million

from the Commonwealth, I don't suspect that any of the leadership in the Senate or the House is going to change between now and the time we pass our budget, and I assume the Governor is still going to be the Governor. What makes any one of us think that we're going to get $120 million out of the Commonwealth? And I think Senator Pileggi kind of said that pretty much.

MR. DUBOW: So I'll take the first part, which is, as I said to Council President, that's something that we want to work on. We don't have an answer to that yet, the 60 million.

COUNCILMAN KENNEY: Let me -- I know you don't speak for Dr. Hite. You don't speak for the SRC. But was there -- before Dr. Hite decided to tweet that gem, like my Arab Spring, do you mean to tell me that he never talked to the Mayor about it? So the Mayor's Office -- we have an Office of Education. What is that, Deputy Mayor -- we have a

Deputy Mayor for everything, but Deputy Mayor for Education didn't know that the Doctor was going to tweet a $60 million budget request?

MR. DUBOW: I think what Dr. Shorr testified yesterday was that we had discussions with them. We knew that they had --

COUNCILMAN KENNEY: Did you know what the number was?

MR. DUBOW: I think she said we knew that the day before.

COUNCILMAN KENNEY: Isn't that a problem? I mean, why do we have the Office of Education that's supposed to be the conduit for the government to this SRC when she knows the day before that the number is 60 million? Which is not insignificant.

MR. DUBOW: Well, I think for them they were --

COUNCILMAN KENNEY: By the way, don't we have two appointees on that SRC?

MR. DUBOW: We do.

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COUNCILMAN KENNEY: What's their role in communication?

MR. DUBOW: I think for them, they were putting their budget together. So they probably didn't come upon that number until pretty soon before they did their budget also.

COUNCILMAN KENNEY: Just as an editorial comment. Either it's really, really bad or we're not being told the full truth. I mean, and I'm not saying that you're not -- you happen to be there taking the questions, and I respect you and like you, but it's either really bad communication or we're not being told the truth. So either one is pretty bad. And, again, going through the number of budgets that we've been through, $60 million is coming from where? It's not coming from cuts because you're spending more money than you spent last year, or you're proposing to. So it's either coming from taxes or it's coming from something else, and I don't know what that "else" could be.

MR. DUBOW: As I said, we don't know that yet either.

COUNCILMAN KENNEY: And if the 120 million is suspect, what does that mean? They shut down? I mean --

MR. DUBOW: I think if they don't get more money from the state, they have a big hole in their budget. So, yeah, that creates severe problems for them.

COUNCILMAN KENNEY: All right. But I just don't understand, unless the players change in Harrisburg -- and I don't suspect they're going to, we know they're not, and we know what their positions are -- we're up against this again. And I tend to kind of understand where the Council President is going, is that the buck stops here. And sometimes the buck is directed here, so it stops here and we have to deal with it as opposed to collaborating, as you say we're going to do between now and the end of May, as opposed to collaborating before the budget is even introduced. And I find it hard to believe that two members of the SRC that the Mayor appoints and the Mayor's education person didn't know anything about this.

MR. DUBOW: I don't think we're saying we didn't know anything about it. I think we're saying we knew that there were real budget issues there, but that we didn't have a specific number. We didn't know -- I mean, I don't think they knew until the very end what they were going to do.

COUNCILMAN KENNEY: What do they talk about? I mean, what does the education -- is it Deputy Mayor for Education?

MR. DUBOW: I think she's Chief Education Advisor.

COUNCILMAN KENNEY: Advisor. Do you know what they talk about?

MR. DUBOW: Well, I think they talked about a lot, a lot of things.

COUNCILMAN KENNEY: But not money apparently.

MR. DUBOW: Well, I think they talk about money too. Like I said, I mean, it wasn't a surprise to anybody that the School District has severe financial issues.

COUNCILMAN KENNEY: But just understand the history. The history here is, we come in and we get all the parents and all the kids and we talk about going from full-day to half-day kindergarten. Oh, we got to do something. Then they bring in all the parents and all the kids and we talk about bus transportation, we're going to end it. And we wind up having to eat it. Well, we don't eat it; our taxpayers eat it.

But it's not -- it's no way to run this parade. It just don't work. And we're going to be back here again, and I'm sure the room is going to be filled with signs and kids and parents, Give us the money, it's all about the kids. I get it all. I heard it before.

But I can't believe that no one knew about this number before I got my tweet.

Just one positive thing.

MR. DUBOW: Yeah.

COUNCILMAN KENNEY: Terrific selection on your revenue collection person. Terrific selection.

MR. DUBOW: Thank you.

COUNCILMAN KENNEY: And one of the two or three top commissioners in your Administration running Revenue is a terrific idea.

MR. DUBOW: Thank you. Thank you very much.

COUNCILMAN KENNEY: I hate to be sarcastic and negative all the time. So on those particular moves, bravo. Thank you.

MR. DUBOW: Thank you.

COUNCILMAN GOODE: Point of information.

COUNCIL PRESIDENT CLARKE:

Point of order. Councilman Goode. Point of information. I'm sorry, sir.

COUNCILMAN GOODE: Very quick. Mr. Dubow, last year the Administration made a specific $94 million request?

MR. DUBOW: That's correct.

COUNCILMAN GOODE: Who collaborated on developing that request?

MR. DUBOW: I think that was a request that came from the Administration.

COUNCILMAN GOODE: So you did not ask the School Reform Commission what they needed last year?

MR. DUBOW: Again, we had discussions with them, so I think they knew that we were going to ask for that. So we did have conversations with them, but the request came from us.

COUNCILMAN GOODE: The simple question is, if you made a specific request last year of $94 million, what changed between last year and this year in terms of process?

MR. DUBOW: So last year, if you remember, that 94 million was related to AVI and --

COUNCILMAN GOODE: So we're not doing AVI this year?

MR. DUBOW: Can I --

COUNCILMAN GOODE: Go ahead.

MR. DUBOW: I'll get there.

And what we said last year is that we had not -- because we hadn't been doing assessments correctly, we had not captured an increase in value, and that increase in value translated into $94 million in additional revenue. It was pretty clear to us that that argument was not persuasive. So in our proposal this year, AVI is designed to generate the same amount of revenue in '14 as in '13.

COUNCILMAN GOODE: So you still don't want the School District to get the $94 million you asked for last year?

MR. DUBOW: We --

COUNCILMAN GOODE: You changed your mind about that over the course of the last year?

MR. DUBOW: Well, as you know, the District got some money last year.

COUNCILMAN GOODE: They got some money and they borrowed some money.

MR. DUBOW: This year --

COUNCILMAN GOODE: But the money they borrowed was only good for this year.

MR. DUBOW: That's right.

COUNCILMAN GOODE: So you wanted 94 million last year and you got, I believe it was, 40. You didn't want the rest of the money?

MR. DUBOW: No, we did not. We were not going to propose additional revenue from AVI, which is what we proposed last year. The District has now made a specific request --

COUNCILMAN GOODE: Just cut through it.

MR. DUBOW: -- and we support that request.

COUNCILMAN GOODE: Cut through

it. As we implement AVI, you refused to ask for the remaining money for the School District.

MR. DUBOW: We didn't refuse.

COUNCILMAN GOODE: You did.

MR. DUBOW: No, we didn't. Refusing would indicate that there was some request that we did that.

COUNCILMAN GOODE: You made your own request last year. You asked for $94 million on your own.

MR. DUBOW: That's right.

COUNCILMAN GOODE: So you refused to ask for the money this year.

MR. DUBOW: I guess I'm not arguing with the fact that we didn't ask for it.

COUNCILMAN GOODE: You refused to ask for it.

MR. DUBOW: I don't agree with the word "refused."

COUNCILMAN GOODE: You don't want the money that you asked for last year?

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MR. DUBOW: Well, we are supporting a request from the District.

COUNCILMAN GOODE: But you don't want to ask for it.

MR. DUBOW: We are supporting a request from the District.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

I actually wasn't going to go there on that question about last year when we were criticized to a degree by some individuals because we didn't go towards AVI last year and, based on the increase in values, 94 million was supposed to materialize. And we're moving towards AVI this year and somehow the $94 million will not materialize this year, because I do believe last year we were supposed to be revenue neutral last year had we moved forward, and it's supposed to be revenue neutral this time. So I don't understand --

MR. DUBOW: No. Last year we

said that we were going to generate additional --

COUNCIL PRESIDENT CLARKE: No. No. You said we were supposed to be revenue neutral based on the prior years, and we had that press conference in there with Senator Farnese in the group, and we committed to revenue neutral, and you all were on board with that in order to get the legislation passed in Harrisburg that allowed us to move forward with respect to the School District ability to change the millage.

MR. DUBOW: At the end of -- that was at the end of the process, right? At the beginning of the process, we said this was going to generate more revenue than the year before.

COUNCIL PRESIDENT CLARKE: Based on what?

MR. DUBOW: We said based on increased values.

COUNCIL PRESIDENT CLARKE: So if we've increased values this year, how come we're not realizing an additional $94 million?

MR. DUBOW: As I said to the Councilman, we understood during the process last year that our argument wasn't compelling. We're not making that argument. We're proposing to generate the same amount of revenue.

COUNCIL PRESIDENT CLARKE: So last year you were wrong. You were basically attempting to put 94 million additional based on the rate.

MR. DUBOW: No. I'm not saying --

COUNCIL PRESIDENT CLARKE: I don't understand how if you move towards a process and you say that AVI would generate an additional 94 million based on values increasing and now this year the same values are increasing, actually more, but yet the 94 million or close to it is not materialized.

MR. DUBOW: As I said, we realized that that argument -- people,

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Council, legislators, didn't agree with that argument, so we are not making that argument.

COUNCIL PRESIDENT CLARKE: You're saying we didn't agree. The reality is that it wasn't facts based.

MR. DUBOW: No. I don't agree with that conclusion.

COUNCIL PRESIDENT CLARKE: The attempt was to put an additional $94 million in increases in the budget.

MR. DUBOW: That's right, based on what we thought were values that hadn't been captured over time.

COUNCIL PRESIDENT CLARKE: Well, in other words, it was a tax increase.

MR. DUBOW: No.

COUNCIL PRESIDENT CLARKE: Yes, it was.

MR. DUBOW: Well, we had this argument all of last year, and what we said last year is, those are increases in values just like if values increase going forward, the total collection would go up.

COUNCIL PRESIDENT CLARKE: But it was an increase in values based on a different rate.

MR. DUBOW: And if they go down --

COUNCIL PRESIDENT CLARKE: Rob, it was based on a different rate. If you had the same rate as we're probably going to have this year, that money would not have materialized. The only reason that it would have materialized last year, there would have been a change in the rate that would have given you an additional $94 million.

MR. DUBOW: Right, because we are picking a new rate and we are picking that rate to generate a specific amount of revenue.

COUNCIL PRESIDENT CLARKE: Right.

MR. DUBOW: Right? So whatever new rate we pick was going --

COUNCIL PRESIDENT CLARKE: So it was a tax increase.

MR. DUBOW: No. I mean, again, we can -- we had the argument for months last year and we could have it again this year for months, but I think we're not going to agree.

COUNCIL PRESIDENT CLARKE: This is where we debate. We don't argue. We're fully prepared to have that debate.

I just want -- the way it was characterized last year, that somehow Council wasn't going to allow the opportunity to have money available for the School District because we refused to allow this growth in value. And we continue to say -- and I think we're proven right based on this year's process -- that that was essentially a way to move the rate to get additional taxes. It was a tax increase on individuals. Because if we tried to generate 60 million or 94 million to reflect last year's request, we would have to change the rate; therefore, people's taxes would go up.

MR. DUBOW: I think we're not going to agree on this. I mean, we can go back and forth.

COUNCIL PRESIDENT CLARKE: Okay. It won't be the first time we disagree. It won't be the last.

MR. DUBOW: Right.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you.

Good morning.

MR. DUBOW: Good morning.

COUNCILWOMAN BROWN: My questions regarding the School District are very much in line with others. I am curious, however, about the process. I wrote here just as Councilman Kenney was stating it that there are two appointees -- the Mayor has two appointees at the SRC and we have a

Secretary of Education. So in terms of process, what is it? Is there an annual report to the Mayor or weekly report to the Mayor? Is education or the funding of education discussed at cabinet meetings? Give us a sense of what happens given where we are around this discussion of the 60 million.

MR. DUBOW: Sure. I think there are actually ongoing discussions about everything to do with the District, including their finances. People from the Education Office are involved, people from my office are involved. So we know, I mean, during the course of the year what their finances look like. So we know -- like I said, we're not surprised that there's a gap. So that's kind of a constant discussion. I mean, we update the Mayor regularly on what's going on. Like I said, there are discussions at our cabinet meetings about it, so people have a sense of what's going on with the District throughout the year.

COUNCILWOMAN BROWN: And as the gap, do you also discuss strategies for filling the gap in the Mayor's Office separate from the work of Council?

MR. DUBOW: I think we have discussions, but I think the real discussions on how to fill the gap are at the School District. They're not -- we're not -- they're not our discussions; they're the District's discussions.

COUNCILWOMAN BROWN: Okay. At the School District?

MR. DUBOW: Yeah.

COUNCILWOMAN BROWN: So we should not have a role?

MR. DUBOW: No, no, no. I think you were asking kind of during the year in terms of strategies for closing the gap, kind of who develops those strategies.

COUNCILWOMAN BROWN: But as we get to this juncture where we are now in terms of budget discussions.

