

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON APPROPRIATIONS

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, March 24, 2014
10:10 a.m.

PRESENT:

COUNCILMAN W. WILSON GOODE, JR., CHAIR
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN DAVID OH

RESOLUTION 140071 - Resolution authorizing
City Council to hold public hearings on the
state of collections of licenses and permit
fees and delinquent real estate taxes owed the
City and School District of Philadelphia.

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COUNCILMAN GOODE: Good

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morning. This hearing is called to

4

order. This is a public hearing of the

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Appropriations Committee on Resolution

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No. 140071. My name is W. Wilson Goode,

7

Jr., Chair of the Committee.

8

I note that a quorum is not

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necessary. This is an informational

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hearing on a resolution. The title of

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the Resolution No. 140071, authorizing

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City Council to hold public hearings on

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the state of collections of licenses and

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permit fees and delinquent real estate

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taxes owed the City and School District

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of Philadelphia.

17

I will first give the primary

18

sponsor of the resolution, Councilman Oh,

19

a chance to make some opening remarks.

20

COUNCILMAN OH: Thank you very

21

much, Mr. Chairman. It was last year

22

that the news published many stories

23

about a half billion dollars in

24

uncollected delinquent taxes and fees.

25

That number may be higher. I'm not sure.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 But we have included in the information
3 today at least one opinion that there is
4 nearly \$800 million in uncollected
5 delinquencies, fees, and other types of
6 things owed the City.

7 We are now in our budget
8 process, and the issue of services that
9 are needed that help our city are
10 critical at a time where we have also
11 just been through an increase in the
12 property tax and it's very difficult for
13 people to see how we're going to make
14 ends meet.

15 The Pew Charitable Trust study
16 indicated that they believed of the half
17 billion dollars, \$153 million was
18 collectible. So now there's an issue
19 with what are we doing, what can we do,
20 and what are the best practices available
21 to our city in order to ensure that we
22 not only collect those delinquent taxes
23 and fees as quickly as possible, but that
24 we institute some type of procedures that
25 we will not end up with this type of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 problem in the future.

3 So I thank you very much,
4 Chairman, for holding this hearing.

5 COUNCILMAN GOODE: Thank you,
6 Councilman.

7 We are scheduled to hear from
8 at least four panels today. The first
9 panel is Clarena Tolson, Revenue
10 Commissioner, and Alan Butkovitz, the
11 City Controller. Please come forward.

12 (Witnesses approached witness
13 table.)

14 COUNCILMAN GOODE:
15 Commissioner, we're going to ask you to
16 start.

17 COMMISSIONER TOLSON: Good
18 morning. Thank you, Councilman Goode.

19 Good morning, Councilman Goode
20 and other members of -- Councilman Oh.
21 My name is Clarena Tolson. I'm the Chief
22 Revenue Collections Officer and Revenue
23 Commissioner for the City of
24 Philadelphia. I'm here today to testify
25 on Resolution 140071 authorizing the

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Committee of the Whole to hold public
3 hearings on the issues related to revenue
4 collections. My testimony today focuses
5 on updating Council on the measures the
6 City has taken in the last year to
7 enhance the collection of delinquent real
8 estate taxes as well as others.

9 The Department's overall
10 mission is to optimize revenues for
11 schools and services by creating a
12 culture of compliance where all taxpayers
13 contribute their fair share. Over the
14 last year, we have been employing several
15 strategies to move us toward this end,
16 including the following: creating
17 stronger consequences for non-compliance;
18 building partnerships to enhance
19 collection activities; early action on
20 delinquency; integrating technology to
21 improve efficiencies and effectiveness.

22 I will discuss each of these
23 four strategies and the initiatives we
24 are implementing to meet our goal.
25 However, I would like to highlight

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 several key collection results as
3 compared to last fiscal year.

4 Total school income tax is up
5 132 percent. Delinquent school income
6 tax collections increased by 245 percent.
7 Total liquor tax is up 22 percent.
8 Delinquent liquor collections increased
9 by 214 percent. Delinquent U&O
10 collections increased by 33 percent.
11 Thirty percent increase in total
12 delinquent collections for the School
13 District. Delinquent real estate
14 collections are up 12 percent.

15 A centerpiece of new collection
16 activity is the revocation of commercial
17 activity licenses for those
18 establishments that have been delinquent
19 in their business taxes. The goal of the
20 program is to change behavior and
21 communicate a strong message that we can
22 no longer subsidize businesses at the
23 expense of children and City services.
24 Fortunately, we believe the message is
25 being understood, as we have had to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 shutter less than 40 businesses. In
3 addition, we have seen the number of
4 liquor accounts, a key focus early in the
5 program, increase by 9 percent in just
6 one year.

7 Seventeen million dollars have
8 been collected since its inception last
9 spring, with \$6.5 million from liquor,
10 \$6.3 million from BIRT, and \$2.3 million
11 from wage tax. Another \$7 million is
12 committed in payment agreements generated
13 by the program.

14 Sequestration is another
15 innovative program where the courts
16 appoint receivers for properties that owe
17 back real estate taxes. We've revived
18 this program such that receivers can
19 collect the rental income from the
20 properties and operate the properties
21 until the net income from the property
22 has satisfied all delinquent taxes.
23 Since October, the program has collected
24 approximately \$2.9 million from 148
25 properties, with the first properties

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 being assigned to a receiver. As with
3 CAL revocation, the goal is to create an
4 incentive for businesses to pay their
5 taxes.

6 Sheriff Sales continue to be an
7 effective tool even as we work in
8 partnership with the Sheriff's Office
9 towards improving the process. The
10 average number of all properties placed
11 in the Sheriff Sale process by the Law
12 Unit and co-counsel has increased from
13 354 per month in Fiscals '11 and '12 to
14 1,065 per month for Fiscal '13 and the
15 first five months of Fiscal '14.

16 As we talk about building
17 partnerships, a key to our ability to
18 create a culture of compliance is our
19 ability to use all information available
20 to identify those who owe. Two important
21 partners in this effort are the federal
22 and state governments. Each year, we
23 receive information from the IRS that
24 assists in our collection efforts. In
25 addition, over the last several months,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 we have been building closer
3 relationships with the state and have
4 received information from them that will
5 enable us to identify many more taxpayers
6 that could owe significant school income
7 tax.

8 I must say that I certainly
9 appreciate all that Secretary Meuser has
10 done. He's been a wonderful partner to
11 the City and support to the City to work
12 on our state initiatives such as
13 confiscation of personal property,
14 specifically automobiles, of tax
15 delinquents.

16 In addition to outside
17 collection agencies, we -- outside
18 agencies, we continue to work closely
19 with the City departments, such as
20 Streets and Licenses and Inspections, to
21 improve collections. For the first time,
22 we will be placing delinquent small
23 commercial trash fee accounts with an
24 outside collection agency. This, coupled
25 with the enforcement efforts of the

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Department, should have significant
3 impact on the outstanding delinquency.
4 We also have been meeting with
5 representatives of L&I on a regular basis
6 to assure those businesses seeking
7 various licenses and permits have the
8 appropriate tax clearance. In addition,
9 we are employing the Sheriff Sale process
10 to deal with nuisance and dangerous
11 buildings.

12 With regard to early action, a
13 review of best practices across multiple
14 jurisdictions strongly reinforces the
15 need to address accounts early before
16 they become long-term delinquencies, and
17 the Department has expanded the capacity
18 of outside collection agencies. For the
19 first time, in the fall of 2012, we began
20 to make referrals to business taxes, and
21 now our goal is to make those referrals
22 on a monthly basis. With U&O referrals,
23 we are now attaching all business taxes
24 so that one agency can work the entire
25 account, and as mentioned earlier, CAL

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 revocation is proving to be an excellent
3 tool in the collection of those business
4 taxes.

5 With regard to integrating
6 technology, to fully maximize our
7 collection efforts, the Department
8 recognizes the need for state-of-the-art
9 technology in both the processing of
10 payments and the identification of
11 delinquent accounts and the management of
12 collections. Working with the Office of
13 Innovation and Technology, the Department
14 of Revenue kicked off implementation of a
15 new cashiering and remittance system and
16 a comprehensive data warehouse. We are
17 well into the cashiering project and
18 expect testing of the new system to begin
19 in July, with full implementation to
20 occur in the fall of this year. The
21 Department is currently in the final
22 stages selecting a vendor to develop and
23 implement an integrated data warehouse.
24 The system will allow the Department to
25 better use and mine taxpayer information

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 to drive collections. We expect the
3 final selection decision to be made in
4 April, with the design and implementation
5 to take between 12 and 18 months.
6 However, we expect to be able to use
7 portions of the system within the first
8 four to five months.

9 By implementing a diverse mix
10 of strategies, including working
11 cooperatively with various agencies, we
12 continue to improve our collection
13 efforts. We expect those efforts will
14 improve the City and School District's
15 financial position, and we are confident
16 that we will meet revenue expectations.

17 This concludes my testimony.
18 Thank you for having us here today.

19 COUNCILMAN GOODE: Thank you
20 for your testimony.

21 Mr. Controller.

22 CONTROLLER BUTKOVITZ: Good
23 morning, Chairman Goode, Councilman
24 Jones, Councilman Oh. Thank you very
25 much for this opportunity to come here.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 I'm pretty frequently caricatured, I'd
3 say, as a critic across the board, but I
4 would like to take the opportunity to
5 express my enthusiasm about Commissioner
6 Tolson's leadership in the Revenue
7 Department. I think that we've seen a
8 new spirit there and new energy, and
9 although I will characteristically have
10 some gripes and requests at the end, I
11 did want to start out by giving her a
12 well-deserved pat on the back.

13 COMMISSIONER TOLSON: Thank
14 you.

15 CONTROLLER BUTKOVITZ:
16 Resolution 140071 is an opportunity to
17 address the need for the City to explore
18 all opportunities to generate new
19 revenues and savings. As I have
20 previously stated, uncollected taxes,
21 fines, and fees for services, such as
22 rescue squads and police security, are
23 placing an extreme burden on the City's
24 ability to provide the necessary services
25 for all citizens.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 It is unfair to the
3 hard-working people of this city who pay
4 their taxes on time to be at the mercy of
5 those who do not.

6 As you know, since 2006, our
7 office has identified hundreds of
8 millions of dollars worth of revenue and
9 savings opportunities related to
10 delinquencies. Over the last eight
11 years, we have provided reports, guides,
12 and recommendations outlining ways to
13 collect and save millions of dollars to
14 both the Administration and City Council.

15 Some of these have included
16 \$132 million from delinquent amounts for
17 water and sewer services; \$70 million in
18 uncollected fines and fees for litter and
19 false alarm violations; \$50 million in
20 outstanding bills for emergency medical
21 services each year; \$5 million for hired
22 police services owed by private
23 businesses and individuals.

24 Recently, we released a
25 performance audit of bad checks submitted

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 by individuals to the City that found \$14
3 million was returned by the bank. For
4 Fiscal Years 2009 through 2012, the bank
5 returned 13,000 bad checks for payment of
6 taxes, licenses, fees, and permits.
7 These checks were returned due to
8 insufficient funds, closed accounts or
9 other reasons causing the bank not to
10 cash the check.

11 In taking a closer look, we
12 selected a random sample of 83 returned
13 checks valued at more than \$200,000 and
14 discovered that nearly half of the checks
15 remained uncollected.

16 We determined that the poor
17 collection efforts were a result of the
18 City's Bank Return Item Unit not
19 identifying and flagging repeat
20 offenders, not reconciling total bad
21 checks processed by the City to the
22 number of checks received from the bank,
23 and allowing checks to be submitted with
24 insufficient information such as a name,
25 address or phone number.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 In addition, we found it
3 extremely troubling that there are no
4 consequences for individuals who
5 repeatedly submit bad checks.

6 To improve collection
7 procedures and increase revenues through
8 check payments, we recommend the City
9 take action on the following:

10 The Department of Revenue needs
11 to analyze bank return data and identify
12 areas that need attention; require repeat
13 offenders to pay with a certified check,
14 money order, credit card or electronic
15 fund transfer; accept only checks with
16 appropriate identification.

17 In Philadelphia, there is much
18 room for improvement in collecting what
19 is owed. I believe that positive results
20 can be achieved if appropriate action is
21 pursued.

22 In 2010, for the first time in
23 70 years, our office utilized a provision
24 in state law to implement an employee
25 withholding program that deducted

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 delinquent taxes from City employees'
3 paychecks. This has yielded over \$3
4 million in back taxes. After recognizing
5 the success of our initiative, the First
6 Judicial District followed our lead and
7 implemented a similar program to collect
8 overdue court fines and costs from City
9 employees.

10 We cannot continually go back
11 to those who pay and keep raising their
12 taxes because others have been permitted
13 to ignore the law. If the City was
14 collecting revenues at the same rate as
15 other large cities, the Administration
16 and City Council would not be facing the
17 daunting challenge of finding additional
18 funds for schools.

19 The City must be diligent in
20 the collection of all revenues owed and
21 use all the modern and technological
22 tools available as well as old-fashioned
23 shoe leather. The City must employ
24 better data systems and adopt more
25 aggressive data-driven and

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 site-inspection enforcement.

3 And if I can just put in a
4 short add for one thing that has been a
5 sore point with Revenue under the prior
6 Commissioner and hopefully we'll be able
7 to work out with the new Commissioner.
8 It's been the unauditability of
9 collections of revenue. The former
10 Commissioner took the position that
11 confidentiality requirements of the IRS
12 law prevented us from looking at any
13 revenue information that was based on
14 federal information such as the federal
15 IRS returns or federal business tax
16 returns. We for years, six years
17 probably, argued that we are as much a
18 part, a component part, of the City
19 government as the Revenue Department is.
20 We are prepared to execute any necessary
21 confidentiality agreements, but as the
22 Councilmembers here know, Councilman
23 Kenney has been extremely vocal on his
24 own personal investigative efforts of
25 seeing people stop at Home Depot and load

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 up out-of-town contractors and
3 everything, and as we try to run down
4 those leads and see whether there's
5 effective enforcement action, we are
6 frustrated by this iron curtain, this
7 iron wall of non-disclosure of
8 enforcement information that takes us to
9 original sources. There's no reason for
10 it.

11 We've reviewed the IRS
12 regulations. We do not see anything that
13 prohibits the sharing of data with other
14 City government departments, and we hope
15 that as part of the energy and the can-do
16 attitude that has been exhibited by the
17 new Commissioner, that we can get over
18 this obstacle as well and that we can
19 probably work as effective partners in
20 improving collections.

21 Thank you.

22 COUNCILMAN GOODE: Thank you
23 for your testimony.

24 Let me formally note for the
25 record that Councilman Curtis Jones,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Majority Leader and Vice Chair of this
3 committee, is in attendance.