MR. DUBOW: Yeah. I mean, we

have conversations with them kind of all the time about their budget. I guess what I was trying to make clear is, they're the ones kind of formulating this strategy on how to handle their budget gap. I mean, they have conversations with us about it, but they're the drivers behind it.

COUNCILWOMAN BROWN: Okay. Let's go to alarm fees and fines. Last year we discussed ACS, which is the company that administers and collects code violation and alarm fees and fines that was taken over by Xerox.

MR. DUBOW: Yeah.

COUNCILWOMAN BROWN: You stated that an RFP for collection of those code fines would be released in July '13. Did that happen?

MR. DUBOW: Yes, it did.

COUNCILWOMAN BROWN: Provide us some detail.

MS. PASTER: Cathy Paster, First Deputy Finance Director.

I believe that we have received responses to that RFP and that they are currently in the selection process right now. There's a team working on a selection.

COUNCILWOMAN BROWN: How many?

MS. PASTER: How many?

COUNCILWOMAN BROWN: Responses.

MS. PASTER: Maybe three, but I don't know for sure. We could ask Paula Weiss to answer that.

(Witness approached witness table.)

MS. WEISS: Good morning. Paula Weiss, Office of Administrative Review.

We got three responses, Councilwoman. There were three responses to the RFP.

COUNCILWOMAN BROWN: Are they local?

MS. WEISS: Two are local. Two have local presence; one is not.

COUNCILWOMAN BROWN: Okay. Is

the Office of Administrative Review currently fully staffed?

MS. WEISS: Yes, we are.

COUNCILWOMAN BROWN: With regards to alarm violations, we get a number of calls in the office from homeowners who still are not aware that, A, they have to be -- their alarms have to be registered and, B, if they're not, they get fined.

So what type of education layering happens in the appropriate offices to make sure citizens are adequately informed that they have to be registered?

MS. WEISS: We are not currently fining unregistered alarm account owners. There's a fine for excess false alarms, but to the registration process itself, the process is, when we do have the alarm companies responsible and we're in touch with the alarm companies themselves. When they get new users, they should be informing their new clients or their accountholders that registration is required. It's on our website as well that registration is required.

In the event that someone is not registered but a false alarm occurs at their location, we don't fine them, but we do set up an account for them and notify them that an account has been set up and they are required to follow through with that registration. Fines only occur in the event that more than two false alarms in a year occur at their location, and then a fine process kicks in.

COUNCILWOMAN BROWN: Okay. So is there interface with the Records Department to ensure that the homeowner of properties receive those notices for registration of alarms? And if not, then what protections are in place to ensure that homeowners get those notices to make sure that the fees are paid?

MS. WEISS: Once an alarm is

registered or before? I'm sorry. I'm not sure I understand the question.

COUNCILWOMAN BROWN: Once the alarm -- before. Before.

MS. WEISS: Before? We haven't really interfaced with the Records Department because obviously not every property has an alarm. So we're not -- I guess we don't have a process right now for notifying new property owners, because really it's also the user of the property, not necessarily the property owner. So in commercial circumstances, it would be the tenant, the business owner who has the alarm, or even if it's a residential property, the tenant who has the alarm is the responsible party, not necessarily the property owner.

COUNCILWOMAN BROWN: I see. Okay, then. Thank you. The bell has rung. We'll honor the clock.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Councilman

Squilla.

COUNCILMAN SQUILLA: Thank you, Mr. President.

Good morning.

MR. DUBOW: Good morning.

COUNCILMAN SQUILLA: My question -- I don't want to belabor the school issue, so I want to talk about if the Administration is currently looking for $60 million for the School District.

MR. DUBOW: I'd say at this point we don't have a plan for that. One of the things we talked about, I guess, before you came in was that we want to work on that through this process and then work with Council on it.

COUNCILMAN SQUILLA: During the process, during this AVI procedure, we've been hearing so much from the community about delinquent taxes, and I know they're making some changes and doing some things in the Administration. We've been saying all along that if we're going to make a serious effort to collect delinquent taxes, that it probably would be a good idea to have some type of effort and collections added into this year's budget. Do you see that happening at all this year as far as being able to collect delinquent taxes?

MR. DUBOW: I think there's a possibility that we'll start to see some benefit from the enhanced collections program. I don't see us putting it in the budget.

COUNCILMAN SQUILLA: So you think we'll be able to collect more, but you don't see any revenue being generated from any delinquent taxes this year?

MR. DUBOW: We generate a fair amount from delinquent taxes already. The question is will we increase that amount, and there have already been increases over time in that. So we show in the budget -- and I think we had this discussion during the finance --

COUNCILMAN SQUILLA: I was really confused about that discussion, if you remember, and you were going to give me some type of flowchart to explain it.

MR. DUBOW: Right. So I have to -- I still owe you that. I will get you that.

So I guess what we have not done is put -- added delinquent collections into the budget. We still have collections as we always do, but we haven't put the --

COUNCILMAN SQUILLA: Right. And it seems like you're keeping the same pace going forward. Don't you think it would be a good idea from the administrative standpoint to -- I mean, if the people who are going through this AVI process and is struggling with it, to know that the City is really seriously looking to collect delinquent taxes and getting money from the deadbeats or the people who don't pay, that there would be an added collection to the budget. Therefore, almost forcing the Administration to collect that much money in order to balance the budget or at least showing the people that you're serious about collecting extra money from the delinquent taxes.

MR. DUBOW: I think we're showing we're serious by the additional investments we're making and by the people we're bringing in to do those collections. We think that it makes sense to kind of see the success before we count on it.

COUNCILMAN SQUILLA: All right. I would disagree with that. But as far as the AVI process that we talked about and that we talked with OPA about it, knowing that the issues that we're having as far as assessments, some being over and under-assessed, do you see a possibility of maybe trying to phase this in over time?

MR. DUBOW: Phasing in the new assessments? Well, I know you have a proposal to phase in taxes, and I think what we've talked about is, there are

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kind of a variety of relief proposals and we should talk about all of them, but we need to go to the new values this year.

COUNCILMAN SQUILLA: We need to go to the new values and we need to go to them because of the state initiative?

MR. DUBOW: Partly because of that and partly because the old system was so broken and these are much more accurate assessments.

COUNCILMAN SQUILLA: Well, I think we have debated that also to see what was more accurate, the old ones or these, but --

MR. DUBOW: I don't think anyone is debating that the old ones are more accurate. I think there are people who are debating how accurate the new numbers are. I haven't seen anybody say the old ones were more accurate.

COUNCILMAN SQUILLA: I might agree with that issue.

So at this point, then, we'll have formal discussions with Council going forward with the safeguarding measures that the Administration may buy into or may not buy into, but now you don't see that the Administration would put maybe a collection of additional, say, 30, 50, 80 million dollars of delinquent taxes into the budget even though we are investing money and manpower to do that?

MR. DUBOW: That's right. And I also think that it's not -- you wouldn't see that type of number in the first year anyway. I mean, that would be something that would be more likely to happen in kind of later years as more parts of the collection plan are put into place.

COUNCILMAN SQUILLA: So the investment that we make this year, would there be a promise to collect delinquent taxes in the future years? I know in the Five Year Plan, it looks like there's going to be a little increase, but not really anything that would make it look like they were really serious about going after those delinquent taxes.

MR. DUBOW: Well, there's a commitment to put additional resources and new methods, better systems. We are trying to get some legislative changes. So there's a commitment to do everything we can to improve those collections.

COUNCILMAN SQUILLA: I know. I see the commitments to improve them, but I just don't see any commitments to actually have an accountability on collections. To me if you put a goal there and you have a reason to do the collection in order to balance the budget, it's more of an incentive for the department to actually go out there and get that money. If we just say we know we're going to invest some money in there and we have a lot of work to do first, so maybe the next year, the following year or the year after that we may collect more money, it doesn't give the public a good impression of how serious we are about going after it. It seems more like lip service. And when we go out to these meetings, everybody has said it. The people are very angry about it, and when you see the number of delinquencies and the actual dollar value that we have -- I know we argued about how much is actually collectable and how much isn't, and I think you have now written some dollars off. But when we see that and if we just say we're going to invest more money but don't see a return, they laugh at us, and it's kind of embarrassing.

So we need some sort of effort from the Administration to actually prove to the people that this is a serious -- and just by saying we're investing money, we're changing things around, and we're looking to do a better job, to me doesn't actually show that we're serious about the collection.

MR. DUBOW: Well, I guess again that's a place where we disagree. I think the commitment of dollars and people and bringing new people in shows a serious commitment.

COUNCILMAN SQUILLA: All right. I would hope that in the future -- and if not this year, even though I was still pressed to put this year -- we have to have an actual map -- from our investment, we have to have a return. And if we don't have a return, the investment looks really weak. So I would hope that we as Council even work on that and also with the Administration to work on that from now and in future years moving forward.

Thanks.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

So, Mr. Dubow, if we didn't authorize the appropriations for the additional dollars for tax collections, the current Five Year Plan would not change; is that correct?

MR. DUBOW: We wouldn't change the revenue projections, if that's your question.

COUNCIL PRESIDENT CLARKE: So it wouldn't matter.

MR. DUBOW: Well, it wouldn't matter because we --

COUNCIL PRESIDENT CLARKE: In terms of the Five Year Plan.

MR. DUBOW: In terms of the Five Year Plan. But that's different from not mattering. It would matter because --

COUNCIL PRESIDENT CLARKE: It would not be reflected.

MR. DUBOW: Right.

COUNCIL PRESIDENT CLARKE: So the same fund balance would be every year based on no additional collections.

MR. DUBOW: That's right. But, I mean, to go back to the "it wouldn't matter," it would matter because we think that there will be a benefit from these programs, and we think it's important to make a commitment to improving our collections through people, through systems, through pushing for legislation.

COUNCIL PRESIDENT CLARKE: Okay. The Chair recognizes Councilwoman Bass.

COUNCILWOMAN BASS: Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Good morning.

COUNCILWOMAN BASS: Good afternoon -- or good morning.

MR. DUBOW: Good afternoon.

COUNCILWOMAN BASS: Almost afternoon.

MR. DUBOW: Almost.

COUNCILWOMAN BASS: I just wanted to follow up on some questions that my colleague had in reference to the Chief Collections Officer. And can you give us some sort of idea about when the decision was made that this was the way to go, that this was the appropriate direction that we should go to collect the outstanding revenue that's due to the City?

MR. DUBOW: Yeah. So we hired a firm called FTI Consulting and we asked them to look at our processes to look for efficiencies on the expenditure side, to look for improvements we could make on the collection side. One of their recommendations was that we have this office. I think their report came out in late February. We got the report. We looked at the recommendation. We thought it made sense.

COUNCILWOMAN BASS: And based on what was the recommendation made? Was this done in other cities or -- like why did this make sense in particular for Philadelphia?

MR. DUBOW: So they looked at collections across a number of our departments. EMS is one we talk about a lot where the collection rate was much lower here than in other places. They looked at really collections in a lot of our departments where collection is not their primary responsibility, saw collections rates were low and thought it really would make sense to have someone whose focus was on that collection.

COUNCILWOMAN BASS: Okay. But what made it right for us, I guess? Is this something that's done in other cities, other places, or was it just an idea that, Hey, you need somebody to do collection, so you need an office to do that?

MR. DUBOW: I guess their basis of comparison was mostly states and private-sector companies, where private-sector companies there's a chief collection officer and they thought that was a good model to bring to the public sector.

COUNCILWOMAN BASS: Okay. So there's really -- to your knowledge, this was not based on any other municipal authority that was doing something similar?

MR. DUBOW: That's right.

COUNCILWOMAN BASS: So now I

know in the past we've used sort of like a private collection agency effort.

MR. DUBOW: We have actually a number of private firms that worked on various. So in Finance for our code violations, we talked about the firm we used there in the RFP process. Fire has someone they use. So there are a number of private firms that help. I think part of it is, there's no kind of coordination among various agencies and it's not -- collection isn't their first priority.

COUNCILWOMAN BASS: So why is there no coordination, I guess?

MR. DUBOW: I think --

COUNCILWOMAN BASS: Would that be the role of the new --

MR. DUBOW: Yes.

COUNCILWOMAN BASS: So they're going to coordinate the efforts of the private contractors who are doing collection?

MR. DUBOW: They're going to coordinate the efforts of all of the entities that collect, whether they do it with private firms, whether they do it with our own people.

COUNCILWOMAN BASS: Okay. And can you give us some sort of idea in terms of what prompted -- you said there was FTI Consulting that actually gave you the idea that this was the way to go. And so what sort of prompted that discussion? Was it a discussion internally about the ineffectiveness of tax collection in the City?

MR. DUBOW: So FTI met with a number of City departments, including the departments that do collections. They talked to them about their processes and how they went about it, and kind of based on their analysis of what they saw all of our departments do, they came up with this recommendation.

COUNCILWOMAN BASS: Okay. So how much are we spending on this effort?

MR. DUBOW: On the Chief Collections Office?

COUNCILWOMAN BASS: Yes.

MR. DUBOW: We have $300,000 for the office in the Finance Department budget.

COUNCILWOMAN BASS: And then there will be some additional folks hired to do collection efforts?

MR. DUBOW: Yes.

COUNCILWOMAN BASS: What would you say is the total amount?

MR. DUBOW: That's it. That total represents the people who would be hired.

COUNCILWOMAN BASS: Okay. Three hundred thousand is going to collect --

MR. DUBOW: Well, there are already people in departments, so they would work with those people in the departments to make sure the collections happen. We're not talking about a whole new collections infrastructure. We're just talking about kind of leadership to make sure that people focus on collections.

COUNCILWOMAN BASS: Okay. Because it feels even with hiring a new Chief Collection Officer, from my perspective, it still feels disjointed in terms of what we're trying to do, what we need to do, and I'm not really confident that we're headed in the right direction to get this done. There's a lot of money out there as we're talking about AVI. We go to community meetings, and the first thing people always want to know is, Why don't you collect the money that's outstanding. And so it's very difficult for us to stand there and to say, well, we're trying different efforts and we're doing different things if we don't have a lot of confidence in some of the ideas that have been brought forward, and there was sort of very little interaction or consulting with us to discuss the matter further before we say we're going to support the effort.

MR. DUBOW: Yeah. And I think

we -- part of the reason that we're proposing this position and proposing the investments that we're talking about are, we hear the same thing you hear. We share the concern about making sure that we do as good a job as possible on collections, and we want to make that a real focus of what we do and elevated priority.

COUNCILWOMAN BASS: Okay. I know my time is up, but I just wanted to say it's important to me that we look at the best practices of other similarly situated cities like Philadelphia. If we're at the bottom of the barrel in terms of being able to collect, it's important that we look at who is similar, what their model is, what they've done, so that we're not out here winging it or trying something new and different and innovative that may or may not work. If we know that there are practices that work over and over again, to me it just makes sense that we should embrace those practices. But I'll come back around. I have some more questions.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

Real quick. Mr. Dubow, you probably don't know the answer to this. Can you give me the status of the municipal marketing RFP?

MR. DUBOW: We'll get you something on that.

COUNCIL PRESIDENT CLARKE: Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you.

I was listening to Councilman Kenney talking about, as many people did yesterday, about what we knew about the need for extra money, and I will reiterate -- and I mentioned it yesterday -- that maybe if they could get the website working so there can be communication, maybe Hite might have wanted to send some information that way too.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilwoman.

The Chair recognizes Councilman Henon.

COUNCILMAN HENON: Thank you, Council President.

Good afternoon.

MR. DUBOW: Good afternoon.

COUNCILMAN HENON: 12:02.

So the conversation has in the latter part of the morning here shifted to tax delinquency. So as a followup to a two-day hearing, two days of hearings, on multiple resolutions from many of the colleagues and past legislation that was introduced that we're going to have subsequent hearings in the future, are you taking that into consideration, any of the legislation and some of the questioning and resolutions that were held in two days of hearings two weeks ago? Like is Council going to be -- so let me ask it more direct. Is Council going to be a partner --

MR. DUBOW: Yes.

COUNCILMAN HENON: -- in the tax delinquencies and the new department and investment that we're going to be making --

MR. DUBOW: Yes.

COUNCILMAN HENON: -- in our tax collections?

MR. DUBOW: Yes.

COUNCILMAN HENON: So a couple other specific questions. It's been asked over and over again --

MR. DUBOW: I know, for example, there were things that you had been asking about in terms of working together, and we would like to pursue those.

COUNCILMAN HENON: Well, I think that would be appropriate, because 17 members here all have specific questions and introduced separate legislations where everybody was in full support of. So I think I would encourage more of a -- not an informal, but more of a formal kind of input from Council through Council President's office as we move forward. So I appreciate that. Thank you.

The question comes over time and time today and at other times. So in the Five Year Plan, the tax delinquencies, are they accounted for in the budget? I know they are in revenues, but is it a part of the actual budget plan?

MR. DUBOW: The investment in new people?

COUNCILMAN HENON: Not the investment in the infrastructure or capital investment. In the --

MR. DUBOW: Operating budget --

COUNCILMAN HENON: So we are intending to, through projections, $25 million in addition to where we are now. What happens to that additional revenue?

MR. DUBOW: So we are not showing that in the budget. We want to see the success of these new programs before we put money into the budget and plan.

COUNCILMAN HENON: So you're not showing it until the investment is up and running?

MR. DUBOW: Until we see some success from it, yes.

COUNCILMAN HENON: Where would that revenue go? To the General Fund?

MR. DUBOW: It would, yeah.

COUNCILMAN HENON: But we're projecting --

MR. DUBOW: We will -- let me give you more specific. Part of it would go to the General Fund, part would go to the School District.

COUNCILMAN HENON: Are we projecting the additional revenue collected from our tax delinquencies in FY14 or '15?

MR. DUBOW: It doesn't show in

the Plan.

COUNCILMAN HENON: When would you -- when would you think that additional revenue would --

MR. DUBOW: So what we've done in the Plan, the projections in the collections plan as opposed to the Five Year Plan, in the collections plan, the projections were based off what we've seen in other places, and mostly the stuff we're taking was from other states.

In the past, when we've implemented things that have worked elsewhere, may either have not worked here or not worked as well, so we want to see kind of what we're talking about actually works before we start counting on the money in our plan.

COUNCILMAN HENON: No; I understand that. I think obviously a step in the right direction. Everybody wants to see that program get better.

How many departments currently are responsible for their own tax delinquencies?

MR. DUBOW: Tax delinquencies or fees and fines?

COUNCILMAN HENON: Fees and fines, collections.

MR. DUBOW: So there's obviously Revenue, there's Finance. We have things like code violations. There's L&I. There's Fire Department. There's Records. There's Police, Streets, and a little bit in Health too. So it's really all over the government.

COUNCILMAN HENON: So does each department, are they responsible for their own collections or does that all come through the Finance Department? So each department -- would you have separate outside vendors for each one of those departments responsible for the collections?

MR. DUBOW: We would, yes.

COUNCILMAN HENON: So are there multiple outside vendors per department?

MR. DUBOW: I think most

typically have one, but I think there are probably examples where there are more than one.

COUNCILMAN HENON: Would you have a collection agency, outside collection agency vendor, doing multiple departments or would they be separate agencies?

MR. DUBOW: I think it can work both ways. So you can have that.

COUNCILMAN HENON: You can?

MR. DUBOW: Yeah, you can.

COUNCILMAN HENON: You can.

MR. DUBOW: Yes.

COUNCILMAN HENON: Is any of the departments themselves using in-house employees for any sort of collections?

MR. DUBOW: I think that -- well, obviously Revenue --

COUNCILMAN HENON: Or is everything outsourced?

MR. DUBOW: I think even the departments that have outside vendors have people in the department that are managing the contracts. So there's always someone in the department that some part of their job is related to collections.

COUNCILMAN HENON: And in your opinion, what do you see the role of the Revenue Department? So Revenue was in, and I think the one question was referencing to the new collection, I'm going to say, czar. What's the formal --

MR. DUBOW: Chief Revenue Collections Officer.

COUNCILMAN HENON: But Revenue was unaware of any of the conversation -- well, was not a part of any of the decision-making or conversations of that department and what its responsibilities and vision would be moving forward. So my question to follow that up that was on the record is, what is -- what do you see the role of the Revenue Department?

MR. DUBOW: Sure. I think there are multiple roles for the department. I mean, one is collection of tax revenues. I think that's their primary role, but they also have a service role to answer questions about taxes, to inform people about things like the senior citizen discount, but it all kind of relates back to their primary role, which is tax collections.

COUNCILMAN HENON: So Revenue's primary role is tax collections?

MR. DUBOW: Yes.

COUNCILMAN HENON: I have no further questions.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Thank you.

Good morning.

MR. DUBOW: Good morning.

COUNCILWOMAN SANCHEZ: I wanted to put some stuff on the record. I know we've been talking around some of this collections and, in particular, my interest around the use and occupancy. One of the things that we talked about was the ability for -- because I believe everyone here is concerned about this collections for the School District -- the ability to change the regulations whereby Revenue can issue a bill versus asking people to submit a plan. Is that something that you guys have deemed possible?

MR. DUBOW: I think that's something we should talk about, yes.

COUNCILWOMAN SANCHEZ: Is it something --

MR. DUBOW: Particularly with kind of new -- with the new Revenue Commissioner, I think that's a conversation we should have.

COUNCILWOMAN SANCHEZ: Is it a regulatory issue or is it a...

MR. DUBOW: I think it's regulatory, but -- I think it's regulatory.

COUNCILWOMAN SANCHEZ: Okay.

What is our collection -- there's about 90,000 business licenses in the City, and commercially there's 17,000, 18,000 use and occupancy. Are there that many home-based businesses? Why is there such a difference between the two?

MR. DUBOW: I'm not sure. That may be a better question for the Revenue Department hearing.

COUNCILWOMAN SANCHEZ: I think this is one area that we should really look at. I think one, as you know, we begin to talk about the commercial tax piece, very concerned as we've started to look at those, what those sectors are. I was looking at some of the data, and I don't know the correlation between how we got 90,000 business licenses and then we only have 17,000 people paying our commercial tax. It seems like a huge gap.

MR. DUBOW: We should revisit that.

COUNCILWOMAN SANCHEZ: In terms

of this -- and I know you were talking about it earlier. I was trying to listen in as I was at other meetings.

In terms of our projection for the City revenues, what percentage are we looking at in terms of growth?

MR. DUBOW: It varies by --

COUNCILWOMAN SANCHEZ: Department?

MR. DUBOW: You're talking about tax collection?

COUNCILWOMAN SANCHEZ: Yes.

MR. DUBOW: Okay. Let me just grab my Five Year Plan.

Let me just take one second. I have to find the right table.

So for the wage tax, we are projecting for FY14 3.59 percent growth. For '15, '16, and '17, between 3.2 and 3.3, and then in Fiscal '18, 2.95.

COUNCILWOMAN SANCHEZ: Are these standard with what we've seen lately in the last few years? Is it higher, lower?

MR. DUBOW: It's a little -- I mean, we're seeing a little bit healthier collections as the economy is coming back. The projections are based on recommendations we got from IHS, our outside consultant, and conversations we had with the economist at a meeting at the Federal Reserve.

For the business income and receipts tax, we project about 3 percent growth each year, and that's a tax that can go up or down in large amounts in a year.

COUNCILWOMAN SANCHEZ: In the last couple of years, where has that number been? What's been our projection versus what we've actually received? Are we in line?

I remember having a discussion last year. I think the number was a little higher, your projection numbers.

MR. DUBOW: Yeah. So we've increased that projected growth rate a little, but we won't know -- that tax is due in April. So we'll have a better sense in a month. Then it actually takes a little while after that to even know what the final number is.

COUNCILWOMAN SANCHEZ: Okay. Can we get a comparison around our Five Year Plan? I know that there's been some concerns around some of the business tax deductions and some other stuff, and I just want to do a comparison on our projections on the revenue side. Because we're always looking for money. We have a new request from the School District. Where do we get it? Do we have room? Obviously your projections can move the needle 10, 20, 30 million dollars, and I'm just wondering if we're being too conservative or if there's some room there.

MR. DUBOW: Right. And I don't think we're being too conservative. I mean, there's always -- there are always risks. So we're assuming that the recovery continues, and that's as we've seen over the last few years. But that's always a risk.

But let me make sure I understand what you're looking for. You're looking for how the projections in this Five Year Plan compare to actual growth over the last, say, three or four years?

COUNCILWOMAN SANCHEZ: Yes.

MR. DUBOW: Okay.

COUNCILWOMAN SANCHEZ: Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: You're welcome, Councilwoman.

The Chair recognizes Councilman Squilla.

COUNCILMAN SQUILLA: Thank you, Mr. President.

And not to belabor the collection status, and there were some good questions asked during the process, but if we go forward with the new plan from the Administration, invest the capital, and find out that it's not working, what is the next step?

MR. DUBOW: I think we at that point would want to look at why it wasn't working to understand what we'd have to do next.

COUNCILMAN SQUILLA: But I know you said earlier the investment will hopefully, even though we don't have any return for that investment, it would start a process that you believe in coming years would collect more of the delinquencies.

MR. DUBOW: Right.

COUNCILMAN SQUILLA: Right? But in our Five Year Plan, are we showing that?

MR. DUBOW: Again, we are not. We want to see success. We want to see what we're doing works here before we put that money in our Plan.

COUNCILMAN SQUILLA: During the Five Year Plan, we also have issues -- I know we had put money aside, it looks like, this year now for the firemen and also for the labor contracts.

MR. DUBOW: For District Councils 33 and 47.

COUNCILMAN SQUILLA: And for the arbitration for the new --

MR. DUBOW: The new arbitration.

COUNCILMAN SQUILLA: The new arbitration for the firemen contract.

And I know previously stated we had the old arbitration that was ruled on and we appealed, and then they ruled on it again and we appealed again. Is there -- what is the philosophy for the Administration, beside thinking they're going to win that appeal, for not putting any money into the budget for the previous contract?

MR. DUBOW: I mean, you've actually -- you've said what the theory is, is that we believe that we'll win on appeal.

COUNCILMAN SQUILLA: But if you

believe you're going to win, even a business or any community, would you still put -- so you put nothing aside in case for some reason you don't? Because we believed we were going to win the first appeal and we didn't. So we appealed again, so --

MR. DUBOW: Actually, just to go through the history, there was an award. We appealed. It went to Common Pleas Court. Common Pleas Court remanded it for reconsideration. So, I mean, that's not losing the appeal. It got remanded. Went back. A new award came out. We appealed that award. Went to Common Pleas Court. Common Pleas Court -- we lost in Common Pleas Court, and we've appealed that.