4 Councilman Jones.

5 COUNCILMAN JONES: Thank you,
6 Mr. Chairman, and thank you, Controller
7 Butkovitz, and thank you, Commissioner
8 Tolson, for your efforts in getting our
9 money in. I mean, as we looked at AVI
10 last year, one of the concerns and
11 criticisms was that if you have accounts
12 payable outstanding, why aren't we going
13 after that, and I think the both of you
14 are the answer to that criticism at this
15 point.

16 A couple of questions about
17 your testimonies in respect to BIRT. One
18 of the challenges is that, as I
19 understand it, where does a sale
20 originate and how we verify whether my
21 headquarters are here, but my sales were
22 out of New York, or how do we process
23 that kind of verification and are we
24 leaving money on the table as a result.

25 COMMISSIONER TOLSON: Thank

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 you. Excellent question. I'm going to
3 ask one of the Deputy Commissioners who
4 is our tax expert to answer that question
5 with regard to point of sale.

6 COUNCILMAN JONES: And as they
7 take their seats near the microphone, can
8 you tell us how much -- I think the
9 number was -- I think it was 25 million
10 we're talking about, a universal
11 potential revenue from that. It might
12 have been more. Can you for the record
13 tell us what that is.

14 DEPUTY COMMISSIONER BRESLIN:
15 For the potential revenue for --

16 COUNCILMAN JONES: BIRT.

17 DEPUTY COMMISSIONER BRESLIN:
18 The delinquency?

19 COUNCILMAN JONES: Yes.

20 DEPUTY COMMISSIONER BRESLIN: I
21 have that with me.

22 The BIRT delinquency for the
23 active period, meaning these are --

24 COUNCILMAN JONES: Say it
25 again, please.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 DEPUTY COMMISSIONER BRESLIN:

3 The BIRT delinquency for the active
4 period -- these are within statute of
5 limitations, basically the last six
6 years -- in principal is about \$90
7 million.

8 COUNCILMAN JONES: Okay, 90
9 million. And so how does the
10 verification of where a point of sale
11 happens? How do you determine that?

12 DEPUTY COMMISSIONER BRESLIN:
13 Well, the BIRT is a self-assessed tax.

14 COUNCILMAN JONES: We're
15 trusting them.

16 DEPUTY COMMISSIONER BRESLIN:
17 Yeah. So the start is taxpayers report
18 to us what their sales within and outside
19 of Philadelphia are. Then we use
20 screening techniques. So we look at tax
21 returns. We have our Audit Unit. It's
22 part of the Audit Unit. Part of the
23 screening process is to review returns.
24 That's done manually and also that's --

25 COUNCILMAN JONES: Is there a

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 sampling or is that 100 percent?

3 DEPUTY COMMISSIONER BRESLIN:
4 That's a sampling.

5 COUNCILMAN JONES: Just give me
6 a sense of how big a sampling.

7 DEPUTY COMMISSIONER BRESLIN:
8 Well, we do it different ways. So some
9 of it is actually a physical sampling,
10 physical review. Other is technological.
11 So we look for differences from one year
12 to another year, things like that, and it
13 spits out the exceptions --

14 COUNCILMAN JONES: So an
15 anomaly might trigger an audit?

16 DEPUTY COMMISSIONER BRESLIN:
17 Yes, would trigger an audit, and then we
18 actually get an auditor to go in and look
19 at the books. A large business we won't
20 look at all of the documents, all the
21 sales documents, but we'll pick a sample
22 and look at the sample and compare those
23 to the books and records to see if the
24 actual sale was reported correctly.

25 COUNCILMAN JONES: The second

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 part of the question is, as it relates
3 to -- another issue that came up during
4 the whole AVI -- AVI just made us take a
5 hard look at everything by way of
6 receivables as to avoid increasing the
7 millage rate one percentile, and all of
8 you played a part in that, Controller.
9 But what I want to know is, one of the
10 things that we discovered was the large
11 number of property owners in the City of
12 Philadelphia that might be delinquent,
13 both commercial and residential, but yet
14 own properties in surrounding counties
15 where their taxes were paid and how we
16 might incentivize them to take care of
17 their Philly properties as opposed to
18 just their Bucks County, Montgomery
19 County holdings, and see how we're doing
20 on that level of collection.

21 COMMISSIONER TOLSON: Yes.
22 Thank you, Councilman, for that question.
23 I believe the number is 93, but Act No.
24 93 was recently passed by the State
25 Legislature, which would allow us to lien

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 properties outside of the County of
3 Philadelphia within the State of
4 Pennsylvania. We are working with the
5 courts and with the prothonotaries of
6 other counties to develop a process and a
7 system to implement that strategy.

8 We agree, we think it's very
9 important, and we are starting with --
10 our first tactic is to look at those
11 folks who have a mailing address outside
12 of the City of Philadelphia, and they'll
13 be the first ones that we'll be
14 addressing in terms of identifying their
15 properties.

16 Unfortunately, there's no
17 single source of data about where
18 property is in the state. However, we do
19 have some tactics that we think will be
20 successful in trying to identify and
21 assist other counties in identifying
22 what's in their state that may be owned
23 by some of our property owners and then
24 likewise sharing information with the
25 others in their efforts to receive money

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 for their counties.

3 COUNCILMAN JONES: It was --

4 CONTROLLER BUTKOVITZ: If I

5 may.

6 COUNCILMAN JONES: Controller

7 Butkovitz.

8 CONTROLLER BUTKOVITZ: --

9 respond to that also. You know that we
10 have a very serious backlog in Sheriff
11 Sales in Philadelphia. It's been
12 documented. It takes years to get a
13 property to Sheriff Sale. You need the
14 credibility of the idea that a Sheriff
15 Sale is going to occur as an inducement
16 to people to treat their delinquent taxes
17 seriously.

18 There's an ongoing impasse.
19 It's really hard to parcel out
20 responsibility. There's been a fight
21 between the Nutter Administration and the
22 administration in the Sheriff's Office in
23 terms of new computerization equipment,
24 in terms of funding initiatives. There's
25 an awful lot of finger-pointing going in

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 every direction, and years after the
3 release of what was a major forensic
4 audit by our office, which I believe came
5 out in 2011, we continue to get reports
6 about problems getting refunds to people
7 whose properties have been sold at sale,
8 getting deeds recorded, at getting
9 properties listed for Sheriff Sale. It's
10 clearly contributing in a major way to
11 the idea that anything goes in
12 Philadelphia if you're a property owner.

13 COUNCILMAN JONES: We are going
14 to note that when we do the budget
15 analysis with the Sheriff, and I did read
16 that report and was the genesis of some
17 of the questions we've asked before.
18 We'll see how they're progressing on
19 that. And I think a couple of articles
20 were actually written as a result of that
21 report.

22 My question is, what is your
23 general hope? Do you think by next year
24 this time we'll have a better
25 relationship with the counties to be able

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 to more accurately --

3 COMMISSIONER TOLSON:

4 Councilman, I think that -- we endorsed
5 this legislation. We were encouraging
6 our Legislature to pass it, and I believe
7 that within 90 days, we're going to be
8 using this tool. As I said, we have a
9 legal team headed by Jim Zwolak in our
10 group who has been working voraciously to
11 implement since it passed Legislature.
12 But it's simply a matter of one
13 understanding the filing requirements in
14 the other counties so that we meet their
15 rules, working with the courts to make
16 sure that we are doing it in a way that
17 will be acceptable to them, and then we
18 will be applying the measure.

19 COUNCILMAN JONES: What is your
20 estimate of what that receivable amount
21 is?

22 COMMISSIONER TOLSON: That I'm
23 not sure as of yet. As I said, we'll
24 have to look -- some people have their
25 mailing addresses inside the City, so the

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 tactic that I described earlier only
3 addresses a portion of that, but we have
4 a significant amount to deal with. So
5 I'm hopeful that that will be one more
6 tool in the toolkit.

7 Our delinquent taxpayers come
8 in different forms, and they have
9 different reasons for being delinquent
10 and they have different motivations. So
11 our plan and what we have been following
12 is a strategy to use every tool in the
13 toolkit. We want more tools, so that if
14 you need a screw driver, we're going to
15 give you a screw driver. If you need a
16 hammer, we'll give you the hammer. We've
17 offered the carrots. To the extent
18 people have been willing to accept those,
19 that's great, but I think by the numbers
20 that I gave you earlier, we're showing
21 everyone that we're sincere about
22 collecting tax dollars. And I should say
23 that Council has been very, very helpful
24 and supportive in our efforts. The CAL
25 revocation program that we first sent our

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 letters out last May, I think that we now
3 have \$17 million that's been collected
4 from businesses that were told that if
5 they did not pay, ultimately their
6 businesses would be shut, and those
7 businesses figured out a way to come up
8 with payments.

9 Our first strategic focus was
10 upon those businesses that supported tax
11 revenues for the schools. So
12 specifically those who had a liquor
13 license or were paying the liquor tax,
14 because 100 percent of that went to the
15 schools. As a result, we had bars and
16 restaurants that were coming in with
17 checks for \$40,000, \$100,000, because
18 they did not want to be closed and they
19 had believed that, as has been said by
20 Mr. Butkovitz, that anything goes, and
21 they paid those who clamored or who
22 pushed them to get paid. And maybe the
23 City didn't push in a way that they found
24 worthy of their note. Now they do find
25 that they need to pay attention to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Philadelphia, because we want our money
3 and we're doing everything we have to do.

4 COUNCILMAN JONES: So certain
5 consequences.

6 COMMISSIONER TOLSON: There are
7 consequences. That's right. You do not
8 pay and it's a business, we will look at
9 our opportunities to address your
10 business issues. If you do not pay your
11 real estate taxes, we're going to
12 encourage you to look into our systems
13 programs, if you can apply to those. If
14 not, develop a payment plan, or if not,
15 understanding that there will be liens
16 and then Sheriff Sales ultimately.

17 COUNCILMAN JONES: A couple of
18 other quick questions and I'll turn it
19 over to our Chair again. Licenses, being
20 able to withhold the renewal of a
21 license, is that one of the tools that
22 you use, and how effective has it been?

23 COMMISSIONER TOLSON: Yes. We
24 have a relationship with the Department
25 of License and Inspections, specifically

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Commissioner Carlton Williams, and we
3 enjoy the relationship to the extent that
4 he has directed his staff that no permits
5 or licenses can be issued unless the
6 applicant is tax cleared. And that means
7 that each applicant must come to their
8 window with a tax clearance letter in
9 order to apply for a permit or a license.

10 COUNCILMAN JONES: And,
11 Mr. Controller, you also use that by way
12 of payment to contractors who have
13 contracts with the City of Philadelphia,
14 there has to be a tax clearance before
15 their payments?

16 CONTROLLER BUTKOVITZ: That's
17 right. Yeah. We have to get a tax
18 clearance from the Law Department if
19 there's been a lien, if there's been a
20 tax hold.

21 COUNCILMAN JONES: Okay. Water
22 Department payments, one of the issues
23 that we saw a couple years ago was there
24 were some large entities, and I won't
25 pull them out at this point, but they

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 were government, some of them were
3 government entities that did not pay
4 their water bills. How are we doing by
5 way of collecting that receivable?

6 COMMISSIONER TOLSON: Yes.
7 We're working to address all the
8 appropriate parties that should pay their
9 water bills to get them to pay them, in
10 negotiations with them or addressing
11 meter issues as well as making sure that
12 the right parties are identified, because
13 we have had circumstances where the
14 owners of the properties and who should
15 be billed have changed and our records
16 did not properly reflect that.

17 COUNCILMAN JONES: Finally,
18 amnesty programs, have you done any
19 recently and are you considering doing
20 them and are they one of the tools that
21 you will use?

22 COMMISSIONER TOLSON: Certainly
23 amnesty is an appropriate tool. An
24 important thing to be mindful with
25 amnesty is that the timing is very

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 important. The City recently did one
3 three years ago, and we probably need to
4 wait another decade before doing another
5 one.

6 If you have regular amnesty
7 programs, what you're going to find is
8 that people won't pay, they will simply
9 wait for the next amnesty. So
10 inadvertently you will have the
11 unintended consequence of people not
12 paying their taxes as they wait. So your
13 delinquency will rise as people wait for
14 an amnesty program.

15 But it's certainly an
16 appropriate tool. We had not done one
17 prior to that one for many years. We did
18 one three years ago, and now there's
19 probably a need to wait a decade or
20 decades before the next one.

21 I think that as we start to
22 utilize the tools that we have in the
23 toolkit, sequestration, Sheriff Sale --
24 sequestration we talk about receivership.
25 It's amazing how fast people come in with

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 their money when you tell them that
3 you're going to take their rent from
4 their tenants. They come in with money
5 very, very quickly. From the time I
6 wrote my testimony to today, we have
7 another \$500,000. I didn't change the
8 testimony, but that's how well this
9 program is running, and that's without
10 ever having to take the property. That's
11 with the threat of taking the property.
12 People are complying so quickly, we
13 haven't been able to get one to a
14 receiver as yet to actually start to
15 receive the funds. But we are still
16 working on that, because we have some
17 that are a little slower than others.

18 But between sequestration and
19 CAL, liens, and all our legal remedies
20 that we have available to us, judgments,
21 we expect that we're going to be
22 improving our lot very, very quickly.

23 COUNCILMAN JONES: These are
24 impressive efforts, impressive results,
25 and I really like the strategic

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 partnerships with the realtors to take
3 delinquent properties and actually
4 improve the quality of those properties
5 by improving physically some of the
6 properties, and so that the renters are
7 actually getting a better product out of
8 it as well. So keep up the good work.

9 Thank you, Mr. Chairman.

10 COUNCILMAN GOODE: Thank you,
11 Councilman.

12 Councilman Oh, do you have
13 questions for this panel?

14 COUNCILMAN OH: Yes, if I may.
15 Thank you very much, Mr. Chairman.

16 Good morning, and thank you for
17 coming. And let me also state that I too
18 am very happy to see Clarena Tolson as
19 our Revenue Commissioner, and what a
20 great job that you have done in the past
21 and great job you're doing right now.

22 I do have some questions, and
23 part of it has to do with this is a new
24 position for you. You've come in and
25 taken the bull by the horns, but still

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 there's some issues that I'm curious
3 about that I'd like to explore with you.

4 So you've done a fantastic job
5 of getting the tax collections up, as you
6 said, as the Revenue Commissioner. My
7 question is, what about these past due
8 delinquencies, this \$500 million? Have
9 you had an opportunity, as you settle
10 into your new position, to address the
11 collection of that half billion dollars?

12 COMMISSIONER TOLSON: Yes,
13 Councilman. I think the efforts that
14 we've been describing are intended to
15 address that very issue. Collections of
16 current is important as well as
17 collection of the delinquency. As we
18 build a culture in our city where people
19 understand that it's important to be
20 compliant and that's what our rules are
21 and there are consequences when you are
22 not, that our delinquency numbers will
23 reduce.