COUNCILMAN SQUILLA: Right.

MR. DUBOW: But we believe that there's merit in our case.

COUNCILMAN SQUILLA: Well, I mean, we know the process. You believe there's merit, but you still have to be prepared in case it doesn't happen. And is that considered good budgeting process? I mean, if we do have to pay, shouldn't we have something in the budget in order to do that, and then if we don't have to pay, we have that money for other things that we can invest in?

MR. DUBOW: I think what we did last year is showed what we thought we'd have to do to pay for it if that award came.

COUNCILMAN SQUILLA: And I know the PICA Board did approve that. I don't know if they would approve that again. But what you actually said was you would close the firehouses and --

MR. DUBOW: We said there were many, many things in there. Firehouses were what everyone focused on, but there were cuts all across the government.

COUNCILMAN SQUILLA: Well, I would just think instead of going through and saying this is a disaster and the sky is falling, after we lose it, it would be good practice to actually invest some money into the budget now so we don't have to have the sky falling, in case we do lose it, and to not have any money put aside for a rainy day in case it does happen to rain, and there's a possibility we could get a storm and then we don't even have an umbrella, we're going to be in bad shape. And that just seems -- do you think that by not putting that money in there and maybe not having this, that the PICA Board would then approve this budget?

MR. DUBOW: Again, I'm telling you why we've done it, why we've done what we've done. I'm not going to kind of pre-judge what PICA will or won't do.

COUNCILMAN SQUILLA: Do you have a fall-back in case PICA comes back again and -- say they say, All right, last year we took that and we said that you're going to close all these things, this year we're not going to deal with that. What do we do in that case?

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MR. DUBOW: I'm not sure that -- what we do to balance our plan, we show PICA how we would balance the plan. That's what they have to ask us to do.

COUNCILMAN SQUILLA: But they could accept it or not accept it. They could accept, saying, This is not a good way to balance your plan, this is not --

MR. DUBOW: They can say, We don't believe this is reasonable, these are reasonable assumptions. They can't say from a policy perspective, We don't like this approach.

COUNCILMAN SQUILLA: Right. They can say it's not reasonable; therefore, they could vote against it.

MR. DUBOW: Right. And then they could say, Show us different cuts because we don't think that it's possible to make these, and our job would be to show them, Well, here's why we think it is reasonable.

COUNCILMAN SQUILLA: So your

philosophy as the Administration is just that if we're not going to put any money aside for this, if it does happen, we're just going to have to cut everything in order to pay.

MR. DUBOW: Well, our philosophy is that we've appealed because we don't think it's consistent with our Five Year Plan, and we've shown what we would do if we lost that appeal.

COUNCILMAN SQUILLA: All right. It just seems like it's a bad way to go about the budget, knowing that there is a possibility we've already lost -- well, we didn't lose. You keep appealing, I guess, so it's not considered a loss. But it's proven that it may be a possibility, and we don't seem like we have any safeguards in place except for just cutting. And, again, then the onus you put on Council to do something to raise that money or somehow come up with a tax or just -- because to me it seems like bad planning, and I just think that it's a bad way to go, but we'll have to deal with it when it happens, I guess.

Thank you.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman Oh.

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

You may know that I introduced a bill to set aside $66 million for the firefighters' contract. If that passes, do you believe that you have to abide by that bill?

MR. DUBOW: I am not going to play lawyer here, and I haven't really seen the details of what it was, so I can't -- I'm not going to speculate.

COUNCILMAN OH: That's fine.

Under the Charter, the Finance Director establishes a general accounting system. Are you familiar with that language?

MR. DUBOW: I'm familiar that

the Finance Director is responsible for accounting.

COUNCILMAN OH: Okay. Do you in your general accounting system as you establish it, do you use generally accepted accounting principles and generally accepted auditing standards when you establish the budget?

MR. DUBOW: We use those principles when we do our accounting. So when we do our CAFR, it's based on generally accepted principles. When the Controller's Office audits that, they use generally accepted auditing principles. So, yes, those standard are used.

COUNCILMAN OH: So according to those standards, police vehicles are operating budget items, not capital budget items.

MR. DUBOW: So police vehicles -- for capital items we look at useful life and dollar amount.

COUNCILMAN OH: I understand, less than five years?

MR. DUBOW: Yes. So the useful life of a police vehicle is not.

COUNCILMAN OH: So when you purchase a police vehicle, the seller is warranting it to have a useful life of five years?

MR. DUBOW: Well, we --

COUNCILMAN OH: Is that in the contract?

MR. DUBOW: We look at what our useful life is.

COUNCILMAN OH: So you determine useful life?

MR. DUBOW: Yeah. That's one of the things we look at, and then the Controller's Office signs off on what we've said.

COUNCILMAN OH: Average life of a police vehicle is more than five years right now; is that correct?

MR. DUBOW: I'm not sure that's correct.

COUNCILMAN OH: You can check it. I'm pretty sure.

And then the air tanks for the firefighters are about 15 years old. So that $4 million, if they last 15 years, should be moved to the capital side; is that right?

MR. DUBOW: Well, what the standards say is that if things don't meet those requirements, they can't be capital, not that they have to be capital. You have discretion to pay for anything out of operating, and our capital budget, as you probably know, is also constrained.

COUNCILMAN OH: Right.

MR. DUBOW: And to the extent that we borrow money for a police vehicle, for example, and we're paying that off with debt that is 20-year debt or 30-year debt, we think it makes more sense to pay for it out of operating.

COUNCILMAN OH: So the reason I'm asking is because you have a $3.5 billion operating budget, of which you are now making a request somehow that 60 million more dollars be obtained, in addition to which you have liabilities that are not addressed in your budget. There's a disagreement on whether the firefighters and other liabilities should or should not be in this budget, but if you take the sum of what would be generally accepted accounting principles and the evidence behind it and move things from the operating budget to the capital budget, you would reduce the operating budget, thereby reducing the taxes and the millage rate for that operating budget. You would then take those items which should be on the capital side and you would be constrained to select from your list of choices on the capital side which ones you are going to float bonds for, but if you move things from the capital side to the operating side, you not only raise taxes unnecessarily, but you also increase the debt on the City that has to be paid back. That would seem to me to be a problem.

MR. DUBOW: Well, a couple of things. First, there's a constitutional debt limit on the capital side that we're right up against. So if we move things over to capital, that will replace other things in our capital budget.

COUNCILMAN OH: Right. You will have to choose among those things.

MR. DUBOW: That's right. And that side is as constrained as the operating side. So, I mean, if what you're saying is you would rather make some of those items capital and then take other things out of the capital budget?

COUNCILMAN OH: What I'm saying is, I think the Charter requires that, so that you are constrained not to overspend the resources of the City. So when you're pulling out another $60 million that is an important request, but you have to choose within the operating capital side, but we also have to take into account citizens' ability to pay the taxes and whether or not those taxes are being requested in accordance with the Charter.

MR. DUBOW: I'm not sure -- I think I've lost a bit of your argument. I'm not sure how this relates to the questions about police vehicles.

COUNCILMAN OH: Because if you put police vehicles which are a capital expense on the operating side, you increase taxes. Let's say they were, for example, $50 million. I'm just making up a number. You would move that number from capital. So you would increase the operating budget by $50 million, increasing the millage rate. You would have a hole of $50 million on the capital side, thereby floating more bonds to do more projects, but you would not have to choose and prioritize where you expend your money based on the limitations of the Charter.

MR. DUBOW: No. You would -- first of all, I don't agree that police vehicles are capital.

Second of all, those (unintelligible) we talked about do not mean that something has to be capital. It just says that they're eligible for capital.

And third of all, moving something from the operating budget over to capital either means you have to -- would mean you have to take other things out of capital. So you are making choices.

COUNCILMAN OH: Yes.

MR. DUBOW: You're still making choices. I think at some point you don't have to make choices. You're making a different type of choice. You're choosing to take other things out of the capital budget.

COUNCILMAN OH: Yes. That's correct.

MR. DUBOW: Okay.

COUNCILMAN OH: I know my time is up. Thank you very much, Mr. President.

COUNCIL PRESIDENT CLARKE: You're the last.

COUNCILMAN OH: I'm last? All right. Well, I get to keep going then.

So let me ask you this: In the budget requests for next year, there's a request for money for graduation coaches, Philly Rising, Mural Arts, and I believe the Mayor's 10,000 Summer Jobs Challenge. That is in the budget request; is that correct?

MR. DUBOW: That's correct. There's about, I guess, about $18 million worth of things and those are among them.

COUNCILMAN OH: So in the Mayor's Fund for Philadelphia, it says that programs and projects, there are six listed. One is graduation coaches, another is Philly Rising and Mural Arts and another is Mayor's 10,000 Summer Jobs Challenge. Does that mean that there's money in these accounts?

MR. DUBOW: Yeah, but that

doesn't mean that there's enough money in those accounts to fully fund the programs.

COUNCILMAN OH: I understand, but what I had asked you before is how much money. Wouldn't you know or someone on your staff know that when you're asking for 18 million additional dollars, that there's money in this Mayor's Fund for Philadelphia of a certain amount, so that when you add those two numbers together, you get the number that you want?

MR. DUBOW: Right. That's right. And I think that was -- I'm sure that was taken into consideration as part of the request. What I said to you is, I don't know the details of what's in the fund and that I would get that information to you.

COUNCILMAN OH: I understood it was a lot of money. Am I wrong?

MR. DUBOW: Like I said, I will get back to you with that.

COUNCILMAN OH: A hundred million dollars, $50 million?

MR. DUBOW: I don't want to speculate. I don't know the number, but I'll get back to you.

COUNCILMAN OH: But that's my point a little bit, is that shouldn't you know that number being that your Chief of Staff is on the Board and everyone else on here is a City official from the Mayor's Office?

MR. DUBOW: Like I said, I can get that number. I don't know it off the top of my head.

COUNCILMAN OH: So let me ask you this: Prior to this Mayor's Fund for Philadelphia back when it was a Fund for Philadelphia, it had 63 different accounts, and it seemed to be something where you would raise money, and they could also request funds. Is that no longer the case?

MR. DUBOW: Like I said, I'm going to have to get back to you on the

Fund questions.

COUNCILMAN OH: Okay. Final question. What happened to the money that was in the 63 accounts?

MR. DUBOW: Okay. So we'll add that to what we get back to you on.

COUNCILMAN OH: Okay. Thank you very much.

Thank you very much, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Real quick, Mr. Dubow. Conceptually I want to say that the notion of having a -- what's the new term, chief?

MR. DUBOW: Chief Revenue Collection Officer.

COUNCIL PRESIDENT CLARKE: Is there one person -- and I support that, and we'll see how successful that person is. Hopefully very.

Is there one person in the Administration who deals with revenue generation?

MR. DUBOW: No, and that was the issue. That's why we wanted to create this position.

COUNCIL PRESIDENT CLARKE: I'm not talking about collections. Or is this person --

MR. DUBOW: No, there isn't.

COUNCIL PRESIDENT CLARKE: You know where I'm going?

MR. DUBOW: So you're talking about grants too, is that --

COUNCIL PRESIDENT CLARKE: I'm talking about everything. I mean, the reality is, we have a fiscal challenge pretty much every year. This year is obviously much better than prior years. And now we have a new $60 million request for schools and who knows what else will pop up. And beyond the traditional taxing authority that the City has, imposing regulatory fees, now collections, because we understand that that's a challenge, outside of that --

and grants revenues funds that we've always done, is there anyone responsible or is there any one person that could be on the receiving end of proposals to generate additional revenue? As an example --

MR. DUBOW: I see where --

COUNCIL PRESIDENT CLARKE: -- we talked earlier about going to Harrisburg for some support for whatever, the 120 or any additional, and then I've talked before about the five cent liquor tax for schools, and Councilwoman Brown has talked about revenues generating by advertising on buses. I mean, all these different things. Is there any one person --

MR. DUBOW: It would probably be the Chief of Staff for me, and those would probably be the places to go. We don't --

COUNCIL PRESIDENT CLARKE: Chief of Staff for you?

MR. DUBOW: I think so. I

think those were probably the two places to go with that type of idea. But I understand where you're going. There should be --

COUNCIL PRESIDENT CLARKE: And I hear you, but my concern is that, in all due respect, we haven't been very successful. I know Councilmembers and Councilman Kenney said yesterday something that is now going to be implemented on the Administration, and he made a proposal like five, six years ago that would basically save us money by doing certain things.

If there was just like one place, one individual who was responsible, it would make things a lot easier for us. Because I know all my colleagues, they got like real good ideas about creative solutions on increasing funding. And I talked to Councilman Oh. We were talking about this generating X Sports. And I look at the paper yesterday, they talked about Virginia is actually exporting liquid natural gas to India and some other country. Yeah. This is a novel idea, right?

So is there like --

MR. DUBOW: There isn't, and it's an interesting --

COUNCIL PRESIDENT CLARKE: Somebody that we can just kind of sit down and --

MR. DUBOW: It's an interesting idea. It's something we should talk about, because that might be really productive position.

COUNCIL PRESIDENT CLARKE: Yeah. I mean, it's 300,000 for the collections guy. It's like let's get somebody in there on the revenue generation side.

MR. DUBOW: That makes a lot of sense.

COUNCIL PRESIDENT CLARKE: Thank you. Thank you so much.

MR. DUBOW: Sure.

COUNCIL PRESIDENT CLARKE: Next

we have up City Treasurer.