24 I will say to you that our
25 collections on real estate last year were

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 at 94 percent collection within the year,
3 and that's the highest it's ever been in
4 probably two decades. We've worked
5 aggressively to remind people that it's
6 important to pay their current taxes, and
7 they responded nicely with regard to real
8 estate.

9 With regard to the delinquent
10 taxes, measures such as revocation of the
11 commercial activity license is very
12 important. If you are a beauty salon or
13 a major bar or restaurant or an
14 accounting firm and you don't have a
15 commercial activities license, you can't
16 do business legally. So it's very
17 important for people to have all their
18 documentation in order in order to stay
19 in business. And we have had to
20 unfortunately, when people don't respond
21 to other measures, go to the ultimate.
22 When it comes to business taxes, the
23 ultimate is not having a business in
24 operation. When it comes to real estate,
25 the ultimate is losing either the rents

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 from the real estate or the sale of the
3 property. And we've been willing to do
4 that, and the reflection of that is in
5 the results, in the numbers that I showed
6 earlier.

7 COUNCILMAN OH: Yes. Thank
8 you.

9 So according to the Pew
10 Charitable Trust study, they believe that
11 153 million of the half billion dollars
12 in delinquent taxes and fees are
13 collectible. Some of these are very old
14 delinquencies, so my question is, of the
15 half billion dollars that was identified
16 last year, how much, if any of it, has
17 been actually collected?

18 COMMISSIONER TOLSON: So last
19 year -- let me compare end of second
20 quarter data for you. So \$514 million
21 was our delinquency at the end of
22 December '13. At the end of December
23 '12, it was \$533 million.

24 COUNCILMAN OH: I'm sorry. Say
25 that again.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 COMMISSIONER TOLSON: At the
3 end of December in 2012, it was \$533
4 million.

5 COUNCILMAN OH: Oh, okay. Yes.

6 COMMISSIONER TOLSON: So we had
7 a reduction in that delinquency of \$18.8
8 million.

9 COUNCILMAN OH: So let me ask
10 you this question then: In terms of
11 addressing the collection of the
12 delinquency, which is this half billion
13 dollars that's out there, whatever amount
14 is collectible, do you believe that your
15 office itself is able to do the planning,
16 strategy, and collection, obviously with
17 expert input, or do you believe that
18 going to a third-party collection agency
19 is a viable option? What is your opinion
20 on that?

21 COMMISSIONER TOLSON: We
22 continue to use third-party collection
23 agencies for our real estate and our
24 business taxes. In fact, those parties
25 and those companies handle the majority

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 of our collection work. So it's very
3 appropriate that those who are -- who
4 focus solely on the collection activities
5 are heavily involved in our collection
6 work.

7 COUNCILMAN OH: Have they been
8 collecting this half billion dollars in
9 outstanding debt? I mean, have they been
10 doing that continuously since last year,
11 before last year?

12 COMMISSIONER TOLSON: Yes.
13 They have certainly been involved, and I
14 think that the City is responsible for
15 providing strategy to them in terms of
16 where the focus should be and then also
17 how it should be done. Additionally, the
18 City is responsible for providing some
19 leadership in terms of structuring the
20 entire process.

21 I believe that we've done some
22 things that have been helpful to remind
23 people of their delinquencies and even
24 their current taxes that are due, and
25 there's changes that we have made and

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 that we will continue to make, such as
3 how frequently we bill. We're examining
4 opportunities to more frequently bill
5 people and to provide some type of
6 unified billing system, but additionally
7 we send out reminders.

8 Presently we send people a bill
9 in December for real estate taxes that
10 are not due until the end of March. Many
11 people who have to pay their bills
12 directly oftentimes misplace them and
13 honestly forget. Some people have no
14 intention of paying obviously. And those
15 that are paid by mortgage companies
16 always get paid on time.

17 But what we've done this year
18 to try to help those who may forget is
19 that we send out a second bill just
20 recently to say, Reminder, bills are due
21 the end of March, please if you have not
22 already paid, please pay. That's a
23 common practice in other industries to
24 bill frequently or to remind people.
25 Here to date we had not done that. We're

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 doing it now.

3 Also the amount of innovation,
4 we did a calling system. We use a robo
5 call to -- it's actually called
6 SwiftReach, the company we use, to reach
7 out to those whose bills we do not have
8 noted being paid for the current bill.
9 I'm sure -- it was a nice reminder. It
10 was not a dunning type of phone call.
11 However, it was a reminder that the bills
12 are due, and if you need another copy of
13 your bill or if you just need to be
14 reminded, please take care of the
15 important task of paying your real estate
16 bills.

17 I think that we're going to
18 continue to look towards best practices
19 and look towards the support of our
20 collection agencies and co-counsel to
21 address the delinquency problem that we
22 have and the collection problem that we
23 have.

24 COUNCILMAN OH: Thank you. I
25 do have a concern that I'm expressing

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 about the level of expertise of your
3 collection companies and your
4 consultants. And I don't know them, so
5 maybe they're tremendous experts. But
6 these delinquencies are, some of them,
7 many years old and the issue of why these
8 third-party collectors and consultants
9 have not collected these very long
10 outstanding debts. The question is, how
11 much of this half billion dollars has
12 been reduced to judgements? Do you know
13 that?

14 COMMISSIONER TOLSON: Whenever
15 any of the delinquency becomes overdue,
16 talking about the real estate, the lien
17 is immediately placed. I think the
18 commentary earlier about one of the
19 challenges that we have had a culture
20 where people didn't believe that there
21 were consequences is true. So if you
22 could not pay your bill and then not see
23 your information go to a collection
24 agency or not see your property go up for
25 Sheriff Sale, you might think that you'll

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 just continue to not pay.

3 COUNCILMAN OH: And my concern,
4 Commissioner -- and this pre-dates you
5 obviously -- is that prior to you being
6 here, that culture was allowed to occur
7 because the City did not properly and
8 timely collect those delinquent taxes and
9 fees, and throughout various points in
10 time in our city's history, there may
11 have been a deemphasis on collecting.
12 There may have not been a priority for
13 that. And so the issue of how do we now
14 get to a point where we collect those
15 back taxes and fees and we institute a
16 procedure that for future Administrations
17 does not allow for these decades-old
18 delinquencies to occur.

19 So one of the concerns that I
20 have to have -- I'll speak personally as
21 a Councilman -- is, we're going to have
22 to vote on a budget, and while the tax
23 collections are up, there's 23,000
24 appeals on the property tax, so overall
25 we're not anticipating getting as much

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 money as was hoped for for this year.
3 We're looking at various types of
4 promises and intentions stated by the
5 Administration, which all adds up to me
6 to be a tax increase. I don't see that I
7 would be comfortable with increasing
8 taxes if I did not see that we were
9 collecting these back taxes.

10 So if there has been a City
11 department with consultants, with
12 third-party collectors, and at the end of
13 it all since last year there hasn't been
14 a stepped-up process to get these back
15 taxes, I mean, they're so old that we
16 should be able to collect whatever
17 portion of it is outstanding. I
18 personally don't know the City can do
19 that right now. Maybe in the future, but
20 going to third-party collectors would
21 seem to be a way of getting in money
22 today, right now before we have to deal
23 with voting on tax increases by the end
24 of this budget hearing.

25 COMMISSIONER TOLSON: Thank

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 you, Councilman. I think that part of
3 the answer to what you're stating is that
4 if some of the hypothetical were our
5 situation, we probably would all agree
6 with that. However, we are seeing, one,
7 significant changes in our collection
8 activity, the money that is coming in.
9 Two, we are utilizing the outside
10 collection agencies and co-counsel.
11 Three, the consequences have been
12 increased such as the Sheriff Sales
13 nearly more than doubling in the last
14 fiscal year. So I think that, though you
15 weren't necessarily asking a question, I
16 think the statement that you're making,
17 that some of the elements are now our
18 reality now, so we don't have that same
19 concern. You would not need to have that
20 same concern, because our world is
21 changing.

22 COUNCILMAN OH: Okay. Thank
23 you.

24 I have no further questions,
25 Mr. Chairman. Thank you very much.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 COUNCILMAN GOODE: Thank you,
3 Councilman.

4 Thank you to this panel.

5 COMMISSIONER TOLSON: Thank
6 you.

7 COUNCILMAN GOODE: The next
8 panel is Kevin Gillen, Thomas Ginsberg,
9 and Nicholas Panerella.

10 (Witnesses approached witness
11 table.)

12 COUNCILMAN GOODE: Mr. Gillen,
13 good morning.

14 MR. GINSBERG: Good morning.
15 Thank you very much, Councilman Goode,
16 Councilman Jones, Councilman Oh. Thank
17 you very much for having us here today.
18 I will start and say a few words, and
19 then Kevin can talk about his part of our
20 work.

21 I am Thomas Ginsberg of the Pew
22 Charitable Trusts. I'm the author of our
23 study last year that looked at delinquent
24 property tax in Philadelphia. Thank you
25 again for this opportunity to present our

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 findings on this hearing about
3 collections.

4 So last year we set out to
5 understand the problem of property tax
6 delinquency in Philadelphia, to look at
7 the collection and enforcement practices
8 in other cities, and to see how much of
9 this tax debt in Philadelphia is really
10 collectible. We did not prescribe
11 specific solutions. We just tried to
12 identify some of the trends and the
13 challenges.

14 For the comparison in this
15 study, we chose the core city and the 30
16 most populous metro areas in the country,
17 and we added six other cities or counties
18 with certain conditions we wanted to
19 measure against, like high poverty. The
20 latest data available last year was from
21 2011. We took it from the official
22 documents posted online by each city,
23 except here in Philadelphia where we took
24 it directly from the Department of
25 Revenue.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 I have some handouts, some
3 copies that include some of the charts,
4 but I'll just summarize here with some of
5 the headlines of what we found.

6 Philadelphia had made some
7 progress on delinquency collections, but
8 its delinquency rate was still higher
9 than in most cities, although it was
10 mostly in line with other low-income
11 cities. In comparing Philly to the other
12 cities, we found that many low
13 delinquency cities tend to notify
14 taxpayers swiftly, as soon as they fall
15 behind, which can keep them from becoming
16 long-term delinquent. On harsher actions
17 against long-term delinquency, such as
18 foreclosure, we found that cities have
19 widely varying lengths of time to take
20 action, but no matter how long or short
21 those deadlines, the key was sticking to
22 it and making it credible.

23 On tax foreclosures in other
24 cities, we found cities using property
25 sales or tax lien sales or both to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 recover the money, but we found no clear
3 correlation between any one of those
4 strategies and the same year delinquency
5 rate in the City. In other words, there
6 was no single best path.

7 What we did find also was that
8 most cities have installment payment
9 plans for some delinquents to pay off
10 their tax debt, but that high delinquency
11 cities like Philadelphia also tend to
12 have a high default rate on those payment
13 plans.

14 We found that Philadelphia, if
15 it used its current powers at that time
16 fully and enjoyed a stabler growing real
17 estate market, it could reasonably expect
18 to collect about 30 percent of the
19 outstanding delinquency taxes over a
20 course of a few years. At last year's
21 total, that came to about 155 million.

22 And now I'll go over a few more
23 of the details and then I'll hand it off
24 to Kevin.

25 So we looked just at the same

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 year delinquency rates; that is, the real
3 estate taxes going unpaid in the same
4 year they were due. That does not
5 reflect delinquencies that are paid or
6 not paid over the course of several
7 years, a long-term delinquency.

8 So just on the same year
9 delinquencies, Philadelphia had been
10 markedly above the median at the official
11 numbers last year, 9 percent delinquency
12 against the median of about 4 percent in
13 those 36 cities.

14 The picture changes a lot when
15 looking just at the cities with high
16 poverty like Philadelphia. The poorest
17 city median has been consistently higher
18 than the all-city median in this group
19 that we looked at. In 2011, it was about
20 6 percent for the poorest cities, again,
21 against 9 percent in Philly and 4 percent
22 for all cities. So that means poverty
23 and probably unemployment are also
24 clearly a major correlation to
25 delinquency, but we found it is not

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 destined to be that way. Some cities
3 with high poverty rates, including
4 Atlanta, Baltimore, and Milwaukee, have
5 delinquency rates that are actually
6 closer to the median, lower than
7 Philadelphia's.

8 Another correlation we saw was
9 with mortgages. Cities with relatively
10 fewer mortgaged homes and more free and
11 clear homes tend to have a higher
12 delinquency, at a median of almost 10
13 percent. Those included Detroit,
14 Cleveland, Pittsburgh, Miami, and
15 Philadelphia where around 40 percent of
16 homes are free and clear. So there are a
17 couple of reasons for this. First, the
18 free and clear homeowners might sometimes
19 just forget or become unable to pay
20 without a mortgage company automatically
21 paying for them, and, secondly, without a
22 mortgage company, there is one less
23 entity that the tax collectors can go
24 after, and that just makes it more likely
25 that the taxes won't be paid.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 City by city, we saw Boston,
3 Orlando, Las Vegas, and Seattle did the
4 best when it came to the same year
5 delinquency rate, as low as 1 or 2
6 percent delinquent. On the other end,
7 Detroit, Cleveland, St. Louis among the
8 big cities had the highest same year
9 delinquency rates, as high as 20 percent.
10 Philadelphia was fifth out of the list at
11 9 percent. Again, those were the numbers
12 from the Department of Revenue for 2011.

13 After compiling the numbers, we
14 looked at some specific strategies in the
15 other cities and in Philadelphia. The
16 biggest stick in any city's arsenal is
17 the power to seize or leverage the
18 delinquent property or vacant land in
19 order to recover the taxes. All the
20 cities and counties -- or counties use
21 either the sale of the actual property or
22 a sale of the lien on the property or
23 both. A handful in this group also had
24 land banks to which the local authorities
25 can transfer title, something that is now

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 in the works here in Philadelphia.

3 We found that 15 of 30 cities
4 we looked at back then were selling just
5 properties. Ten were selling both
6 properties and liens, and five were
7 selling just liens. We did not find that
8 any one particular strategy; that is,
9 selling properties or liens or both, was
10 clearly or necessarily associated with
11 higher same year tax collection rates.
12 It is safe to say that many other factors
13 are at play, including the health of the
14 local real estate market and the
15 particular auction process that's used in
16 each place.

17 Philadelphia had been one of
18 the 15 only selling properties, not
19 liens. As you know, the Administration
20 has been weighing this idea. Council has
21 voted to explore this option. Our study
22 did not delve into the many varieties of
23 lien sales used elsewhere.

24 When it comes to collection
25 actions, we found that other low

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 delinquency cities tend to adhere to
3 strict timetables and that those
4 timetables are often set by state laws.
5 Denver, for example, starts foreclosure
6 after just five months. San Francisco
7 actually may go five years. But by every
8 indication, these cities don't have much
9 choice but to initiate these actions, and
10 strictness contributes to a culture of
11 compliance.