(Witnesses approached witness table.)

COUNCILMAN GREENLEE: Good afternoon. Please identify yourself and proceed. As you know, we have your written testimony already. Thank you.

MS. WINKLER: Yes. Good afternoon, Councilmembers. I'm Nancy Winkler, City Treasurer, City of Philadelphia. I'm pleased to provide testimony, abbreviated testimony --

COUNCILMAN GREENLEE: Excuse me. As people are leaving, if they could keep their voices down, please. Thank you.

I'm sorry. Please.

MS. WINKLER: That's okay. Thank you.

I'm pleased to provide abbreviated testimony, as my written testimony has already been submitted.

The Fiscal 2014 General Fund budget request for the City Treasurer's

Office is $899,260, representing a $3,164 increase from our Fiscal '13 estimated obligations.

I'd like to just highlight a few of the accomplishments of the City Treasurer's Office over the last years.

First, a bond rating increase. As you know, the City has ratings of a 2 for Moody's, BBB plus with a positive outlook from S&P, and an A minus from Fitch. Over the course of the last several years, we have been working to obtain an upgrade from Standard and Poor's and have obtained that from BBB flat to BBB plus.

This rating increase helped lower borrowing costs for the City's General Fund debt, and while we are pleased with this S&P increase, the City's bond ratings remain very low. The City is the fourth lowest rated city out of the top 50 most populous cities in the United States of America.

The second accomplishment is

debt service savings from refunding savings and letter of credit repricings. In the last two years, the Treasurer's Office has completed five separate refundings and seven letter of credit restructuring, which have generated lifetime budgetary savings for the General Fund of $81 million. 17.23 million of those savings have been realized in Fiscal '12 and '13, and 28.4 million of those savings will be realized in Fiscal Years '14 through '18.

We have also led four different refundings and 13 letter of credit restructurings and replacements for the revenue credits of the City, the Airport, the Water Department, and PGW, saving ratepayers an aggregate of $59.78 million over the life of the bonds. 15.2 million will be saved in the two-year period Fiscal '12 and '13, and 41.9 million of savings will be realized in Fiscal Years '14 through '18.

In December of 2012, the

Treasurer's Office executed a market purchase of zero coupon bonds and simultaneously sold bonds to fund the purchase, that purchase generating a deposit to the Pension Fund of $22.6 million.

Another way of saving has been the use of competitive bond sales for the City's TRAN. As you know, each year the City issues a tax and revenue anticipation note. Why do we do this? It's because in the first part of the year, our expenditures exceed our revenues and we accumulate a cash flow deficit. This is also because we advance money from the General Fund to the Grants Fund, and that Grants Fund may be running a negative cash position during a large part of the year. So we go to the capital markets and make a short-term borrowing. Because we were able to build up the City's financial position over the last couple of years, it was feasible to go back to the market on a competitive basis, and we believe that has produced about $1.69 million of savings versus had we had to -- versus the 2010 expenses, actual expenses.

The City Treasurer's Office commissions an annual study that analyzes the lending practices of authorized depositories for the City. The Fiscal 2011 study was actually delivered to us today and we will be distributing it City Council members later this week.

The Treasurer's Office is committed to supporting Administration's Fiscal 2013 goal of 25 percent minority, women, and disabled businesses. In Fiscal '12, the office had a total of 27.97 percent minority and women participation. Through the first half of Fiscal '13, we had a total of 31 percent participation. Our office is diverse.

Thank you. If you have any questions, I'll be happy to answer them.

COUNCILMAN GREENLEE: Thank you. Just a quick one regarding -- I think Council passed a bill a few years ago -- I think Councilman Kenney was a sponsor -- dealing with a Rainy Day Fund. Is there such a thing in effect?

MS. WINKLER: Well, there was an amendment to the City Charter which established the legal concept of a Rainy Day Fund. It has not been funded because the specific wording of the language in the Charter amendment required there to have been a certain amount of surplus generated and then the amount over that surplus for the fund --

COUNCILMAN GREENLEE: And we never reached that?

MS. WINKLER: We've never reached those thresholds.

COUNCILMAN GREENLEE: All right. Thank you on that.

Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Thank you.

Good afternoon. I wanted to -- we had a conversation. I think at some point it will be great for us, Council, to get a good briefing around all of the different things that your office does that's not budget related. So I encourage us at some point to do that. We'll talk to leadership to do that, because I think there's a lot of things going on as it relates to our bond ratings and I think we need to be aware of.

I wanted to ask you a question. I notice that one of your most successful pieces has been around refinancing a lot of our debt service. Are we out of the swap business?

MS. WINKLER: No. We still have -- for the General Fund, we have several swaps that are paid for out of the General Fund.

COUNCILWOMAN SANCHEZ: Do you know about how much of that?

MS. WINKLER: Well, we have a General Fund swap that's a hundred million dollars and --

COUNCILWOMAN SANCHEZ: A year?

MS. WINKLER: No, no. It's the total par amount of that swap, notional amount they call it, is a hundred million. And then the General Fund also funds the swaps that are outstanding associated with the stadium financings, and I believe that's a 265 to 270 million notional.

COUNCILWOMAN SANCHEZ: Given the controversy around these, is there any way that we can get out of these?

MS. WINKLER: We have evaluated that, and at this time -- first of all, I'd like to mention that my predecessor did reduce the swap exposure for the City, and that was done in a manner to accomplish the least budgetary impact to the City. So I guess what's left to terminate could be -- it would be more difficult to terminate at this point. And also the rates that we've locked in are fairly low. So the actual interest rates that are locked in on those swaps are quite low, and so we've lowered the cost of the swap, those swap transactions, through these letter of credit renegotiations.

COUNCILWOMAN SANCHEZ: So is it fair to say that our new policy is we're not going to be engaging in these very controversial financing -- in swaps or do you foresee the City getting into additional ones?

MS. WINKLER: I think we haven't really been entertaining new swap proposals. I don't think we've made a policy decision to never do one, but we're not at this point entertaining any more.

COUNCILWOMAN SANCHEZ: So one of the things we've been talking about is some of the -- particularly with AVI and others, is moving to a monthly payment schedule. Do you think that will impact our TRAN's ability and the City Treasurer's ability to create a TRANs mechanism where, for instance, if we switched, I don't know, so many people into paying monthly their property taxes versus what we do, is that going to be complicated for us as a city?

MS. WINKLER: Well, the property tax revenues, sort of the timing of when they come in, I'm not sure it would really meaningfully impact the size of our TRAN borrowings. We could certainly take a look at that, but given the timing of when they come in now, I really still think our deficit, our max deficit is driven by a large number of factors and I still think we would have to do a TRAN given -- the only real way to reduce the TRAN costs is to build up a fund balance so that we're not in the situation of not having enough money from our current revenues in a certain year to pay that week's bills, so we have to do the --

COUNCILWOMAN SANCHEZ: That's what I wanted to hear. I wanted to make sure that any of the --

MS. WINKLER: But I wouldn't -- I'm not speaking in favor or opposed to --

COUNCILWOMAN SANCHEZ: Right. I just wanted to make sure that it wouldn't increase any cost as we finance ourselves on an annual budget. I foresee us having to come up with several different schemes to offset the new AVI kind of cost, and I'm just wondering for constituents that at some point we may want to think about doing a monthly. That's part of the discussion that we're having, and I just wanted to make sure it just didn't change kind of. Okay. That's what I wanted to hear. Okay. Thank you.

Thank you, Mr. Chair.

COUNCILMAN GREENLEE: Thank you, Councilwoman.

If I could ask, Ms. Winkler, as far as AVI, have you looked at what impact AVI will have on debt capacity, or will it?

MS. WINKLER: Well, I mean -- no. When we think about debt capacity for the City, we look at the operating budget of the City. And I'm not the budget person, but in general, the market, when you talk about debt capacity, you sort of think about what can the City afford. And from that perspective, the City just only has so much budgetary room to spend on debt. So it doesn't -- AVI -- constitutionally each year we get to add in the higher amount of property value, and there's a ten-year average that sets the constitutional capacity, but that's really not how I think we set the --

MR. DUBOW: That's what I was going to say.

COUNCILMAN GREENLEE: It sounds like, Mr. Dubow, you're going to say the same thing?

MR. DUBOW: Same thing. It's correct that under the Constitution we would have additional capacity, but as the Treasurer is saying, we're really constrained by our ability to afford that debt and by our revenue streams. So that's really the constrain on our debt.

COUNCILMAN GREENLEE: But there's a different calculation, right?

MR. DUBOW: Yeah. It's 13 percent of the ten-year average of your assessed value. So as your assessed value goes up, your debt limit on the Constitution goes up, but we still wouldn't be able to afford the additional debt.

COUNCILMAN GREENLEE: Okay. I'm not sure I follow that, but okay. Thank you.

Just one more question. You talk about in your written testimony, Ms. Winkler, about the various negative factors and the City is the fourth lowest rated city of the 50 top cities in credit rating. Given all that, is there a strategy to try to improve that City credit rating? Is there a general strategy or discussion about that?

MS. WINKLER: Well, the focus that we've had to date is to emphasize the difference between the City of Philadelphia's importance in its regional economy and some other cities, other northeastern cities, who have not been able to maintain a vibrant downtown and who may through other reasons, mostly because they have much higher fund balances and better funded pension funds, actually have higher bond ratings than the City.

But as a going concern, as a vibrant community with an active -- maintaining our population, actually growing and adding our population versus some of the other cities, mostly northeastern cities, who have been unable to retain businesses and residences, that we're actually more -- a better long-term bet because of that strength, that economic importance in the region, and the obvious fact that we've maintained that. We focused on the importance of the major institutions that are located in the City, which are national leaders and are thriving and growing and making billions of dollars of infrastructure investment, which indicate they're likely to stay. So these are some very sort of -- it's stability issues and then it's also a focus on the demonstrated ability of the managers of major -- managers of the City's departments to operate on very, very tight margins that other governments don't have to operate under. So it's both a management discussion and an economic discussion.

COUNCILMAN GREENLEE: Okay. And I guess that's ongoing. All right. Thank you.

Any other questions?

(No response.)

COUNCILMAN GREENLEE: Seeing none, thank you for coming. Thank you for your patience.

And our next department before

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we take a break is the Sinking Fund.

I take that back. We're not taking a break. We're going right through.

Next is the Sinking Fund, and Pensions will come up after that, whoever is here.

MS. DUBOW: They're on their way.

COUNCILMAN GREENLEE: Okay. Thank you.

(Witness approached witness table.)

COUNCILMAN GREENLEE: Good afternoon. If you could identify yourself for the record. We have your written testimony, so if you could summarize.

MR. JONES: Good afternoon. I'm Charles Jones, the Executive Director of the Sinking Fund Commission, and I want to thank the members of City Council for allowing me to testify today on behalf of the Commission.

I am the sole employee of the Commission, and all Class 100 funds are budgeted in the Treasurer's Office.

The highlights of the Sinking Fund Commission's budget, the Commission oversees the timely repayment of bond principal and interest for all the -- for the City's debt as well as the City's related authorities. The budget request this year is $572 million, which is an 8 percent increase over the estimated obligations for Fiscal Year '13.

The Commission budgets and pays for the debt service for the General, the Water, and the Aviation Funds. The General Fund budget request is $226 million, which is about a 5 percent increase over last year. That's due mainly to $6 million on projected new debt as well as a slight increase in the TRAN interest expense.

The Water Fund is $205 million request. That's about a two and a half percent increase over last year. That's also due to interest on new issues. And the Aviation Fund is $135 million. That's about a 25 percent increase. That's due to an increase of $17 million of interest and $9 million of principal payments on new issues as well as a reduced level of capitalized interest.

The Sinking Fund Commission has one contract. It's with Digital Assurance Certification, which is a female-owned company. The value of that contract is $4,500 a year. DAC disseminates the financial information that's required by the SEC.

I'd be happy to take any questions from any member of City Council now or at your convenience.

COUNCIL PRESIDENT CLARKE: Thank you, sir.

Page 2 of the testimony you state that the City plans on issuing $100 million worth of tax revenue anticipation notes early in FY14.

MR. JONES: Yes.

COUNCIL PRESIDENT CLARKE: This is an improvement from the 127 million issued in FY13.

MR. JONES: Yes.

COUNCIL PRESIDENT CLARKE: Can you tell me why that's the case, why we're decreasing the TRANs?

MR. JONES: Do you want to give that a try?

Ms. Winkler is an expert on TRAN issuance. We'll let her --

COUNCIL PRESIDENT CLARKE: We're very aware of that.

MS. WINKLER: So at this point -- thank you. Nancy Winkler, City Treasurer.

At this point, that's an estimate of the size of the TRAN, and it will really have to be sized based on where we actually wind up in terms of what we look to have our cash flow deficit look like. I believe the reason is because we've had a slight change in the composition of the revenues that we receive and a slight change in the timing of when we make some of our expenditures. So it's sort of an interesting phenomenon that we're actually looking at running a little bit of an operating deficit this year, but the TRAN is actually lower. So we'll just have to be sure that those projections of the timing, month-to-month timing, of when the revenues will come in and when the expenditures will occur will produce -- that will be the max deficit that we could finance.

COUNCIL PRESIDENT CLARKE: When you say "operating deficit," explain that in a little more detail.

MS. WINKLER: So we're going to take in about 44 million less in revenues than expenditures. So if you think about it, we have a little bit -- we have a decline in fund balance, and it's that fund balance in part -- it's a little bit of a mixed concept, but it's that money that you can tap into to fund the difference between revenues and expenditures.