12 Philadelphia has had a lot of
13 discretion under a Pennsylvania statute
14 dating back to 1923. This law was
15 amended a few years ago to empower a city
16 to begin foreclosure at one year after
17 delinquency, but there is no enforcement
18 mechanism in the law, and as of last
19 year, Philadelphia had chosen not to
20 strictly enforce this one-year deadline
21 on itself. Then last June, Council
22 passed and the Mayor signed a local
23 ordinance requiring the City to start
24 acting on this deadline.

25 As I mentioned, the key is

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 strictness, not the duration of the
3 deadline. And the rest of Pennsylvania,
4 other than Pittsburgh, most counties
5 follow a different state law, and this
6 law carries a detailed two-year timeframe
7 for foreclosure and collection actions,
8 and we found that it tends to be pretty
9 strictly enforced. There have been some
10 disputes over this law, I'll note, and a
11 few counties, including Montgomery, have
12 been experimenting with a hybrid of using
13 both laws as a basis for their actions.

14 Another common practice is an
15 installment or hardship payment plan on
16 the theory that paying even a little over
17 time is better than paying nothing. Most
18 cities we studied have such a plan. Only
19 a few don't, Denver and the counties in
20 Florida, and all of them have very low
21 delinquency rates.

22 We found that the plans are
23 usually administered locally and granted
24 locally, but their terms are often laid
25 down in state law. We found none that

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 was codified in a local ordinance, except
3 here in Philadelphia.

4 We also found that none of the
5 cities published very detailed figures on
6 these payment plans. With some digging
7 in Philadelphia, we found that about 15
8 percent of all property taxpayers had
9 been granted a payment plan of some kind
10 in 2012. Their outstanding taxes
11 represented about 11 percent of the total
12 delinquency due on the books that year.

13 One key figure, as I said,
14 related to payment plans is the default
15 rate; that is, the percentage of payers
16 who stick with the plan versus those who
17 fall behind or stop paying on the plan.
18 Philadelphia was estimated at 30 to 40
19 percent defaulting on their payment plan
20 back in 2012. Detroit and Cleveland,
21 also with both high delinquency rates,
22 put their default rates around 45 percent
23 each. New York City with a slightly
24 lower delinquency rate was at 22 percent
25 default. Pittsburgh was 10 to 15 percent

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 default. We were not, unfortunately,
3 able to find the others.

4 It is safe to say that
5 increasing or expanding the number of
6 plan payers can backfire if that default
7 rate is also high or rising. This would
8 be a very instructive figure to know.
9 Philadelphia, as I said, does not publish
10 it, but it would be helpful to know as
11 more people sign on to these payment
12 plans going forward.

13 In addition to the City
14 comparison, we looked at Philadelphia's
15 total tax debt working with Kevin Gillen
16 in association with the Fels Institute of
17 Government. Using records from April
18 2012, we found that nearly 103,000 tax
19 delinquent properties owed officially at
20 that time about \$515 million. Those
21 numbers, as we've heard already, are
22 different today.

23 COUNCILMAN JONES: I'm sorry.
24 Repeat that.

25 MR. GINSBERG: I'm sorry?

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 COUNCILMAN JONES: Repeat that.

3 MR. GINSBERG: We found that it
4 was nearly 103,000 parcels. I can get
5 the exact number for you if you'd like.
6 And at that point, the total debt was
7 about a little less than \$515 million.

8 Let me be clear. Also, again,
9 those numbers have changed, as the
10 Commissioner has already testified. Our
11 study in particular did not look -- in
12 compiling these numbers, we did not look
13 at the impact of a land bank, which is
14 now in process, and contrary to some
15 reports, our 30 percent figure actually
16 did not account for the use of a tax lien
17 sale.

18 I'm going to hand it off to
19 Kevin now to explain some of the details
20 of how we arrived at those numbers.

21 MR. GILLEN: Thank you.

22 Good afternoon. My name is
23 Kevin Gillen. I am an economist who's
24 currently employed as a Senior Research
25 Consultant by the Fels Institute of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Government at the University of
3 Pennsylvania. Thank you, Councilman Oh,
4 for inviting us here today to testify. I
5 presume I was invited given the past
6 research I've done of the issue of tax
7 delinquencies in Philadelphia with
8 colleagues at both the Pew Charitable
9 Trusts and the Philadelphia Inquirer.

10 I'll keep my prepared remarks
11 brief and focus on the key findings of
12 our research on best practices in
13 property tax collection as practiced by
14 other municipalities comparable to
15 Philadelphia.

16 First, the money that
17 Philadelphia is metaphorically leaving on
18 the table as a result of a low tax
19 collection rate is quite real. We found
20 that every percentage point that
21 Philadelphia could reduce its delinquency
22 rate by would result in an average
23 increase in the annual revenues of \$13
24 million per year. If Philadelphia's
25 delinquency rate could be lowered to be

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 the same as the U.S. average for all
3 large cities, Philadelphia would collect
4 an additional \$65 million per year.

5 When examining the best
6 practices in property tax collection by
7 other cities, several recurring themes
8 became apparent, and you've heard several
9 of them already this morning. First,
10 early intervention in delinquent accounts
11 is critical. Properties that are less
12 than three years delinquent typically
13 have a very high probability of
14 collection given active attempts to do so
15 by the City. Conversely, properties that
16 are more than ten years delinquent have a
17 very low probability of collection
18 regardless of the efforts expended by the
19 taxing jurisdiction to collect.
20 Historically, Philadelphia typically
21 waited until a property owner was more
22 than two years delinquent before serving
23 a delinquency notice.

24 Second, delinquent properties
25 tend to geographically cluster, and

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 delinquencies in a given neighborhood
3 tend to beget even more delinquencies in
4 the same neighborhood. This suggested
5 enforcement of collections can yield the
6 biggest gains if they are targeted at
7 those neighborhoods that are just
8 beginning to see a proliferation in
9 delinquencies. Not only is the
10 probability of collection for these
11 accounts relatively high, but tax
12 collection policy, if properly used, can
13 prevent further delinquencies in these
14 neighborhoods, which further helps to
15 support property values and socioeconomic
16 stability in these same neighborhoods.

17 Third, delinquent properties do
18 not typically occur in independent
19 isolation from each other, but tend to
20 exhibit spillover and cascade effects on
21 nearby properties. Typically we found
22 that five delinquencies was the
23 significant threshold for a given
24 neighborhood. That is, once a particular
25 neighborhood has five delinquent

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 properties, the number of additional
3 delinquencies tends to proliferate
4 thereafter quite rapidly. This provides
5 further support to the use of delinquent
6 tax collection policy in a geographically
7 targeted way since the biggest gains in
8 collection are likely to be in those
9 neighborhoods which are at this numeric
10 threshold and for which delinquencies are
11 no more than a few years old.

12 Fourth, cities which have high
13 collection rates actively deploy both a
14 carrot and stick policy. The carrot
15 typically takes the form of a payment
16 plan, which are offered to delinquent
17 owners in hardship cases in lieu of
18 immediate full payment on their account.
19 If the property owner fails to enter into
20 a payment plan or fails to keep up these
21 regular payments, the stick that is
22 deployed is aggressive enforcement of
23 foreclosure proceedings, which ends when
24 either the owner complies with the
25 original payment plan or the property is

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 seized and sold at Sheriff's auction.

3 It should be noted that to date
4 Philadelphia has been very uneven in both
5 its use of payment plans and the
6 disposition of delinquent properties at
7 Sheriff Sale.

8 In summary, while much of
9 Philadelphia's 500 million plus dollars
10 in total delinquent taxes may be
11 uncollectible, the data suggests that a
12 significant portion of that amount is.
13 Relatively young delinquencies in
14 neighborhoods that are either stable or
15 just at the tipping point of decline are
16 the ones that have the highest
17 probability of collection, and the
18 resources devoted to collection will
19 likely yield the highest gains if these
20 neighborhoods are the ones that are
21 focused on.

22 Going forward, the best way to
23 reduce future delinquencies is immediate
24 and early intervention once an account
25 becomes delinquent, and its intervention

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 should take the form of offering the
3 owner the carrot of a payment plan or the
4 stick of foreclosure, both of which
5 should be offered with sincerity,
6 firmness, and credibility.

7 Thank you very much.

8 COUNCILMAN GOODE: Thank you.

9 Mr. Panerella, do you have
10 testimony?

11 MR. PANERELLA: Thank you. I
12 would like to thank this Honorable
13 Council for the opportunity and the
14 privilege of appearing before you today.

15 By way of summary personal
16 background, I was born and raised in
17 Camden, New Jersey. I had two concurrent
18 professions. I proudly served the United
19 States Army as a Special Forces/Infantry
20 Officer for over 17 years in both war and
21 in peace and in both the active and
22 reserve components. My overseas
23 assignments included Central America,
24 Republic of Vietnam, and numerous
25 deployments to Europe. I am both a

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 Vietnam and Gulf War era veteran.

3 Locally I commanded the A Company 1st
4 111th Infantry up at Southampton Road,
5 and my prodigies, deployed twice in post
6 9/11 actions.

7 Professionally, after returning
8 from Vietnam, I attended law school. My
9 first position was as an Assistant City
10 Solicitor for the City of Philadelphia.
11 After having developed an expertise in
12 City tax matters, I passed the New Jersey
13 Bar, resigned my position with the City,
14 and became the City's New Jersey
15 co-counsel, where I represented the
16 City's interest in collecting wage taxes
17 from New Jersey residents who generally
18 worked for federal installations but
19 worked within the City and were refusing
20 to pay their lawful obligations. They
21 formed a pre -- starting with one
22 administrative assistant and 74 New
23 Jersey cases, I grew that business into a
24 national tax administration and
25 enforcement agency that was fully

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 integrated with my law firm. At its
3 peak, located in Philadelphia, we
4 employed over 250 employees and tax
5 professionals. We operated in 14 states
6 and had over 60 client jurisdictions.
7 Notable clients included the States of
8 New Jersey, California, and Oklahoma, the
9 District of Columbia, and the Cities of
10 Philadelphia, New Orleans, Detroit,
11 Pontiac, Flint, Kansas City. Locally, we
12 also were the tax administrator; in other
13 words, I was its Department of Revenue,
14 for the City of Chester, Norristown,
15 Media, West Chester, and Bensalem. We
16 were proudly endorsed by the National
17 Conference of Black Mayors and was
18 awarded in 1996 the Department of Public
19 Welfare's prestigious Employer of the
20 Year Award for our program of training
21 and then hiring former Philadelphia area
22 public welfare recipients.

23 I noted the personal background
24 because only one of the City's
25 co-counsels I believe is physically

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 located -- or I'm sorry. One of the
3 collection agencies is physically located
4 in Philadelphia.

5 Some of the high points of my
6 representation of the City include
7 successfully litigating over 30,000 cases
8 against non-resident federal civilian
9 employees. This group of taxpayers had
10 organized themselves into a prepaid legal
11 services and lobbying organization that
12 systematically tried to prevent the City
13 from collecting delinquent wage tax
14 liabilities. This group picketed my home
15 and office, had my father arrested and
16 tried to have me disbarred. It failed,
17 and today there is near virtual
18 compliance by this taxpayer group.

19 We initiated the first taxpayer
20 discovery program ever mounted by the
21 City. Most notably, this included
22 bringing all of professional sports into
23 tax compliance. We also conducted
24 several regional programs such as the
25 creation and use of regional tax returns

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 to ease the compliance burden on
3 multi-jurisdictional taxpayers such as
4 law and construction firms. All of these
5 programs were conducted without using
6 collection agency tactics. Instead, we
7 relied upon the judicial system to reduce
8 our claims to judgment. In doing so, and
9 in conjunction with the City Solicitor's
10 Office, we helped sustain the creation of
11 tax courts in both the Court of Common
12 Pleas and Municipal Courts.

13 When we talk about tax
14 administration, I think it's important
15 that it's a house. The roof is tax
16 return processing. It is supported by
17 three pillars. They are delinquent
18 account collections, audits, and
19 discovery. I want to briefly touch on
20 each.

21 Tax return processing: Reduced
22 to its simplest function, this is the
23 process of sending and receiving tax
24 returns and accounting for all payments.
25 It accounts for the overwhelming

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 percentage of tax collection. Indeed,
3 bond ratings are measured in part based
4 on your percentage of overall voluntary
5 tax compliance. Most of the technology
6 that the City purchased in the 1990s and
7 has contemplated today is designed to
8 account and track voluntary compliance.
9 When fully functional, it will identify
10 non-filers and delinquent accounts and
11 suggest possible audit candidates. It is
12 not a useful tool in discovery, simply
13 because it does not know that a potential
14 taxpayer exists.

15 All tax enforcement efforts
16 must be looked at as an attempt to
17 increase the overall percentage of
18 voluntary compliance. Accounting for and
19 posting voluntary payments is very cost
20 effective. Compelling compliance is both
21 costly and time consuming. There is no
22 magical technology-based tool or solution
23 that can change human behavior and that
24 can change non-compliance into voluntary
25 compliance.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 Rather, non-voluntary tax
3 compliance is about coerced modification
4 of behavior. It involves a forced
5 reprioritization of how a taxpayer spends
6 his allocated resources. I liken the
7 process to a fruit tree. Some fruit is
8 very ripe. It will fall off with a
9 minimum of effort. Some fruit is less
10 ripe and requires shaking. That shaking
11 is what distinguishes tax administration
12 from tax enforcement.

13 There are three primary tools
14 in tax enforcement: delinquent account
15 collections, audit, and discovery.

16 Delinquent account collection
17 is the integrated collection of a known
18 liability. The liability could be a tax,
19 fine or user fee. Unlike the United
20 States government, which can pursue
21 liabilities via administrative remedies,
22 a state and much more so a local
23 government must rely upon virtually the
24 same rights and remedies that any other
25 creditor has. It basically loses its

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 sovereignty when it files suit.

3 During my tenure with the City,
4 our principal tool in enforcing tax
5 claims was the civil litigation process;
6 that is, reducing our tax liabilities
7 into civil judgments. From the list of
8 the co-counsel as it appears on the
9 website that the City maintains, it is
10 readily apparent that the City has made a
11 conscious effort to move away from this
12 method of recovery. Except for the
13 collection of real estate taxes, none of
14 the firms listed are law firms. Revenue
15 recovery services, which does discovery
16 work, does have an affiliation with a law
17 firm. Recall the fruit tree analogy and
18 ask yourself what, if anything, can a
19 collection agency do if the taxpayer says
20 no or more likely places the agency's
21 phone number on its delete call list.
22 Remember, unlike the IRS and some very
23 narrow City exceptions such as with
24 employees and board members, the City has
25 very limited effective administrative

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 actions to compel compliance.