COUNCIL PRESIDENT CLARKE: So it won't be deficit spending, but it will be close to it?

MS. WINKLER: It's a little bit.

COUNCIL PRESIDENT CLARKE: Actually, we will be. Okay.

MS. WINKLER: That's what's proposed.

COUNCIL PRESIDENT CLARKE: Okay. Should we be troubled? Is that a long-range trend or is that --

MS. WINKLER: Well, obviously over the long run and the Five Year Plan is set up and to, over the five-year period, maintain positive fund balances. I think that --

COUNCIL PRESIDENT CLARKE: And the minimum should be around, what, 40, 45?

MS. WINKLER: Well, I think folks have been consistent in taking the position that we should have 5 percent fund balance, and I would heartily support that.

COUNCIL PRESIDENT CLARKE: Okay. Thank you.

There are no questions. Thank you very much for your testimony.

MR. JONES: Thank you.

COUNCIL PRESIDENT CLARKE: Pension is not here. We'll take a brief recess until the Board of Pensions gets here.

(Short recess.)

COUNCIL PRESIDENT CLARKE: We're going to reconvene now. Thank you.

Next up will be Board of Pensions and Retirement.

Good afternoon, sir.

MR. BIELLI: Good afternoon, Council President Clarke, members of Council. My name is Francis Bielli. I'm the Executive Director of the Board of Pensions and Retirement.

You have my testimony. I think it largely speaks for itself. However, I'd like to make a brief statement, that yesterday I heard Councilman Jones talking about silos and he was talking about them in the context of OIT, of sharing of information, but I think sometimes we can find silos within organizations. And when I came to the Board of Pensions, one of the things that Sumit and I endeavored to do was to create a flat organization, and by that I mean, we didn't want the staff of the Pension Board nor the trustees to feel like they couldn't approach us with any ideas, any suggestions. And I think you'll see some things throughout the testimony that evidence the importance of getting information from all employees, such as the pilot mail program that we had for a large number of people that we had in DROP in June, and many people on Council have met with myself or staff members concerning issues, and I think it's a testament to the Pension Board staff and to the trustees that we can all share information, we can all collaborate, because none of us have the answers to everything.

So I just want to applaud the staff of the Pension Board and the trustees for working collaboratively to make the Pension Board a very well-run organization. I just wanted to say that publicly, because I really appreciate their efforts.

COUNCIL PRESIDENT CLARKE: Thank you.

MR. BIELLI: And we'd be glad to answer any questions you have concerning the testimony or any other pension issues.

COUNCIL PRESIDENT CLARKE: That's great. I'm glad to hear that. We all can maximize our opportunities if we agree to work together. That's everyone, everyone in government along with the private sector. So thank you for that.

Just a couple quick questions. In February of 2012, the Board reduced its expected future earnings rate from 8.15 to 8.1 in February 2012. You state in your testimony on Page 1 that the Board voted in March 2013 to reduce the assumed rate of return of the fund from 8.1 to 7.95.

Given that the rates are at historical lows and this assumed rate is a reasonable one, does the Board plan any additional reductions in assumed rates, and how does this reduction and rate affect the City's annual contribution to the fund?

MR. BIELLI: Well, I think it increases the City's annual contribution to the fund. Every time you reduce the assumed rate, you're increasing the City's annual contribution. So as a general rule of thumb, for every ten basis points, that would be 0.10. For every 0.10 reduction in the assumption rate, you can assume a $10 to $15 million increase in the City contribution. Again, that's a rule of thumb. That's based on the last year's valuation, actuarial valuation.

So the steps that the current Board and the Administration working together -- and by "Administration," rob Dubow of course is the Chair of the Board, City Controller Alan Butkovitz is a Board member, as are the four elected trustees and the remaining Administration ex officio members who are appointed per the Charter -- they have reduced the assumption rate --

COUNCIL PRESIDENT CLARKE: Real quick, off the track a little bit. Why -- and I don't know why I'm asking you this question, but I'm going to ask it anyway.

Council is not a voting member of the Pension Board?

MR. BIELLI: Council per Charter is a non-voting member of the Pension Board, that's correct.

COUNCIL PRESIDENT CLARKE: That's what I thought. I just wanted to make sure. Let me ask you this, a followup. Sorry to get you off your stride. Given that Council is involved in pension issues, sometimes against the best wishes of other people, do you think it would be productive to have Council as a voting member? That's a very, very loaded question.

MR. BIELLI: It is a loaded question, but I've never been one to back off a question.

I think that the contributions that Ms. Lewis has made since coming to the Pension Board have been a welcomed addition. Her knowledge of finance and how things work have been very helpful.

As far as changing the Charter, that's something -- two-thirds of a vote, right?

COUNCIL PRESIDENT CLARKE: Yeah.

MR. BIELLI: So that's something that -- again, any expertise that would be added to the Pension Board would be a welcomed addition, as far as I'm concerned.

COUNCIL PRESIDENT CLARKE: All right. I just add -- and I'm sorry to ask you that.

MR. BIELLI: That's okay.

COUNCIL PRESIDENT CLARKE: I probably should have asked you that outside of the Chambers, but we're like kind of in it, but we're not in it. And personally I'm like if I got to be in it, then I want to be in it, you know. But that's a political decision that ultimately people have to make. I'm sorry.

MR. BIELLI: But we're always amenable to sitting down with any Councilmember, as Ms. Lewis knows, as many of the Councilpeople know. We're glad to do that and glad to have constructive conversation concerning how to improve this Pension Fund, because, quite frankly, it's to the benefit of not only the 64,000-plus members of the

Pension Fund, but it's to the benefit of the taxpayers, with the pension unfunded liability hanging over everyone's head.

COUNCIL PRESIDENT CLARKE: Exactly. Okay. I'm sorry. I got you off your testimony.

MR. BIELLI: No. That's okay. So the assumed rate has been reduced by the current Board of Trustees in conjunction with the City Controller and Mr. Dubow as Chairman of the Board 800 basis points, 0.80, almost 1 percent since 2008. That's more than the assumption rate has been reduced since the 1950s. So that's five decades where the assumption rate was reduced 0.25 percent, 0.25 in five decades. It was basically at 9 percent until Mayor Street. During Mayor Street's Administration, it was reduced 0.25 between 2008 -- excuse me; 2006 and 2007. But since then, it's gone from 8.75 down to 7.95, which is amazing.

So if you take that rule of

thumb, $10 to $15 million additional City contributions per ten basis points, if you multiply that by eight, you're close to an additional $100 million contribution obligation that the current Board of Trustees, along with Mr. Dubow and the City Controller, have made to increase the health of the Pension Fund, and that's something that takes a lot of courage, and I'm glad that they did that.

COUNCIL PRESIDENT CLARKE:

Right. I'll ask a layperson's question, because I actually am one of those laypersons in some respect. When I look at the news and CNN, MSNBC and you see stock markets are flourishing and the Dow is breaking records every day and you say, Well, why aren't our investments experiencing gains that are comparable. Is it that we have investments that are safer and not necessarily as volatile or are the investments that we see on a daily basis that are skyrocketing, those are the type of investments that we don't

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want to speculate on because there's concerns that as you go up, sooner or later you're going to come down? Can you talk to me just from a layperson's perspective about our investment in the market.

MR. BIELLI: Yeah. I will Sumit Handa, our CIO, will answer the majority of that question. However, I will state that for the last fiscal year, our actuarial return was 2.42 percent, and during that same period of time, the majority of large public pension funds were flat to minus. So our return was positive, and that was good.

Since then, in the calendar year ending 2012, our return was 12.4 percent. Fiscal year to date, our return is plus 9.8 percent. Fiscal Year '11, our market return was 19.4 percent. Fiscal Year '10, our return was 13.8 percent. So we have been capturing a large amount of the market run-up. Of course, on the opposite end, during 2008,

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2009, we captured a large portion of the market downturn where our return was minus 19.1 percent.

COUNCIL PRESIDENT CLARKE: We're catching up.

MR. BIELLI: But all of those returns, it's important to keep in mind, are spread out over a ten-year period, and that's pursuant to the State Act. So any time you have large gains or, conversely, large losses, the effect on the Pension Fund is minimized by what they call a ten-year smoothing process.

COUNCIL PRESIDENT CLARKE: Okay.

MR. BIELLI: And Sumit Handa can comment more on that.

MR. HANDA: We do participate in the markets. I believe we have approximately -- we've updated our asset allocation. I believe that's also in your testimony, as well we hired a new consultant last year to help with that. But we do participate. We have

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approximately 40 percent of our assets are in equities and they are in the equity markets on a daily basis, but that's 40 percent of 100 percent of the $4.2 billion.

We also have a lot of fixed income in our portfolio, because that helps pay our -- to meet our benefits, to make our benefits payments. And so I think we're running it sort of in a balanced approach, if you will. We do want to participate, but we also have to be mindful of the fact we have benefit payments that have to be made on a monthly basis.

In terms of the market exposures, like I said, we are participating, but I think we're not 100 percent exposed to the S&P 500. It's far less than that. And I believe that it's important to have balanced portfolio, because you don't want to take the risks also associated with it. So yesterday the Dow hit its all-time high. Today before I walked in, the S&P is down almost 80 basis points. So if we had 100 percent exposure, we would also get hit today. So there is a risk/reward that has to be taken into account.

And last, but not least, we have to also think very long term because our obligations are fixed, meaning that our liabilities are fixed in terms of obligations. We have to make sure that we match that as well in terms of our asset mix.

So that's how we're sort of balancing it out, and I promise you it's more of an art than a science and we're always -- if you have any other thoughts or ideas, we're always welcome to them as well.

COUNCIL PRESIDENT CLARKE: I think I'll leave the investment strategies to you guys. I'd be doing my investments based on my morning television watches. I'm getting ready to go to work and I say, Oh, the stock markets are booming today, buy futures in whatever. You know, that obviously wouldn't be a good idea, so I'm going to leave that to the experts.

One last question. In terms of creating a better level of solvency in our fund -- and you may or may not be able to answer this -- if there was the ability to have a sustained level of revenue stream from a -- I don't want to say where -- what would be the minimum amount on an annual basis that would get us over maybe 50 or a little more reasonable level in terms of our unfunded --

MR. BIELLI: Last year one of the questions as a follow-up question that was asked of us is, what impact would various levels of contribution have to the Pension Fund. And, again, this is based on last year's valuation. And we provided a chart in response to the question, and I have that chart with me.

So I heard you talking about

the advertising, where the consultant said maybe $10, $12 million on a yearly basis, and that would --

COUNCIL PRESIDENT CLARKE: That now has to go to the School District now.

MR. BIELLI: No. I heard that this morning also.

COUNCIL PRESIDENT CLARKE: Yeah.

MR. BIELLI: We're in great shape.

For example, let's just say $10 million. The impact of a one-time or, let's say, on an ongoing basis, $10 million. The impact on the funding percentage would be a plus 0.1 percent on the funding level. Let's say $1 billion, just as an example. Again, this is as of last year. If we got $1 billion as a one-time stream of income, it would increase the funding percentage 10.5 percent, which, again, based from last year's 49.7 percent funding level, that will put us at 60.3 percent funding level.

I can again reissue this chart to you guys as a general reference, but I think this gives you an idea of the --

COUNCIL PRESIDENT CLARKE: So how would that one-time contribution work? If it's a one-time and it gets you to 63 and your out years, you'd only have to fund up to -- I mean, how would that work?

MR. BIELLI: That's correct. The larger funding percentage that you have, the less amount of money that's required to contribute to the Pension Fund from the General Fund on an annual basis.

COUNCIL PRESIDENT CLARKE: Right. So if you take that amount, a billion, and you have a revenue stream over a period of time that got you there in a ten-year period and you monetized it, say an investment firm bought that revenue stream, then you'd be in a position to essentially get that $1

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billion contribution?

MR. BIELLI: Yeah, I think that's right. I think that's right. And maybe a good example was, back in 1999 when prior to 1999, 1998, the fund was 52.3 percent funded. Then the City floated the bond. I think it was about $1.5 billion. And in 1999, the funding percentage was 76.7 percent. So that shows the dramatic effect that it could have on the funding.

Now, since then, there's been some years of severe market turmoil, and what happens when you have a year like '08, '09, you're still paying out benefits, right. No matter what happens, you're still paying out the benefits, and in fact, right now annually we're paying out benefits -- this is through February 28th. The annual amount of benefits is $657.4 million, and that's gone up from last year, for example, from 646.4, so on and so forth, all the way back to 1992.

So when you're paying out those

benefits and you have a market decline, then in order to pay the benefits, you have to pull from the investments that you have to pay those benefits, because after all, we're in the business to pay the benefits for employees who have given their service, their lifetime service to the City of Philadelphia. So then when the market turns around again, you've pulled principal to pay the benefits, so you're not capturing as large of a part of the market upturn as you otherwise would, and that's one of the things that the Board, along with staff, has been trying to do is to diversify the investments into areas where we can generate sufficient amounts of current income in order to cover that benefit requirement on an annual basis in order to allow the portfolio to continue to grow.

COUNCIL PRESIDENT CLARKE: Okay. Thank you.

MR. BIELLI: You're welcome.

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COUNCIL PRESIDENT CLARKE: The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Mr. President.

Good afternoon. First, real quick question. You talk about in your testimony the retirement seminars?