3 To compound the problem, the
4 City, and by extension its collection
5 vehicles, voluntarily adhere to the
6 limitations of the Fair Debt Practices
7 Collection Act. That Act was never
8 intended as to apply to taxes, and it was
9 even an Eastern District Court that
10 excluded water and sewer from the ambit
11 of the Act. Nevertheless, the consumer
12 debt industry accepted the Act's
13 limitation because, in return, the Act
14 virtually eliminated the statute of
15 limitations as it applied to commercial
16 debt, as that debt can remain on the
17 credit report even after the expiration
18 of the statute of limitations. Protected
19 by taxpayer confidentiality, no such
20 protection exists for City income-based
21 taxes. Unless reduced to civil judgment,
22 they expire after six years.

23 One of the questions in
24 determining that large pool of revenue,
25 the \$500 million, is what portion is real

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 estate, what portion is business or
3 income-based taxes. You should ask what
4 percentage of that income-based taxes
5 goes stale, goes outside the statute of
6 limitations each year.

7 Collection agencies have very
8 limited tools to compel compliance of the
9 payment of taxes. Again, what can a
10 collection agency do when the taxpayer
11 says no or, oh, by the way, never call me
12 again, or I will sue you if you keep
13 harassing me and, by the way, I'll add
14 the City of Philadelphia as a
15 co-defendant.

16 To extract the highest
17 percentage of compliance, there must be a
18 credible, well-publicized program that
19 moves a delinquent claim from a
20 delinquent account to an administrative
21 notice to a civil judgment. To be most
22 effective, that process should be
23 seamless and uniform. My organization
24 did that for the City. We used
25 litigation to enhance the effectiveness

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 of our delinquent account collectors.
3 Our collectors spoke about what was
4 happening with a taxpayer account as it
5 works its way through our system. Our
6 collectors never needed to resort to
7 calling, because we generally would get
8 calls in response to the compliance
9 programs that we had ongoing.

10 Collection agencies have a lot
11 of false bravado. It's really a lot of
12 this could happen maybe, sometime in the
13 indefinite future. Collection agencies
14 neither file nor litigate cases. They
15 cannot seek the imposition of judicially
16 sanctioned execution remedies.

17 Applying, again, the fruit tree
18 analogy, the initial contact with a
19 taxpayer should be reserved for the City.
20 I read that in one of the contracts, the
21 City was paying a firm 18 percent to send
22 out first notices relative to business
23 taxes. That should be the province of
24 the City to collect the easiest money.
25 Reserved for the outsourcing should be

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 the most delinquent taxes or accounts.

3 Audits: Audits validate the
4 accuracy and completeness of a filed tax
5 return. A credible and well-publicized
6 audit program compels a higher, more
7 accurate rate of voluntary compliance.
8 The absence of an effective comprehensive
9 audit program invites underreporting.

10 Audits are also a good discovery, as
11 unregistered businesses doing business
12 with registered businesses within the
13 City may well be City taxpayers as well.

14 For the City of Philadelphia,
15 an effective audit program must extend
16 beyond the reach of a SEPTA bus ride. I
17 say this as one of the programs that was
18 eliminated when I left was a program
19 sanctioned by then Mayor Rendell and
20 implemented by our company. We were
21 responsible for all audits outside of a
22 more or less 50-mile radius of
23 Philadelphia. It was becoming a highly
24 successful program. There is no such
25 program today, and no distant audits are

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 taking place. It is axiomatic that the
3 absence of a credible enforcement program
4 invites non-compliance.

5 In preparation for my remarks,
6 I called a very noted state and local tax
7 attorney in the City and said, What is
8 the City doing in this area?

9 He said, Nick, absolutely
10 nothing.

11 Discovery: Discovery is
12 challenging the known taxpayer base with
13 a series of programs that are designed to
14 find taxpayers who are not registered
15 with the City. This group is
16 particularly heinous as the unregistered
17 taxpayer competes with a compliant
18 taxpayer for City-based business, and the
19 absence of the inherent cost of City tax
20 compliance gives that non-compliant
21 taxpayer a distinct advantage over a
22 compliant taxpayer.

23 Between 1992 and 1998, we
24 collected more or less \$50 million of new
25 found revenue for the City of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Philadelphia from our discovery
3 operations. Of equal importance, we
4 created a new generation of non-resident
5 business taxpayers. With over 20 years
6 of compliance, those initial payments,
7 substantial as they may well be, pale in
8 comparison with the years of voluntary
9 compliance that have occurred since.
10 Most notably was the compliance program
11 that we instituted relative to a whole
12 industry, which was professional sports.
13 And not only the teams, but all of the
14 attendant support businesses that
15 supported those teams came into voluntary
16 tax compliance.

17 One of the most important
18 elements of a successful discovery
19 program is its deterrent effect on future
20 taxpayer decisions to comply or not
21 comply. For example, we conducted a
22 program to compel non-resident attorneys
23 and law firms to comply with the City tax
24 code. All of those firms continue to pay
25 taxes today, and new firms, knowing that

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 that's what is required and the City has
3 maintained a discovery program that
4 supports that, know that they have to
5 come into compliance. Again, that's that
6 balance between voluntary compliance and
7 some form of enforced or coerced behavior
8 modification.

9 I want to make a couple
10 suggestions for the City to pursue. I
11 love the City. I spent virtually my
12 adult life and certainly all of my
13 professional life protecting it. I
14 believe that there are things that the
15 City could do right now to increase its
16 tax collections. I also believe that the
17 City should look to change some of the
18 execution laws that it must adhere to.
19 Simply stated, once a civil judgment is
20 entered, the City loses its governmental
21 status and becomes just another judgment
22 creditor. I think that the taxpayers
23 deserve more and that Harrisburg could be
24 lobbied in order to enhance the City's
25 arsenal of collection remedies.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 One of the things I noted was
3 when the Revenue Commissioner spoke of if
4 somebody is going to take out a license,
5 that person had to be tax compliant. We
6 face that in many, many jurisdictions.
7 So what would happen, what you have to be
8 careful of -- this is sort of like my
9 practical, in-the-dirt suggestions. If
10 the contractor wasn't compliant, the
11 owner went in, or if the contractor had
12 to go in, he sent his sub in. You have
13 to make sure that you look at the whole
14 tree in order to make that program work.

15 I mentioned if you want to
16 raise some revenue, remember, we talked
17 about the writing off of business and
18 income-based taxes? Have a program that
19 reduces them to judgment as they reach
20 near the end of the fifth year. Sell
21 those judgments. You no longer have any
22 issue relative to taxpayer
23 confidentiality because the judgment is a
24 public record. That's instant revenue
25 for the City, because you can sell those

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 as opposed to just letting them dry up
3 and become expired by the statute of
4 limitations.

5 The voluntary disclosure of
6 unregistered taxpayers, that's incident
7 to the discovery program. I want to
8 bring up two points. The City only has a
9 six-year look back. We faced this issue
10 in the Rendell Administration, and
11 basically when we had sort of an amnesty
12 program for discovery, we went back six
13 years, but what we said, and certainly
14 was the policy of the City through 1998
15 because we had basically done a mass
16 publication and notified everyone and all
17 of the basically state and local tax
18 practices, what we said was, we are going
19 to go back six years. You had some sort
20 of an interest and penalty waiver, but
21 then we said but from here on out, we are
22 always going to go back to that base
23 year, that six years. So we were
24 collecting ten years worth of
25 liabilities. We did not reward somebody

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 for waiting. If you only have a fixed
3 six-year look back, you sort of invite a
4 person to pick and choose. Of course,
5 they're playing a risk, but they pick and
6 choose when they want to come in and
7 settle.

8 The City also has a no audit
9 pledge. In other words, if you come in
10 for your pre-designated six years, pay
11 the liability, we won't audit you. To me
12 that's a concession too far. Why would
13 you give up the right of audit if you --
14 to me it's just, as I said, remember the
15 movie A Bridge Too Far? It's a
16 concession too far.

17 A lot has been talked about
18 regarding delinquent real estate taxes.
19 You have a statutory redemption period
20 relative to owner-occupied dwellings.
21 Why? A mortgage company doesn't have
22 that. If you -- now, here's the
23 practical effect. Whatever process you
24 use to make a determination on what
25 properties get sold and they go through

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 this laborious system, which it was
3 testified here today is so long and
4 cumbersome and everything else, but
5 ultimately a property gets sold. Whoever
6 buys that is at risk that the owner can
7 come in for -- I think Cindy White says
8 it's 12 months, the Sheriff's website
9 says nine, but it's a long period. He is
10 at risk to make any improvement during
11 that statutory redemption period. It
12 renders the property less valuable. It
13 renders that sale to maximize the
14 recovery because of that risk factor.
15 You should look at doing away with that.
16 Again, private industry does not have
17 that.

18 You talk in terms of -- and
19 I've heard it exclusively here -- that
20 the remedy for delinquent real estate
21 taxes is Pavlovian Sheriff Sales, right?
22 Pennsylvania is unique and different than
23 New Jersey, for example. You can
24 personalize the liability. You can leave
25 somebody -- you talk about sequestration.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 I would have some concerns if I was in
3 negligence -- if I was in the negligence
4 section of the City Solicitor's Office.
5 If one of my agents is collecting money,
6 then I'm prioritizing what gets paid and
7 not paid. Somebody has a negligent case,
8 a slip and fall. Is the City in that
9 chain of liability because it's
10 collecting the money?

11 What we did, when we had a
12 situation where you had a non-resident
13 landowner, particularly if he lived in
14 New Jersey, what we did is we sued
15 personally that individual on the
16 delinquent real estate tax, reduced it to
17 judgment, took it to New Jersey. Well,
18 guess what? That has a chilling effect,
19 because suddenly now that property, his
20 home, is at risk in and out of state.

21 So what I'm getting at, there
22 are programs that can be mounted outside
23 of a real estate sale in order to collect
24 delinquent real estate taxes.

25 I'm not sure that you can do

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 this. I'll cover it very quickly. I had
3 mentioned to these gentlemen that in
4 order to compare cities and rates of
5 recovery, you have to look at really the
6 status of how properties are owned. So,
7 for example, in New Jersey, there are --
8 everybody has and would be familiar with
9 the concept of tenants by the entirety.
10 In Pennsylvania, that's envolee (ph).
11 You can't break it. In New Jersey, you
12 can. What happens is, you take a
13 judgment. Remember, I brought that real
14 estate judgment from Philadelphia over to
15 New Jersey -- and I did this. We did it
16 for years. And what we did is, we sued.
17 The wife wasn't liable, but what happened
18 is, we could become a tenant in common
19 subject to a right of survivorship with
20 the wife. Our taxpayer is now out of the
21 loop. Beyond that, that loss, that
22 breaking of the tenancy is a technical
23 default on his mortgage, because there's
24 been a change in ownership. Guess what?
25 We've gotten somebody's attention and we

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 didn't need to burden the Sheriff of
3 Philadelphia County in order to get our
4 tax paid.

5 There are orders to pay. Now,
6 here is where I can cover these -- there
7 are orders to pay. Essentially, a
8 judicial order that if all else failed,
9 we bring somebody before a court. You
10 have discovery and you say, Okay, these
11 are your assets, these are your
12 liabilities, this is what you make, these
13 are your expenses, you can afford to pay
14 X. You don't have that remedy here. You
15 should.

16 Now, what happens is, in an
17 extreme case when somebody doesn't pay a
18 judicial order, well, that's civil
19 contempt. We actually had to have
20 somebody arrested once in order to compel
21 compliance with a court order.

22 There is nothing wrong in
23 asking Harrisburg to say for all taxes
24 generated by cities of the first class,
25 that we would have a right to a wage

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 garnishment. Okay? Get a judgment. You
3 say, Oh, my God, you're going to garnish
4 somebody's wages. If somebody -- you
5 have people live side by side. One gets
6 1099 income, the other works and gets a
7 W-2. The W-2 has been withheld. The guy
8 who worked and gets the 1099 is not
9 withheld. But it's the same remedy,
10 right? At the end of the day, it's the
11 same thing. They should be held -- each
12 party is getting the same level of City
13 services. You should ask for that remedy
14 from Harrisburg, say, Hey, guess what?
15 We're not a stepchild. We want to be
16 self-sustaining. Help us to help you.

17 Travel audits: I went to -- we
18 audited, as I mentioned, some of the list
19 of my clients. We audited for those
20 client jurisdictions. The City wasn't.
21 The City doesn't now. A successful
22 discovery program invites compliance by
23 remote taxpayers. When state and local
24 practitioners look at where they allocate
25 revenue, boy, isn't it good to allocate

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 it outside of a high tax jurisdiction,
3 ala Philadelphia, as opposed to a lesser
4 tax jurisdiction. If there's no credible
5 audit program, it invites underreporting,
6 and the City doesn't have that now.

7 Interstate tax enforcement:
8 You heard the Revenue Commissioner
9 mention with pride, and I agree, that
10 there are exchange agreements with the
11 state and with the federal government.
12 They are domicile-driven databases. In
13 other words, what the City is getting is
14 taxpayer information with anyone filing a
15 zip code with a 191, because that's
16 Philadelphia.

17 When I represented the City, I
18 represented as the tax administrator all
19 of the county seats and the State of New
20 Jersey, and we had an information
21 exchange agreement that allowed us to
22 share data with each client jurisdiction.
23 It was immensely beneficial to
24 Philadelphia. It was a significant aid
25 in discovery and in audit selections.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 The City should have something like that
3 now. As she indicated, you don't.

4 I have to tell you, the Goode
5 Administration was instrumental in
6 helping resolve the issue of federal
7 civilian employees, the non-resident
8 federal civilian employees, and bringing
9 literally a whole class of taxpayers into
10 compliance. There are elaborate rules
11 that deal with allocation of income by
12 generally a state or federal worker in
13 terms of work that's performed outside
14 the City of Philadelphia. The City is
15 like a magnet, though. It is drawing in
16 a similar amount of state and local
17 workers. Absent professional sports,
18 there is no program that really looks at
19 that non-resident coming in, and it does
20 not audit it. That's even worse. But
21 federal civilian employees, state
22 employees who come to Philadelphia should
23 be subject to our wage tax because
24 they're working here. That should be an
25 audit priority. I don't think that

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 program exists today.

3 I have been a very strong
4 advocate for law firms. I don't have one
5 now, so I think I can speak. I owned
6 both. Within my law firm, I had a
7 delinquent account -- an account
8 representative section. But, again,
9 there's a limit to what, if any -- what a
10 collection agency can do, and you
11 should -- I believe the mix should
12 include law firms that can litigate on
13 behalf of the City.