MR. BIELLI: Yes.

COUNCILMAN GREENLEE: How does the word get out for that and how have they been going? Can you deem them successful?

MR. BIELLI: Yes. They're at capacity. I think 60 people is at -- they're at capacity every time we have them. And how they go is that an employee of a particular department will contact their HR person, and HR schedules with us. Then we send out a letter to the individual confirming attendance at the seminars. They're very well received and we get a lot of compliments on those.

COUNCILMAN GREENLEE: So the retiree contacts their person and then --

MR. BIELLI: That's how the majority of even retirement appointments are made. It goes through the department HR person and they contact us to schedule the appointment.

COUNCILMAN GREENLEE: Okay. You talk about on Page 1 the Plan 10, the hybrid plan.

MR. BIELLI: Correct.

COUNCILMAN GREENLEE: And I know it's been implemented for certain new employees. Can you kind of briefly just explain that plan, like the basics of it?

MR. BIELLI: I can. And I guess I'll start with Police, because they were the first group that was mandated in Plan 10. You have Police, Fire, Deputy Sheriffs, who are all optional Plan 10. What that means is that when they're hired, they have 30 days from the date of hire to opt out of Plan 10. If they opt out of Plan 10, they get to remain in; for example, Police, Plan B, but they pay an increased contribution. Instead of 5 percent, they pay a 6 percent contribution. If --

COUNCILMAN GREENLEE: Okay. And -- I'm sorry to interrupt, but how has that been going? Have people been opting out?

MR. BIELLI: Every single person among Police, Fire, and Deputy Sheriffs who have the ability to opt out have indeed opted out.

COUNCILMAN GREENLEE: That's my understanding.

MR. BIELLI: There's one current department that is mandatory Plan 10 and that is Register of Wills employees, and we have -- so we have three people in Plan 10 as of today.

COUNCILMAN GREENLEE: The three new employees of Register of Wills, that's it?

MR. BIELLI: Yes.

COUNCILMAN GREENLEE: And the reason Register of Wills was different, that was worked out, I assume, with the Register of Wills?

MR. BIELLI: That was again an arbitrator's decision.

COUNCILMAN GREENLEE: Oh, the arbitrator's decision.

MR. BIELLI: And then there were two additional arbitrator's decision for the correctional officers and the court employees, specifically the probation officers, Local 810, where the arbitrator award did make those mandatory, but I believe that's waiting for City Council approval.

COUNCILMAN GREENLEE: So you can't really get into what the cost savings have been because people aren't in it, right?

MR. BIELLI: I don't think -- we cannot give you an accurate representation of any cost savings for Plan 10. The actuary may be able to give you rough percentages, but not specifics.

COUNCILMAN GREENLEE: Okay.

Just, lastly, I guess your opinion. Do you have an opinion on why people choose that, not to opt out?

MR. BIELLI: Yes. Because, for example, a police officer, the percentage that they get for each year of credited service is 1.75 percent versus the current amount that they would get, which would be 2.2 percent, and the Plan 10 is capped at 20 years of service, whereas the current Plan B is not. And it's a ten-year vest for the Plan 10 versus ten-year vesting also for the current police. But for other plans, it's ten-year vest versus possibility of five-year vest if you're Y5, for example. So there are various reasons that I can see why people would opt out.

COUNCILMAN GREENLEE: Sure. Okay. Thank you.

Thank you, Mr. President.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

The Chair recognizes Councilman

Squilla.

COUNCILMAN SQUILLA: Thank you.

Good afternoon, guys.

MR. BIELLI: Good afternoon.

COUNCILMAN SQUILLA: Thank you. And I just wanted to say that from talking to people throughout Council and people associated, that they speak very highly of you. So it's good to have that, because what sometimes we don't hear that here in Council.

MR. BIELLI: Thank you.

COUNCILMAN SQUILLA: So I just wanted to make that statement.

My question is, I know -- because the Administration says they had agreed to certain things with the Police and not the Fire because they were able to make so much more savings in the pension part of it. What I just heard is that the savings really, they're still going into the same pension plan because they're opting out of the Plan 10. Is that correct?

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MR. BIELLI: Every police officer who has been hired since the implementation of Plan 10 has opted out. However, remember, everyone who opts out pays an additional percentage point of contributions from 5 to 6 percent to remain in Plan B, which is the current plan for police officers that are not in Plan 10. So to that extent, there's greater employee contributions.

COUNCILMAN SQUILLA: Okay. So if that was something too -- I'm looking because we always hear the pension issue is one of the major issues of the shortfall and what's costing the City the most amount of money.

If they're paying that extra percent, so that option -- does that even out if they pay the extra percent compared to going into Plan 10?

MR. BIELLI: I don't think -- we haven't conducted that analysis. We would have to go back and see how many people were hired since the implementation of Plan 10, how many people opted out, and what the cost differentials have been. But we can certainly do that in conjunction with our actuary.

COUNCILMAN SQUILLA: I think that would be good too, because I think moving forward with options even for other contracts that are coming too, if that's an option for them and if it evens out, if they could even opt into another plan and the City could still make the same savings that was stated, it gives that option and maybe make it easier for maybe a contract negotiation to move forward.

What is the most -- there's like a whole bunch of different pension plans, right?

MR. BIELLI: There are.

COUNCILMAN SQUILLA: I mean, there's A, B, C, X, Y, all these numbers.

MR. BIELLI: There's a whole list of them.

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COUNCILMAN SQUILLA: I saw that.

Is there one pension plan that like would cost more than another pension plan?

MR. BIELLI: Well, pension plans have various percent that a person gets per year of credited service. So to that extent, there's a difference. So it ranges from 2.2 percent for Plan Y employees for the first ten years, then 2.0 for years after that. Police, 2.5 percent per year under the old police plan. Under the new police plan, Plan B, 2.5 percent for the first 20 years and then 2 percent thereafter, and to the elected plan, which is 3.5 percent per year of credited service.

COUNCILMAN SQUILLA: So depending on the percentage, that would cost more to the City? Is that what you're saying or not really?

MR. BIELLI: Well, then you have an offset. So Police get a higher percentage per year of credited service. However, they also pay a higher contribution than a Plan Y member. So, in fact, if you look at -- and I think somebody mentioned this during the -- I think it was Councilman Jones who mentioned this during the Five Year budget testimony. He wanted to know what the funding percentages were for the various specific plans. And so if you go to the 1967, which are the old plans, the municipal plan is 40.8 percent funded, the police plan is 34.6 percent funded, and the fire plan is 34.5 percent funded. But that's not simply based on the fact that the benefits are necessarily too rich or too low. That's based on the fact that most of those employees are retired and they're no longer contributing.

Remember, we have 34,300-and-some employees receiving benefits. We have a little over 26,000 active employees. So when you have less people contributing to the Pension Fund and you have more people collecting from the Pension Fund, it's called a mature plan, and that's one of the problems with a mature plan. So if you segregate out that 1967 plan, which is on the left-hand side of my page, and you look at the 1987 plans, so the municipal plan, which is Plan Y, is 78 percent funded, the police plan is 80.6 percent funded, and the fire plan is 83.8 percent funded. Again, you don't have as many people collecting benefits, but you also do have lesser benefits and you have greater contributions in a lot of the cases.

COUNCILMAN SQUILLA: That's a good point, because it seems like the older plans, which nobody contributes to anymore, are less funded, because they're paying out and nobody is not many people are paying into it because they're being weeded out as they retire, I would imagine.

How does the City then if we

start a new one, say everybody goes to the 10, then the Y Plan is no longer being funded, eventually we're probably going to see the same thing with the Y Plan, I would imagine.

MR. BIELLI: In any -- except for the Y Plan, you're not getting the same level of benefit that anyone was getting in the 1967 plan. So that would be diminished somewhat. That would be diminished.

COUNCILMAN SQUILLA: But it would eventually go down. It's not going to stay 80 percent funded.

MR. BIELLI: Eventually you would see a curve, right. It's a natural curve.

COUNCILMAN SQUILLA: So it seems like as these plans stop, eventually the curve would come down and the new plan would be more funded, I would imagine.

MR. BIELLI: Any new plan would be more funded just because virtually all the employees are not of retirement age and they are contributing.

COUNCILMAN SQUILLA: So right now the option is there for new pension plans for people to join Plan 10 or stay into their current, except for the one that you mentioned, the Register of Wills.

MR. BIELLI: And then the outstanding correctional officers and probation officers.

COUNCILMAN SQUILLA: So the Y Plan right now is probably one of the cheaper plans, then.

MR. BIELLI: It is. With the exception of Plan 10, putting that aside, yes.

COUNCILMAN SQUILLA: We don't know Plan 10 yet. I mean, do you know Plan 10?

MR. BIELLI: Well, we know from the amount of credited service you get per year of service and the amount of contributions that you make, that it would be a -- it's a less generous plan than Plan Y, we know that.

COUNCILMAN SQUILLA: Less generous. But, again, when they go to Y, if they had the option to stay into that, they would pay more.

MR. BIELLI: That's correct.

COUNCILMAN SQUILLA: Right. So it seems like there might be a balance somewhere. We don't know what that balance is yet.

MR. BIELLI: We would need the actuary to do that analysis.

COUNCILMAN SQUILLA: Right.

MR. BIELLI: And, again, the analysis would be based on estimates because we only have three people in Plan 10. So it's not based on an actual fact-specific analysis. It would be based on estimates. For example, the actuary would have to take every employee that was hired in the last five years and assume that they went into Plan 10 and kind of take a look at the experienced study of that. There's really no other way --

COUNCILMAN SQUILLA: And the reason I'm asking, you know there's a lot of contract talking about discussed and people are mentioning pension plans and how we're going to save all this money. So there's really not an actual big savings initially to the City for the first year or two or three or four?

MR. BIELLI: Well, I think -- I can't comment on the specific savings because of what I stated. However, what I will state is that in any new pension plan, whether it be a hybrid plan, defined contribution plan, you won't see savings until later down the road. I mean, that's because until that group of people start to get closer to retirement age, you won't see any savings because --

COUNCILMAN SQUILLA: So 20 years, I guess.

MR. BIELLI: -- they're not the people who will be the recipients of the pension benefit. The people who will be the recipients are the existing Plan 67 employees and the existing Plan 87 employees. So, yes, there's always a period of time before you see the savings. However, when you're looking at a plan for the long term, they are all things that you need to take into consideration.

COUNCILMAN SQUILLA: Right. And I agree long term, we have to look out for the long-term benefit of the City and, therefore, we want to be able to save as much money as possible. But that's like a 20-year plan, I would guess, going forward before we really --

MR. BIELLI: Yeah. I think there's some number of years. Whether it's 20 or not. There's certainly some number of years.

COUNCILMAN SQUILLA: I'll come back.

COUNCIL PRESIDENT CLARKE: Do you have more?

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COUNCILMAN SQUILLA: Yeah.

I know like you said -- how many voting members are on the Board?

MR. BIELLI: Well, you have the four elected trustees, the City Controller, and the three Administration officials - Managing Director, Personnel Director, and City Solicitor - and then the Chair of the Board is the Finance Director, and they are a tie-breaking vote.

COUNCILMAN SQUILLA: Okay. So your goal as the Board, I guess, is to make sure that the pension is there to benefit the employees and that we're able to secure that pension to make sure our employees have that in the future?

MR. BIELLI: There is no question about that. That is our first and foremost duty, is the 64,000-plus members of the Pension Fund.

COUNCILMAN SQUILLA: Okay. So right now we realize that Y Plan is the cheapest. We don't really know about the

10 Plan as of yet, but we're hoping because they have -- what is their rate per year? Is it 2 percent?

MR. BIELLI: Plan 10.

COUNCILMAN SQUILLA: Yes.

MR. BIELLI: It varies. Police would be 1.75, as would Fire.

COUNCILMAN SQUILLA: Per year?

MR. BIELLI: Per year of credited service. Deputy Sheriffs, 1.25. Register of Wills, 1.25. Both correctional officers and court employees, Local 810, subject to Council approval, 1.25.

COUNCILMAN SQUILLA: That's a big difference. And the Plan Y is two point --

MR. BIELLI: Two point two for the first ten and then 2.0 thereafter. And then the Plan Y, again, is a limit of credited service to 20 years, whereas the other plans don't have that limit.

COUNCILMAN SQUILLA: Right. So to get a higher percentage for Plan 10, you would have to work a lot of years to try to get up to 40 percent or 50 percent?

MR. BIELLI: Well, in the defined benefit portion. But, remember, it's a hybrid plan, so there's a defined contribution portion. So the City will match 50 percent of any of your contributions up to 1.5 percent of your annual salary, and that vests after five years. So you would have to stay for five years in order to get the benefit of that vest.

COUNCILMAN SQUILLA: And I guess that's why too you really can't see the cost of that plan until more people are in it and how much they put in and, therefore, what the City has to match?

MR. BIELLI: It's a variable. Until you see how much people are putting in, exactly, and what the City has to match, you can't really determine that.

COUNCILMAN SQUILLA: All right. So we have the members -- and I guess the

Charter gives you -- is it the Finance Director, City Solicitor, the Managing Director, and the Personnel Director?

MR. BIELLI: That's correct.

COUNCILMAN SQUILLA: All right. Now --

MR. BIELLI: And City Controller is in the Charter also.

COUNCILMAN SQUILLA: City Controller is.