14 They are my prepared remarks.
15 If you have any questions, I invite them.

16 COUNCILMAN GOODE: Thank you
17 for your testimony, Mr. Panerella.
18 Interesting enough, the resolution did
19 not necessarily deal with business and
20 income taxes, but I thought the testimony
21 was so compelling that we should put it
22 on the record anyway, which leads to my
23 question for Mr. Ginsberg or Mr. Gillen
24 or anyone who wants to answer the
25 question.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 As you look at comparable
3 cities and you examine delinquency rates,
4 if you look at tax structure in terms of
5 what percentage of all tax revenue comes
6 from property taxes, I believe I heard in
7 your remarks at one point you talked
8 about people with stricter enforcement,
9 and I think you said because they have
10 to. So, in other words, if someone is
11 getting 60 percent of their revenue, 60,
12 70 percent of their revenue from property
13 taxes, which a lot of cities rely more
14 upon property taxes than business income
15 taxes, does that force them to be
16 stricter?

17 MR. GINSBERG: In each of the
18 cities we looked at -- we looked at 30
19 major cities and then six additional ones
20 for a smaller group -- we did not do an
21 analysis of the structure in each place,
22 not methodically. With a few that we
23 happened to notice -- and we did try to
24 look at the amount of the revenues that
25 go to a school district versus a city

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 general fund, and in that particular
3 case, we found that Philadelphia was at
4 the higher end. A higher percentage of
5 its revenues were earmarked for the
6 School District than other cities do.
7 But as for general tax structure, it was
8 a hard one. We didn't actually get at
9 that. From other analysis that we've
10 done apart from this report, I can say
11 that Philadelphia does depend less on
12 property tax than some other cities do.
13 Philadelphia has a wider mix. It has
14 three major income, property, and sales
15 tax in different proportion and a higher
16 reliance on wage and income taxes than
17 other cities do for general operations.

18 COUNCILMAN GOODE: And do you
19 think that possibly can affect property
20 tax delinquency, also considering the
21 fact that other jurisdictions have an
22 actual separate school tax?

23 MR. GINSBERG: Again,
24 unfortunately, it's something we just
25 didn't nail a definitive answer on. It

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 wasn't part of our study to answer that.
3 I think it is fair to say that when you
4 have a big source of money coming from
5 one particular tax, you're probably going
6 to pay attention to it as part of a total
7 spending. But our study didn't answer
8 that question specifically.

9 MR. GILLEN: I think it's an
10 excellent point that the Councilman
11 makes. I get asked all the time why
12 exactly do you think Philadelphia has
13 such a high delinquency rate, and people
14 ask what are the specifics? Is it the
15 fact that our Sheriff is independently
16 elected as opposed to being appointed by
17 the Mayor or our foreclosure process in
18 Pennsylvania is not as well defined as,
19 say, in Texas or what-have-you? I'll
20 say, Well, ultimately at the end of the
21 day, as you well know, Philadelphia is
22 unique among cities in that it relies
23 disproportionately on wage and business
24 taxes as a primary source of revenue.
25 Property taxes I believe constitute only

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 15 percent of all revenues.

3 So given that the City has
4 finite resources on which to collect
5 taxes, I would imagine it's going to
6 disproportionately devote those resources
7 towards those revenue streams which offer
8 the biggest payoff. So the incentive
9 actually is just not there because of the
10 unusual composition of our tax mix. And
11 as you know, it points up to the bigger
12 issue of broader tax reform in
13 Philadelphia, of shifting away from wage
14 and business and sales taxes and more
15 towards the property tax.

16 COUNCILMAN GOODE:

17 Mr. Panerella.

18 MR. PANERELLA: When you look
19 at Philadelphia, you have to remember
20 that it's the county seat. We did a
21 study. Over 30 percent of the real
22 estate in Philadelphia is tax exempt
23 because it's supporting federal, state,
24 and local institutions. There are so
25 many higher education facilities. What

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 happens is, Philadelphia is a regional
3 asset. Those properties are regional
4 assets. When you rely on real estate
5 tax, what you're doing is you're passing
6 a disproportionately higher burden to the
7 citizens of the City of Philadelphia to
8 maintain those regional assets. So I
9 think somewhere along the line somebody
10 figured that we were better off using an
11 income-based tax structure in order to
12 address that disparity, if you will.
13 And, remember -- and the other thing is,
14 if you're going to consider real estate,
15 the taxes, you also have to consider U&O
16 taxes, because at the end of the day,
17 that's actually a business-oriented real
18 estate tax.

19 COUNCILMAN GOODE: Thank you.

20 Councilman Jones.

21 COUNCILMAN JONES: I'm really
22 beginning to worry. My colleague
23 suggests that I may become a little geeky
24 because I actually was enjoying your
25 guys' testimony.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 MR. GINSBERG: Join the club
3 here.

4 COUNCILMAN JONES: I'm making
5 the crossover, I guess, Councilman Oh, to
6 like this kind of stuff.

7 But you in particular,
8 Mr. Panerella, you had a smile on your
9 face as you were going through the
10 various processes of collection. I've
11 never seen somebody approach this with
12 such glee.

13 MR. PANERELLA: Listen -- I
14 said listen. It was a privilege to
15 serve, you know.

16 COUNCILMAN JONES: I see, and
17 thank you for your service.

18 A couple quick questions. Can
19 you drill down on the issue of travel
20 audits and give us a better clarification
21 on what you mean.

22 MR. PANERELLA: Okay. I read
23 that the City has delinquent taxpayers in
24 all 50 states. I'm sure that if you were
25 to look and do a scan of all zip codes,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 you would find them all over the United
3 States.

4 When we approached the Rendell
5 Administration about this issue, we said,
6 Well, what is the City doing now? We
7 don't want to do what the City is doing.
8 We want to do what it's not doing. It
9 ended up that the travel audit radius of
10 the City of Philadelphia was a SEPTA bus
11 ride. Okay? That's it.

12 If you don't audit, you invite
13 underreporting, especially when a state
14 and local tax practitioner knows he's not
15 going to be audited and he can allocate
16 money outside of a high tax jurisdiction.
17 If you do not maintain -- remember, tax
18 compliance is about coercion. At the end
19 of the day, that's what it's about, and
20 they are afraid of not complying. So if
21 you don't have a compliance program, then
22 it invites non-compliance. You need to
23 audit nationally.

24 It's very difficult for the
25 City to mount that type of operation. It

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 should be outsourced. The City has no
3 outsourced entity doing that, to my
4 knowledge. And, again, relying on what a
5 very noted tax practitioner told me, and
6 he has many, many out-of-state clients,
7 the City does not audit again outside
8 that SEPTA bus radius.

9 COUNCILMAN JONES: And then the
10 second piece in your testimony, tenants
11 in the entirety, how you manage to
12 circumvent the marital partner. I was
13 intrigued about that process. I don't
14 want to do it wholesale because then I
15 really would be republican, but I was
16 intrigued.

17 MR. PANERELLA: You own a
18 business. You're a taxpayer. You go
19 delinquent. But guess what? You live
20 with your wife in the suburbs or in New
21 Jersey, right? You commute to work.
22 What we did was, we took the real estate
23 judgment, reduced it -- we took that in
24 rem liability, made it a personal
25 liability, which you can do here, and

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 then took that liability over to New
3 Jersey. In New Jersey, the laws
4 regarding tenancy by the entirety are
5 different. Here you cannot -- unless you
6 have a judgment against husband and wife,
7 you can't break the tenancy. In New
8 Jersey you could. It's the same right of
9 survivorship, but what happens is, the
10 judgment creditor becomes a tenant in
11 common with the wife --

12 COUNCILMAN JONES: So at the
13 point of sale.

14 MR. PANERELLA: -- who is a
15 non-taxpayer, and they play Russian
16 roulette as to who dies first. But the
17 incentive is --

18 COUNCILMAN JONES: Please don't
19 smile when you say that. It's scary.

20 MR. PANERELLA: Listen, when
21 you don't pay your taxes, it did not
22 lessen the cost of government, did it?
23 It just shifted a higher burden to those
24 who do comply. And if you're going to
25 impose a tax, if you're going to raise

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 the tax, then isn't it incumbent to say,
3 Guess what, we are doing everything we
4 can in order to collect the taxes that
5 we've already levied. So if you don't
6 want to levy them, don't. But at the end
7 of the day, if you're going to impose a
8 tax, then make sure it's administered
9 fairly.

10 So my point is, then what
11 happens is, if you become a tenant in
12 common with the wife, well, there's a
13 mortgage. If you look at the judgment
14 note, it will say if there's a change in
15 ownership, it's a technical default.
16 Bingo, they got to comply.

17 COUNCILMAN JONES: Okay. It's
18 something we should look at, and we
19 should have some limits on it, because I
20 think, you know, primary resident and
21 things like that -- if it's an investment
22 property, that's one thing. If I'm
23 living there -- we differ on some of
24 that, but I just have to put some
25 safeguards in there for common folk. But

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 it is intriguing. I'm just going to say
3 it, it's intriguing.

4 MR. PANERELLA: What you're
5 doing is -- remember, I was a Green
6 Beret. We were taught to think outside
7 the box.

8 COUNCILMAN JONES: No doubt
9 about that.

10 MR. PANERELLA: Seventeen
11 years.

12 COUNCILMAN JONES: Just a
13 couple other -- the triggers, the early
14 triggers, to let people know as soon as
15 out the gate. But one of the things I
16 would ask -- and this is for the entire
17 panel. I happen to take a trip a couple
18 of years ago up to the Commonwealth of
19 Pennsylvania, and their continuum of
20 collection practices and when they go
21 after defaults and what the progressive
22 means of collection are. What was also
23 interesting was how they targeted
24 underreporting, underpaying segments and
25 identifying those segments and with

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 particular strategies about how to go
3 after them. One of the questions was if
4 it's a doctor's office and what licenses
5 can be attached. But how do you
6 identify -- what do you think we should
7 be doing to identify people that are
8 willing to pay if contacted, but also
9 people that -- at what point should we do
10 what we did under the Rendell
11 Administration, sell off the bad
12 receivables, get a payment? Where are
13 the levels of those two extremes? So,
14 one, when we identify -- they called them
15 rabbits or people that are particular
16 communities, whether it's dentists,
17 whether it's lawyers, whether it's this
18 batch of folk. How do we identify them
19 and develop a customized strategy to
20 collect?

21 MR. PANERELLA: One, you have
22 to make sure -- we did this for my client
23 jurisdictions. One is, if the state does
24 an audit, you bootstrap it. And what
25 happens, if it changes and it's -- if it

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 does an audit change, then you should
3 make sure you're getting that information
4 if it's a Philadelphia-based taxpayer.

5 You have to maintain a good
6 personal relationship with the state if
7 they've done the audit, because if the
8 auditor comes back and says, Guess what,
9 this individual would have exposure to
10 Philadelphia, but it wasn't necessarily
11 registered in Philadelphia, then that
12 was -- what I'm getting at, I didn't do
13 what you're asking. I'm sure that if the
14 City is spending a lot of money on its
15 technology, then as my primary remarks
16 said, it should be able to detect audit
17 candidates. I would ask -- I would bring
18 them back here and say, Okay, tell me in
19 this new system -- listen, the taxpayer
20 2000 system was designed to do everything
21 that the new one is supposed to do,
22 right? And also be -- it was taxpayer
23 1999 to 2000 compliant. It was an
24 Anderson Consulting system. It was
25 great. I used it in Detroit.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 So if it's gotten better, then
3 it should be able to sense
4 underreporting. That would be my short
5 answer to you. That could very well
6 be -- remember, technology isn't going to
7 modify behavior, but it is going to give
8 you some audit criteria. And if you do
9 that, it's important to publicize
10 everything you do. It's not a
11 professional boxer saying, Guess what,
12 you're going to pay. It's actually
13 saying, Here, this is what happened to
14 this taxpayer, right?

15 COUNCILMAN JONES: It reminds
16 me of when I was in the playground, they
17 said, Make your first fight notable and
18 then you won't have to fight so much.

19 MR. GINSBERG: If I could just
20 make one point on your question. What we
21 found in other cities and in analyzing
22 what we did with the numbers here was
23 that there is a difference between the
24 new delinquencies and the long-term ones
25 in how you approach them and how you look

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 for leverage and methods to go after
3 that. And going after the new ones very
4 quickly with notifications and aggressive
5 phone calling or mailings and those
6 strategies are different than you would
7 use for the long-term ones. And if you
8 imagine the delinquency is this giant pot
9 and it's being fed from two different
10 sources, reducing one is very important,
11 but if the other one keeps filling in
12 every year with more delinquencies, if
13 those young ones, you let them become
14 old, that just keeps that one growing.

15 COUNCILMAN JONES: Because I
16 remember selling off -- I didn't do it,
17 but the Rendell Administration sold off
18 about 20 million, or what was it? They
19 got a one-time payment.

20 MR. PANERELLA: Right. And,
21 remember, I was involved in that. That
22 actually had a AAA from MBIA, if you
23 recall.

24 I want to make two points.
25 There are cycles to tax compliance or

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 non-compliance. Like, for example, if
3 you do a discovery program, it has to be
4 done every ten years.

5 You know, in the Army, you look
6 for centers of gravity. If you look at a
7 battlefield, who is the -- what is the
8 thing that you most want to dominate in
9 order to win the battle? The center of
10 gravity in dealing with a sophisticated
11 business environment is the state and
12 local tax practitioner. It's not the
13 taxpayer. It's the individual that the
14 taxpayer goes to for advice.

15 You mount credible programs,
16 publicize that to the state and -- to the
17 SALT community, you have a collection
18 multiplier.

19 MR. GILLEN: You had mentioned
20 the Rendell lien sale the number of years
21 ago. Those delinquent accounts are
22 actually still in the data that we
23 analyzed as still being delinquent. We
24 actually showed the distribution of
25 delinquent accounts by number of years

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 delinquent, and there's a big spike right
3 around 1997 or so, which is most of those
4 accounts. So it didn't exactly work out
5 very well.

6 COUNCILMAN JONES: Clarify
7 that. Did it work out for the City
8 getting the advance payment or did it
9 work out for the collector trying to make
10 good on those bad debts?

11 MR. GILLEN: They're still
12 delinquent, is what I mean.

13 MR. GINSBERG: The City did
14 collect a fair amount of money then, but
15 you have to remember that that was a
16 securitization of the liens at that
17 point. That wasn't actually the removal
18 and the resolution of all those liens. A
19 lot of properties remain delinquent, and
20 that's one of the issues with
21 securitization versus a lien sale.

22 MR. GILLEN: As far as
23 targeting goes, we came up with a scoring
24 system in our report to analyze the
25 probability of collection. Every account

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 got a score. So based upon that scoring
3 system I mentioned, you could use smart
4 geographic targeting, if you will, to
5 maximize the probability of collection.

6 In terms of just dealing with
7 individuals, I had mentioned that most
8 municipalities who have a low delinquency
9 rate have the carrot and stick approach.
10 Psychologically, we found anecdotally
11 from talking to the collection agencies,
12 they said it's psychologically very
13 important that even no matter how
14 hardship of a case you are, to get on a
15 payment plan and at least be paying
16 something. Even if it's a nominal
17 amount, you want people committed to the
18 fact that they are a taxpayer, they're
19 still consuming public services, they
20 have to pay something. I know that in
21 New Jersey if you'll hear -- I believe
22 Allan Domb was invited to testify. He's
23 a big advocate of tax lien sales. He'll
24 mention that the tax collection rate in
25 places like Newark and Camden and Trenton

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 is as high as 96, 97, 98 percent. That
3 doesn't mean that 98 percent of all
4 taxpayers in Camden are current on their
5 accounts. It means that 98 percent of
6 all households in Camden are at least
7 paying something every year, even if it's
8 just a nominal amount.

9 Psychologically, it's very
10 important to have people committed to
11 their civic duties. Again, even if
12 financially it may not be a meaningful
13 amount, psychologically it very much is,
14 and of course that incentivizes them to
15 keep maintaining their property and stay
16 in the City.

17 In regards to stick or
18 foreclosure, if you can understand, many
19 officials we spoke with are reluctant to
20 use that because it's unpopular. As one
21 elected official told me, his personal
22 nightmare is grandma on Fox News at night
23 being evicted from her home by the City,
24 saying the City is using her delinquent
25 account as an excuse to gentrify the

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 neighborhood. But we found in
3 municipalities that have -- it's like the
4 nuclear options. If you have the
5 credibility of foreclosure, you actually
6 don't have to use it that often. As long
7 as people -- you work with them to get
8 them on a payment plan that they can pay,
9 and as long as they stay on it and they
10 believe that you will foreclose, chances
11 are you actually won't have to go through
12 the proceedings that much. And that's
13 good for the City, because foreclosures
14 themselves are an expensive process. You
15 have to get the Sheriff and the deputies
16 to evict people. You have to get lawyers
17 and judges involved. Much better that
18 people just pay their bill, right, even
19 if it's a fraction of it?

20 So, again, the credible threat
21 of foreclosure is actually much more
22 powerful than the actual active use of it
23 over the long run.

24 And, lastly, I'd also suggest
25 if you can make the delinquent account

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 file publicly available as part of the
3 City's open transparency, there's plenty
4 of watchdog groups out there in academics
5 and grad students that can analyze that
6 data for you and produce research that
7 could help inform the City.

8 COUNCILMAN JONES: Thank you,
9 Mr. Chairman.

10 MR. PANERELLA: I was involved
11 in that tax lien sale. The
12 Administration and City Council was very
13 risk averse in 1997. So what it did was,
14 you recall, it first had a program, said,
15 Okay, this is the pool. Anybody who
16 comes in and settles, guess what, we're
17 not going to -- settles and makes a
18 payment and enters into a settlement
19 agreement, well, we're not going to --
20 you're not going to be in that pool. And
21 then I don't know who, but a lot of
22 properties then were cherry picked out of
23 the pool. So it ended up, you see -- I
24 mean, if you're going to do it, you have
25 to have the political courage to put the

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 properties in, because it ultimately
3 affects the value of the pool, right?
4 And it was like you can't be afraid of
5 Fox News if you're going to do it,
6 because that one regrettably -- I think
7 bringing those 30,000 people in New
8 Jersey to tax compliance, maybe we sold
9 two or three homes, but there's an axion,
10 what you do to one, you do to all to a
11 known taxpayer group. So if I'm going to
12 actually go to Sheriff Sale, the best
13 thing I could do -- if you were going to
14 have a Sheriff Sale, it should be on Fox
15 News, because everybody will see it, and
16 then that's the deterrent effect. And I
17 think that's what he's saying, but that's
18 really, at the end of the day, that's
19 what you want, because free news is much
20 cheaper than trying to go through the
21 Sheriff Sale process.

22 COUNCILMAN GOODE: Any other
23 questions?

24 Councilman Oh.

25 COUNCILMAN OH: Just one

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 question. Thank you. Looking back to
3 last year when this news broke about the
4 half billion dollars in delinquent taxes,
5 in your mind, any of you, could we have
6 collected some of that money by today's
7 date, and if so, how much could we have
8 collected?

9 MR. GINSBERG: I'll state --
10 we're just going off of what the
11 Commissioner has said. It sounds like
12 they have been whittling down that total,
13 but I'll emphasize that what our research
14 showed was a very high proportion of this
15 was old debt, which led us to conclude
16 that only 30 percent of it or so was
17 collectible. That means that if they are
18 making progress on some part of that 30
19 percent or on some part of that 70
20 percent, then that is some progress. But
21 70 percent we found is uncollectible, or
22 nearly that much. It's just old and
23 really hard to get at. It's money or
24 debt that's spread out all over the
25 region and in perhaps the country.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 MR. GILLEN: Even if it's
3 collectible, the cost of doing so was so
4 high relative to the actual value of the
5 property, the revenues you could get,
6 that it actually would cost you more
7 money to collect than what you would
8 receive.

9 MR. GINSBERG: I'll just make
10 one other point too. Philadelphia is,
11 when it comes to the collection rate
12 being relatively lower, Philadelphia we
13 found was in line with some other poor
14 cities. There are other factors that are
15 at play here. The real estate market,
16 the poverty in the City, all of these
17 things play into it.

18 COUNCILMAN OH: Your report in
19 your testimony is that about \$153 million
20 is collectible. Is that correct?

21 MR. GINSBERG: Correct.
22 Correct. That's what our analysis showed
23 based on the numbers in the delinquency
24 file as of the spring of 2012.

25 COUNCILMAN OH: Okay. And your

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 report, however -- and I don't think
3 that's part of your report -- is when
4 that can be collected, but certainly
5 every year you don't collect it, less of
6 it becomes collectible.

7 MR. GINSBERG: Right. We did
8 an analysis that was based on interviews
9 and methodically collecting impressions
10 from tax collections of what constitutes
11 collectible, what is the characteristics
12 of a tax debt that makes it collectible,
13 and we didn't put a timeframe on that.
14 It's fair to say that we're talking over
15 a period of some years, not in one year.

16 MR. GILLEN: One of the factors
17 that actually determines the probability
18 of collection is how large penalties and
19 interest are relative to the actual
20 delinquent debt. Once P&I starts to pile
21 up, people become very disincentivized to
22 pay, and collection becomes that much
23 harder. But, again, one of the recurring
24 themes I think that we found out is that
25 it's actually much more cost effective to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 prevent people from going delinquent in
3 the first place than it is letting them
4 go delinquent, then trying to collect the
5 back taxes. So going forward, I would
6 suggest devoting just as much resources
7 to that as trying to collect and identify
8 what is already owed.

9 COUNCILMAN OH: Yes. Thank
10 you. So what I'm getting out of this
11 panel -- and I agree and appreciate
12 everything you've said -- is that
13 collecting the taxes that are collectible
14 would seem to indicate that they should
15 be taken to judgment and pursued right
16 away, and that there's a question of
17 whether or not we are taking these
18 delinquencies to judgment and trying to
19 collect them as quickly as possible.
20 That's not any one of your testimony.
21 That's what I collectively get out of it,
22 primarily from the testimony of Nick
23 Panerella. If I am mistaken, you could
24 correct me in my impressions. Thank you.

25 MR. GINSBERG: If I could just

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 add, in our research we didn't look at
3 the actual numbers, but the City does
4 file judgments and does convert some of
5 these in rem to personal judgments. It's
6 a different process. It requires lawyer
7 time on behalf of the City or a
8 contractor to do it, but the City does
9 have a number of personal judgment cases
10 in process at any one time.

11 COUNCILMAN OH: Okay. Thank
12 you.

13 COUNCILMAN GOODE: Thank you,
14 Councilman.

15 Thank you very much.

16 MR. GILLEN: Thank you.

17 COUNCILMAN GOODE: Our next
18 panel is Darrell Zaslow and Robert
19 Zuritsky.

20 (Witnesses approached witness
21 table.)

22 MR. ZASLOW: Good morning,
23 Mr. Chairman, members of the Committee.
24 Councilman Oh, thank you. My name is
25 Darrell Zaslow. I am legal counsel to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 HAPCO, the Homeowners Association of
3 Philadelphia. Victor Pinckney, our Vice
4 President, and Harvey Spear, our
5 President, send their regrets not being
6 here today.

7 Initially, if I may, allow me
8 to -- here's Mr. Pinckney, if he can come
9 sit. He's walking in, I see, as I begin
10 speaking.

11 Initially, we would like to
12 offer our appreciation to Councilman Oh
13 and to this committee and to Council for
14 convening this hearing in the first
15 place. One of the significant problems
16 of government, from our perspective, is
17 the failure to follow up after an issue
18 has passed out of the headlines, and your
19 determination to not allow this critical
20 issue of uncollected revenue to pass with
21 talking about it but no action is much
22 appreciated and really should be
23 recognized by the public, your good
24 efforts to try to solve this problem.

25 The resolution references

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 hearings and proceedings back in February
3 of 2013, a year ago. We had the
4 privilege to sit in these very chairs one
5 year ago and discuss this exact problem,
6 and we proposed at that time as one
7 component of this matter -- only one;
8 there are many obviously -- the legal
9 concept of sequestration. Those of you
10 that know me and know HAPCO, you know
11 that we have been trying to champion this
12 as a vehicle to implement real change for
13 some time, and we will renew that
14 suggestion today.

15 The resolution which Councilman
16 Oh introduced further discussed the
17 appointment of a Chief Revenue
18 Collections Officer. I want to tell you
19 just from our personal experience that
20 you are here on a fact-finding mission,
21 you want to know what's working and what
22 is not working. When our initial
23 discussions regarding sequestration as a
24 potential vehicle were presented to City
25 Council, members of City Council,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 department heads, it was a voice crying
3 out in the wilderness. We had no success
4 really, because every one of you,
5 everybody in the government is busy with
6 a lot of things and it's hard to branch
7 off and do something different. It took
8 one person who, Mr. Knudsen, was
9 appointed to that position. When he
10 received a memo that we prepared -- you
11 have a copy of it attached to your -- a
12 copy of our testimony today -- within a
13 week Mr. Knudsen was on the phone with me
14 saying, You come down, discuss it with
15 us, tell us what it's about, we had
16 something 20 years ago that we did, and
17 convening everyone in the same room at
18 the same time who had something to do
19 with the issue, and that's what's
20 critical, is to gather all the players
21 from all the various departments. And of
22 course you know that, but I draw it to
23 your attention that Mr. Knudsen was able
24 to accomplish that.

25 Now, as to the sequestration

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 concept itself, it's very gratifying to
3 hear the Revenue Commissioner talk about
4 the success of the program, that they
5 have managed to bring in nearly \$3
6 million in revenue because of the
7 program. And if I understood her
8 testimony correctly, that is without
9 firing a shot. That is without
10 appointing someone to go to court to
11 collect the money or manage a property.
12 That is just telling people, threatening
13 them we will do this if you do not
14 comply, and it brought in \$3 million.

15 It was 148 properties, is what
16 I heard the Director mention, the Revenue
17 Director. Also impressive that they've
18 accomplished that. When I look at the
19 Pew study, which was so magnificently in
20 color laid before us today, that there
21 are over 102,000 delinquent properties
22 and we have managed to perform
23 sequestration on 148 properties out of
24 103,000, the number is staggering.

25 I would like to suggest to you

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 again that sequestration be implemented
3 on a much larger scale. The Revenue
4 Department is busy. The Law Department
5 is busy. The Law Department is cautious,
6 as they should be. They're doing what
7 they need to do, but it's not exactly the
8 Revenue Department's bailiwick to come up
9 with a new large program to pour in all
10 the properties and let neighborhood
11 community groups under the auspices of
12 City Councilmembers look at every
13 delinquent property in your districts and
14 put your heads together and say, These
15 250 properties should go into a program
16 of sequestration.

17 Just to remind us of what it
18 is, the City has a sequestrator, like a
19 receiver, who is appointed, with full
20 power to collect the property's rental
21 value, either from the owner if it's
22 owner-occupied or from a tenant if it's
23 tenant-occupied or to put money into a
24 property, a modest amount of money, to
25 make a property habitable and then rent

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 that property out, commercial or
3 residential. The owner pays for
4 everything, every dollar.

5 I heard the really so
6 enlightening testimony of Mr. Panerella.
7 I'm not sure if he's still in the room.
8 Brilliant in his knowledge of these
9 topics. He raised the one issue which is
10 an issue that needs to be addressed on
11 sequestration, and, that is, the
12 potential for liability. We want to be
13 careful about you being the owner of
14 properties, which is why foreclosure can
15 be dangerous. But, again, the statute
16 back from 1923 provides for that. The
17 City has the ability, like anyone who has
18 an interest in real estate, to apply for
19 insurance policies, not at the City's
20 cost, at the cost of the owner of the
21 property, because the owner doesn't get
22 the property back until every dollar of
23 delinquent tax, every dollar of penalty,
24 every dollar of interest, every dollar of
25 management fee, every dollar of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 maintenance cost, every dollar of
3 insurance cost is all paid back to the
4 City of Philadelphia. If it takes 50
5 years to do it, the owner is not going to
6 see their property for 50 years. Plus
7 the City has an opportunity to set the
8 level of rent.

9 You could take properties that
10 you have sequestered and you could say,
11 This is a commercial property, it could
12 be -- the rental value could be \$5,000 a
13 month. We'll rent it for a thousand
14 dollars a month and give some
15 entrepreneur the ability in one of these
16 neighborhoods to get in on the ground
17 level and start some viable commercial
18 enterprise. We commend to you the
19 opportunity to think further about
20 sequestration.

21 I also appended for you today a
22 brief review of the Pennsylvania statute
23 which allows creation of the land bank.
24 The land bank is a natural mesh for the
25 sequestration project. The land bank

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 statute allows the land bank board to
3 manage interests in real estate, not just
4 owning real estate, but all kinds of
5 estates and interests in real estate,
6 meaning a rental estate as well. So to
7 have a sequestration concept poured into
8 the land bank for us is a no-brainer, and
9 we commend to you, Councilman, that
10 somehow it be made to happen.

11 You know us, we are here
12 constantly. We are prepared to serve.
13 We're a non-profit organization. We are
14 looking to serve and help our city.
15 We're looking to lower property taxes for
16 property owners. We believe that this
17 can accomplish something.