MR. BIELLI: Then the four elected trustees. Currently they're elected by the Civil Service, by the members of the Civil Service. So currently you have an elected trustee who is a former police officer, who is an FOP representative, a current trustee DC 33, DC 47, and Fire Department. It works out where each of the units has representation on the Board.

COUNCILMAN SQUILLA: Now, the plan that we talked about -- and each of these vote on, I guess, specific issues whether they're going to change the pension plan or --

MR. BIELLI: Well, most of the changes to the pension plan itself come from legislation. So the level of benefits, whether the buyback -- whether you can buy back time, service-connected disabilities, ordinary disabilities. All of that is statutory, and the Board does not have the ability to enact statutes, as you know. The Board can enact regulations to implement the code. However, the Board does decide -- make every single decision on recommendations made by staff concerning asset allocation, specific investments, whether to terminate or to hire specific managers.

COUNCILMAN SQUILLA: All right. But, I mean, the goal is to make sure -- that Board's goal is to make sure that the pension stays as much funded as possible and to do the best possible thing so that those employees when they retire will have a pension.

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MR. BIELLI: That's what the Board's charge is, and the Board -- I can tell you in looking at other boards throughout the country in municipalities and states, that this Board takes its fiduciary duty as seriously as any board I've seen, and, in fact, we've had people comment on this Board saying the way that this Board functions is exemplary. So they do a really good job.

COUNCILMAN SQUILLA: Because it just seems like some part -- I know Rob is on it from the Finance Director and his goal is to make sure to maintain the City's side of it, and is there -- does it seem to be some type of conflict that somebody from the City is looking out for the City's best interest?

MR. BIELLI: No, and I think that's the beauty of the Charter in the way that it composed the Board, is that I've always thought of this -- and this is just my opinion; that I've often thought that the best way to get to a decision is to have different points of view, and they're discussed, sometimes discussed very vehemently at the Board meetings. But Rob as Chairman of the Pension Board has a fiduciary duty to the Pension Fund and to the fund and to the Board, and our Vice Chairman, Ron Stagliano, who is a former police detective, there's healthy debate back and forth, and our staff provides the Board with all the information that they need to make informed decisions.

So I've seen no -- I guess zero indication of a conflict at all at the Board, and I think that's the beauty of the way it was designed.

COUNCILMAN SQUILLA: And, Rob, I guess now that you're here, I could ask you a question. I know you're on a lot of boards and you're busy this time of year. Your goal is to, I guess, protect the City's interest in this, correct?

MR. DUBOW: No. My goal in this is to protect the interest of the

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Pension Board.

COUNCILMAN SQUILLA: The Pension Board?

MR. DUBOW: Pension Fund. If I were just looking out for the General Fund's interest, for example, I would never advocate for reducing the earnings assumption, because when you reduce the earnings assumption, you increase the contribution, but we've reduced it almost every year.

COUNCILMAN SQUILLA: So, therefore, you take your hat off as the Finance Director for the City in that case and say that --

MR. DUBOW: There's obviously -- I mean, there's a balancing act, but when I'm at the Pension Fund, we look at, for example, we look at investments. I think all the members on the Board have the same interest in what happens with investments. We look at asset allocations. We have the same interest there. On the earnings assumption, sometimes we'll be in a little different place, but we've come to agreement each year on reducing it.

COUNCILMAN SQUILLA: So then, therefore, when we come in, we talk about the pension plan -- and some pension plans that we see end up costing more than other pension plans depending on the years of service and what their buyout is. And I know that the main thing and the Board had said that the reason why we're able to do certain things and we were happy that the appeal for the firemen was not appealed, the decision by the firemen was not appealed, and one of the reasons was that their savings is -- because of their agreement of savings on the pension, and that was something that was important.

Do you see that savings in pensions that they agreed to as benefiting the City?

MR. DUBOW: Sure. The fact that the pension portion of that award wasn't appealed and that new members, they've all opted to pay the extra percent, that extra percent helps the fund. We had asked in our request conversation was that Plan 10 would be mandatory, but the fact that there is a change was helpful for the fund.

COUNCILMAN SQUILLA: Now, knowing that a lot of them don't choose the new plan, we still believe that paying the extra percent still enables the City to save money; therefore, it is a better -- I guess a better plan to go into, so that option is for --

MR. DUBOW: It's a benefit for the Pension Fund because members are paying more. So that's a benefit. We would rather have had new members go into the new plan, have to go in, but it is a benefit for the plan to have new members pay an additional percent.

COUNCILMAN SQUILLA: By reducing the rate, we reduced the rate this year -- last year?

MR. DUBOW: The earnings assumption?

COUNCILMAN SQUILLA: Yes.

MR. DUBOW: We reduced it last year and we reduced it this year.

COUNCILMAN SQUILLA: All right. Does it then become a little -- I guess does it further the Administration's position that it would become unaffordable?

MR. DUBOW: Well, it means that the costs go up. On the other hand, part of our argument is that the fund is under 50 percent funded. So part of looking at the earnings assumption and making sure that your assumption is reasonable is looking at what's best for the health of the fund. So, yes, it definitely costs more, but it is in the long-term interest of the fund.

COUNCILMAN SQUILLA: Right. I mean, like I said, I'm trying to wrap my hands around this to understand it, because this is a major issue during not only when we talk about AVI and things and we talk about delinquent taxes, but you talk about the affordability of the pension plans and how to move forward, and I'm trying to see how much of a savings are we really trying to get out of this. And I understand Plan 10 will probably not gather savings for 20 years from now, but we want to try to move forward, try to save the City some money. But --

MR. DUBOW: Excuse me. There are two things. One is savings, but also there's the health of the fund. The health of the fund -- the fund is under 50 percent funded. It's gone from almost 80 percent funded to under 50 percent funded. At the same time, it's gone from being 6 percent of our budget to 16 percent of our budget. So it's not -- IT doesn't work the way --

COUNCILMAN SQUILLA: Right. You have so many different pension plans. So it was also stated that the older

pension plans that money isn't being funneled into are even by -- even the new one eventually, if we go to a new plan after that, eventually it will go down in percentage. The percentage -- it won't be 80 percent funded.
MR. DUBOW: We have to look at the entire fund. So even though Plan 87 has a higher funding percent, overall the plan is still under 50 percent funded. That's an issue that -- that's what we look at.
COUNCILMAN SQUILLA: It's 150 percent funded?
MR. DUBOW: Oh, I wish. Under 50 percent.
COUNCILMAN SQUILLA: I was going to say, wow, we don't have any problems.
MR. DUBOW: Yeah. Thank you, and good night.
COUNCILMAN SQUILLA: Since we have all the pension work down here. That would be great. Hopefully Rob is

still here when the plan is 150 percent funded, and that would be great.

MR. DUBOW: Yeah.

COUNCILMAN SQUILLA: So initially or as we move forward, we are looking as a city trying to save money in different places, and I think that's the goal here. I think we're just trying to figure out how that process works. And knowing that these funds will actually move down as they get older, if they're no longer being participated in, is something that we also need to look at, because you're never going to get the, I guess, J Plan to 80 percent funded. I mean, unless we have a miraculous market that explodes somehow.

MR. DUBOW: Yeah, and --

COUNCILMAN SQUILLA: Unless we put extra money into it.

MR. DUBOW: But that's why we look at the overall plan. But even there, our gap is something like 4.9 billion.

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COUNCILMAN SQUILLA: 4.9 billion?

MR. DUBOW: Something like that. And Fran can correct me if I'm off on that. That's going to take a while to fix. You're not going to be able to fix that in a year or five years. It didn't develop in a year or five years. So that's something that requires a long-term solution.

COUNCILMAN SQUILLA: Right. And I see why by adding an extra percentage -- so it seems like the cheaper plan is great, or if they go into the same plan -- I guess right now it's the Y Plan -- and pay the extra percentage, that also helps benefit the City.

MR. DUBOW: Yes.

COUNCILMAN SQUILLA: All right. Now, if the City as a whole can save money during the pension plan, what do you project, I guess, going forward trying to get it to a point where it's funded? Is it like 20 years down the road that we believe it would -- if we could constantly make these changes or stay with a new plan?

MR. DUBOW: So we actually have a 30-year amortization that gets us to full funding by 2039, I think is the year. But what we would hope is that our funding percent would start to increase. And that wouldn't happen for ten -- I mean, it would increase marginally, but you wouldn't see a substantial increase with Plan 10 for -- it would take some time.

COUNCILMAN SQUILLA: Fifteen, 20 years?

MR. DUBOW: Maybe 10, 15 years. And the same on the savings side, because you don't really start to see savings until you see new people hired go into the plan and retire and get the different level of benefits.

COUNCILMAN SQUILLA: Right. So now moving forward then, do you see it as an option for -- I know contract negotiations, you can't speak on that part, but having the same type of options moving forward for non-uniformed employees to be able to save money by putting more money into the pension plan?

MR. DUBOW: Still our proposal is that all new members go into the new plan.

COUNCILMAN SQUILLA: Oh, it wouldn't be similar to --

MR. DUBOW: No. And, again, that's not what we actually -- that's not what we asked for in arbitration. That's what came out of arbitration.

COUNCILMAN SQUILLA: Right. But that was accepted, I guess, as part of the arbitration and we didn't -- we didn't decide to appeal that, right?

MR. DUBOW: Right.

COUNCILMAN SQUILLA: So obviously as an Administration, we thought that was fine, but we don't think that's fine for the non-uniformed?

MR. DUBOW: I don't think we thought that there were, under Act 111, there were grounds for appeal on that. It doesn't mean we thought it was fine. We just didn't think there were grounds for appeal on that portion of the award.

COUNCILMAN SQUILLA: Well, I really appreciate it. I know moving forward, this is going to be a dialogue that we're having in Council, and even at some of our meetings, the pension plan often comes up. And I appreciate what you're doing, looking out for the benefit of the employees and their pensions and also looking out to try to save the City money somehow, but we have to come up with something that either it will work or agreed on by all parties in order to get this moving forward, and I appreciate your efforts in that. So thank you.

MR. DUBOW: Thanks.

COUNCIL PRESIDENT CLARKE: Thank you, Councilman.

Real quick. There's been a

recent request to have employees from other entities engaged in the pension program; am I correct? Didn't you send us a bill up and ask for --

MR. DUBOW: Oh, about PHDC? Is that the bill you're talking about?

COUNCIL PRESIDENT CLARKE: Yes.

MR. DUBOW: So right now what we --

COUNCIL PRESIDENT CLARKE: PIDC. I think I received something from you all obviously --

MR. DUBOW: The only other legislation I know about is the one about the amount that PIDC contributes. They're contributing at the funding policy, whereas we contribute at the MMO. So the legislation would let them contribute at the MMO. That's the only thing I know about. I don't know --

COUNCIL PRESIDENT CLARKE: Because I thought there were like two other entities that you were seeking to have a part of the pension plan.

4/3/13 - WHOLE - BILLS 130178, etc.

MR. DUBOW: I don't know anything about that. But, I mean, I'll --

COUNCIL PRESIDENT CLARKE: Is that something that's ever been discussed, about incorporating additional employees in the City's pension plan?

MR. DUBOW: PIDC I think actually used to be in and then opted out, but we haven't had any discussions since I've been here about other entities coming into the plan.

COUNCIL PRESIDENT CLARKE: Never?

MR. DUBOW: Not that I've heard.

COUNCIL PRESIDENT CLARKE: Is that something that would be prohibited?

Let me ask you, make sure I understand it.

MR. DUBOW: I'm not -- I don't know.

COUNCIL PRESIDENT CLARKE: Let me tell you where I'm going. Right now, correct me if I'm wrong, we have a significant number of current employees that have more costly pension plans. They experience 50, 60, 65, 70 percent of their three highest years; am I correct?

MR. BIELLI: Right.

MR. DUBOW: Yeah. Right.

COUNCIL PRESIDENT CLARKE: So the issue with the new employees, they would have a less costly pension plan, but they would still be contributing at a healthy rate, but they would experience -- and I think one of the challenges associated with getting a solution on the 33, 47 contract, because I think it's like 25 percent of the three highest years, and that three highest is capped at 20.

So if there were more employees involved in a less costly pension plan and those employees wouldn't necessarily be municipal employees, then it would be more people paying into the fund generally, and that would strengthen the fund, and those individuals would have, as I said earlier, a less costly plan. Is that something that makes any sense or am I just again getting out of my --

MR. DUBOW: I think one of the issues of the plan is that we have more beneficiaries than active members. So if bringing more members in reversed that, that would help also the plan.

COUNCIL PRESIDENT CLARKE: That's where I'm going. So that's never been discussed?

MR. DUBOW: I have not heard that discussed.

COUNCIL PRESIDENT CLARKE: Okay. So Ms. Lewis, as the Council's unofficial representative, I anticipate will stimulate that conversation at the next Pension Board meeting. I just think we need to look at every imaginable approach, because currently there are people whose pension plans are obviously not as good as the City's pension plan, even the pension plan that is being proposed, I mean, based on the economy tanking. So I'm sure there are a lot of employees that would be more than willing to take some of the benefits associated with being in the municipal plan.

Okay. Thank you. Thank you so much. Thank you for your good work.

MR. BIELLI: Thank you.

COUNCIL PRESIDENT CLARKE: So we will now be in recess until Monday, April 8th, 10:00 a.m.

Thank you all.

(Committee of the Whole recessed at 1:55 p.m.)

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CERTIFICATE

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

MICHELE L. MURPHY
RPR-Notary Public

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