18 His Honor, the President of
19 City Council, had a fanfare, a very
20 interesting idea to have 1,500 new
21 housing units created. The cost of it
22 seems staggering. I saw hundreds of
23 millions of dollars being mentioned as
24 the cost of that. With sequestration, I
25 could get you 1,500 properties within a

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 month of getting the program rolling, and
3 you could deal with those properties,
4 take the low-hanging fruit, which is the
5 right word to use, which the Revenue
6 Department collects on its own. You
7 don't have to put that in the
8 sequestration land bank. Let the Revenue
9 Department collect with a letter the
10 money that it can. The hard properties,
11 the hundred thousand properties, the
12 properties which Councilman Oh says,
13 Well, you mean to tell me that we've got
14 a half a billion dollars, but most of it
15 we're never going to see, you could take
16 every property that is delinquent and put
17 it into the program, evaluate the
18 property as to its ability to get back
19 onto the market, residential or
20 commercial.

21 So we commend that. We will
22 probably commend you again if you will
23 somehow assist us and point us in the
24 direction to make it happen. We're ready
25 to do that.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 Just a few other points,
3 because I know your time is late and
4 you've been very patient with all of the
5 testimony.

6 We've talked about the
7 state-of-the-art delinquency data
8 warehouse case management system.
9 Councilman Oh, your resolution
10 specifically says, What is going on with
11 that. I see in the testimony today that
12 hopefully there's going to be an award of
13 a contract in April, and it may take a
14 year or a year and a half after that
15 until this is finally up and running.
16 It's so critical. You don't need me to
17 tell you that or anyone to tell you that,
18 but it has to be done. And if you're
19 looking to say what's the problem, the
20 inability of all of the City agencies to
21 mesh with each other and interlink is a
22 large component of the problem. I'll
23 give you a very simple example, could
24 have saved us a hundred thousand dollars
25 or some number. I don't know what the

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 number would be.

3 Just by having a linkage of
4 systems, the Revenue Department did a
5 fabulous job in notifying all the
6 owner-occupants of the City about the
7 LOOP program. Beautiful letters,
8 beautiful colored brochures, an envelope,
9 and a stamp. They do studies, how much
10 does it cost to send a letter, how much
11 was this envelope. If it was a dollar or
12 less, I'd be surprised if it's less than
13 a dollar. The problem is is that every
14 rental property owner in the City also
15 received the same notice. I have a
16 little stack here. This is just one
17 little stack that I had laying on my desk
18 running in here this morning. But with a
19 cross-referencing, property owners,
20 landlords are required to have a housing
21 license. The purpose of the housing
22 license is for you to cross-reference who
23 we are. With the cross-referencing of
24 housing license properties and not
25 housing license properties, you could

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 have avoided sending this one dollar
3 letter to every landlord in the City. We
4 got them by the mountainful, and it's
5 just really -- it doesn't apply to
6 landlords, because it's only for
7 long-term owner-occupants, nothing to do
8 with a person who is renting out their
9 property. So why we wouldn't have a
10 system with the push of a button which
11 spits out these are the people with
12 housing license, they're not
13 owner-occupied. Just one example among
14 many examples.

15 The same concept with a housing
16 license, with any license, can be applied
17 to cross-reference and see who is who in
18 the City. If you know who a property
19 owner is, if you have a PGW bill in one
20 name and the deed in another name, it's a
21 no-brainer. It's a tenant-occupied
22 property. Go after that property owner
23 who is renting their property without a
24 license.

25 The City is losing revenue for

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 the license. It undercuts good property
3 owners who pay for the license. There
4 are myriad instances across every
5 discipline in the City. Every little
6 business in the City has the same issue
7 that with cross-referencing we could
8 solve problems and bring money in.

9 And, again, this is nobody's
10 fault. It's the fault of old computers
11 and busy people in the City and cutting
12 staff and everyone is working double time
13 to try to make up for it, but it is a
14 solution.

15 Councilman Oh, your resolution
16 wants to know what the status of matters
17 are, and I since remember the number of
18 \$29 million, that all these improvements
19 were going to bring in \$29 million. I
20 have no idea if it happened or it didn't.
21 I see here some numbers that have been
22 mentioned. If you want to really know
23 what's going on, you want to see the
24 data, the real hard data of what the
25 numbers are.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 The increases are very
3 impressive in some areas. The Revenue
4 Commissioner's testimony regarding an
5 increase of 200-some percent on this kind
6 of revenue and 245 percent is all very
7 impressive, until you get to real estate
8 where it was 12 percent. 200 percent,
9 then 100 percent, 245 percent. Look at
10 the Revenue Commissioner's fine
11 testimony. You'll see that the
12 increase -- wonderful that it's an
13 increase. Twelve percent and other
14 things are 100 percent? Something needs
15 to be done, which brings us back to the
16 new bold thinking, something different.
17 What has not worked for the last 50 years
18 is not going to work this coming year
19 either. We are not all that smart to
20 make it happen. A new program might have
21 that ability to do it.

22 So I would suggest to you that
23 you look over the programs that were
24 mentioned a year ago as producing money
25 by this June. Sequestration was one,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 liquor by the glass, cooperating with the
3 state. A lot of overlapping revenues
4 between the State and the City. And the
5 State, from my understanding, was
6 enthusiastic about saying, Yeah, we'll
7 give you our data on who is paying us and
8 how much, and then take a simple look at
9 what they're paying the City to see if it
10 matches. If it doesn't, then you know
11 that there's people who are avoiding
12 their taxes.

13 And one last item. You talked
14 about the modification of the collection
15 of use and occupancy. I have no idea
16 where that stands, to have owners pay or
17 collect the U&O tax instead of the
18 tenant. I'm not sure if that ever saw
19 the light of day. Just so the record is
20 clear, we are against that concept of
21 forcing owners to become tax collectors
22 of U&O for tenants.

23 That is our testimony this
24 morning. I thank you very much for your
25 attention and, again, compliments on

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 trying to get to the bottom of the
3 problem.

4 Thank you.

5 COUNCILMAN GOODE: Thank you.

6 Mr. Zuritsky.

7 MR. ZURITSKY: Good afternoon,
8 Councilmen Goode, Jones, and Oh, and
9 thank you for having this hearing.
10 Robert Zuritsky. I'm President of
11 Parkway Corporation, an 86-year-old
12 business proudly headquartered in our
13 great city, and I'm also here
14 representing the Philadelphia Parking
15 Association, which is -- we represent the
16 majority of the private parking operators
17 in the City, which consist of about 200
18 parking facilities and about 2,500
19 terrific employees.

20 History of taxes on our
21 industry, the parking industry has a
22 history of being the highest taxed
23 industry in the City. We are taxed 20
24 percent of our gross. That was increased
25 33 percent in 2008. We also have a

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 tradition of not being audited in the
3 City. And since I have been a
4 professional in my company, which is over
5 25 years, we have not been audited, which
6 is an amazing thing. The City is
7 anticipating some \$74 million, \$73
8 million from the parking industry and
9 they don't -- they haven't been checking
10 at least until -- they haven't been
11 checking as long as I've been a
12 professional in this city.

13 When the tax went up in 2008,
14 the City was anticipating something like
15 \$76 million, a 33 percent increase in the
16 tax. They did the math and it came out
17 to \$76 million. That year they collected
18 I think roughly \$70 million. That was at
19 the beginning of a recession, which
20 business was hurt, but, again, I think
21 the fact that there is no auditing in our
22 industry also hurt their efforts.

23 Since that tax increase, real
24 estate taxes have gone up in 2010, 2011,
25 and '12. Use and occupancy taxes

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 increased 19 percent in '12 and 16
3 percent for my company in '13. Use and
4 occupancy taxes are now roughly 80
5 percent of the real estate taxes that you
6 pay. That was traditionally 55 percent.
7 So the tax burden has grown dramatically,
8 especially on our industry. The parking
9 industry is supposed to pay 100 percent
10 of the U&O tax regardless of the
11 occupancy of our facilities, unlike other
12 commercial real estate. So we have
13 really been singled out pretty
14 dramatically.

15 The impact of lax enforcement
16 by the City impacts the City in a number
17 of ways. First, the City I think, I
18 believe, needs the money. So bringing in
19 those -- auditing and checking these
20 companies would bring in more money, I
21 believe.

22 Second, the lack of enforcement
23 breeds a culture of lawlessness where
24 operators don't feel that they're going
25 to be caught, so why pay all the taxes.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 The impact on the parking
3 industry has been devastating. These are
4 two books from 2010 that some individuals
5 from my industry went out and found 165
6 parking facilities that weren't licensed
7 in our city. I told you, my association
8 represents only 200 parking facilities.
9 So 165 of them we found are not even
10 licensed. So these people are probably
11 cheating a lot, and there are -- I think
12 there are other operators that are
13 cheating less because they don't feel
14 that they're being audited.

15 So as a company, what this does
16 is, you have good operators, like I
17 consider our company a good operator.
18 I'm paying between 35 and 45 percent of
19 everything we charge our companies to the
20 City in taxes and fees. So the rogue
21 operators who, let's say, on average are
22 getting a 40 percent profit margin
23 advantage over our company. The higher
24 the taxes go on the good operators, the
25 harder we can compete against the bad

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 operators. So over time, the City won't
3 have to worry about the good operators
4 because we'll be gone. We can't compete
5 against the bad operators. These guys
6 are growing and gals are growing, and
7 over time that's what the City will be
8 left with if there's no enforcement and
9 higher taxes.

10 I think there is some good
11 news. Commissioner Tolson is making
12 strides, I believe. Last year she from
13 her department hired a couple of
14 auditors, and I understand they are
15 continuously -- they're being trained now
16 to start to audit the parking industry.
17 Also, the City hired an industry expert
18 to map out the City, and I think there is
19 a process going on right now where this
20 gentleman is going to be looking for
21 where the problems are, and this person
22 has been very successful in other cities
23 in finding the rogue operators and going
24 after them.

25 If the culture of lawlessness

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 is not changed in the City, this is just
3 affecting -- this is not just affecting
4 our little industry, the parking
5 industry. We have the cycle of raising
6 taxes on the good businesses and they
7 struggle and they probably leave. The
8 City has lost hundreds of thousands of
9 jobs over the last couple decades.
10 Office rents are the same as they were 30
11 years ago. They're projecting another
12 70,000 job losses over the next ten years
13 if the cycle does not change.

14 The solution is better
15 enforcement, then lowering of taxes on
16 businesses and wages and parking
17 business, and jobs will be -- will come
18 in and the City will be more prosperous.

19 Lastly, the Controller was
20 here. Alan Butkovitz did a study and
21 released it last week about the
22 effectiveness of KOZ's in the City.
23 Regardless of KOZ's, whether you like
24 them or not, what was fascinating about
25 his study was that the City is not

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 keeping records of who is going into
3 these KOZ's. The City created this
4 program, had a philosophy, which was to
5 better the City, whether that's good or
6 bad. They drove -- there's this huge
7 hole in the system right now where you
8 can claim that you're in a KOZ zone and
9 not pay a lot of the taxes that are
10 required by law. If the City is not
11 checking this program, which has only
12 been about 10 or 15 years old -- I cannot
13 believe that I read that, that there
14 isn't some auditors that are checking
15 just this one function. It's worth a
16 hundred million dollars a year in
17 revenues to the City. And if that
18 happened in my company, whoever was in
19 charge of that would have been let go,
20 because they're not doing their job.

21 So that was -- I was pretty
22 shocked by that, and it was an amazing
23 revelation for the City.

24 Anyway, I'm an optimist. I
25 think there's a lot of hope, and I'm very

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 encouraged by some of the things that are
3 going on, and I think that we need to put
4 the fear of God into the bad operators
5 and go after a couple of them, make a
6 couple of examples, and then I think
7 magically revenues will be enhanced in
8 the City.

9 Thank you.

10 COUNCILMAN GOODE: Thank you
11 for your testimony.

12 Any questions for this panel?

13 COUNCILMAN JONES: Yes.

14 COUNCILMAN GOODE: Councilman
15 Jones.

16 COUNCILMAN JONES: First of
17 all, thank you for -- I've been here long
18 enough now to hear some of the good
19 testimony, and even though the needle
20 moves slowly in the right direction, it
21 is beginning to move in the right
22 direction. And I want to state that
23 Clarena Tolson does hear us. We have to
24 just empower her enough to be able to cut
25 through some of the red tape by way of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 sequestration and to get agencies to talk
3 to each other for a common purpose, and
4 we need to do that right now during the
5 budget period.

6 And the other thing is, you're
7 right. By way of audits, I had a
8 shocking meeting with -- I won't say the
9 industry, but I can just tell you, it was
10 right around the time we were considering
11 the sugary beverage tax. And they sat me
12 down and in a sobering way said,
13 Councilman, it's fine to put another tax
14 on the books, but it's better if you
15 collect the ones that are there. And
16 they said there is a standard in that
17 industry -- and I won't again talk about
18 it; I may talk about it privately --
19 where they said it is better to take your
20 chances on an audit, get caught, get
21 fined. The probability of being audited
22 was so low that it was just worth it. So
23 if you get hit every 10, 15 years, so be
24 it.

25 We have to do a better job of

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 being consistent, predictable to the fact
3 that if you cheat, we will come after
4 you, so that it provides that change of
5 behavior that we need to do. And bandit
6 parking garages are one way to kind of
7 level the playing field for those of you
8 who are citizen, Philadelphian enough to
9 pay your taxes.

10 So we're going to look at those
11 two things. And one thing I know is that
12 the Administration always listens to
13 these hearings and many times actually
14 responds to it, and we hope this is one
15 of those occasions.

16 Thank you, Mr. Chairman.

17 COUNCILMAN GOODE: Councilman
18 Oh.

19 COUNCILMAN OH: Thank you very
20 much. I don't have a question, just a
21 comment, that I do think that one of the
22 things that we can do is -- I think that
23 we should consider doing as a Council
24 body -- is, we should not continue to
25 provide high taxes on industries where

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 only half the operators are paying the
3 tax. I think it's an incentive not to
4 enforce the regulations. I think we
5 should lower the taxes and force the
6 prioritization of enforcement and
7 collection. And I think that is also one
8 of the considerations, at least it's on
9 my mind.

10 Thank you very much.

11 COUNCILMAN GOODE: Thank you
12 very much.

13 MR. ZASLOW: Thank you,
14 Mr. Chairman.

15 COUNCILMAN GOODE: Our last
16 panel is Elizabeth Shay and Montgomery
17 Wilson.

18 (Witnesses approached witness
19 table.)

20 MS. SHAY: Good afternoon.

21 COUNCILMAN GOODE: Please state
22 your name for the record and proceed with
23 your testimony.

24 MS. SHAY: My name is Elizabeth
25 Shay. I work at the SeniorLAW Center and

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 I coordinate the Homeowners Assistance
3 Program there, and I'm here to offer our
4 insights into the urgent and immediate
5 need for funding for legal assistance for
6 low-income Philadelphia seniors age 60
7 and older who are facing real estate tax
8 foreclosure.

9 For 35 years, SeniorLAW Center
10 has dedicated itself to protecting the
11 rights of seniors in a wide universe of
12 legal problems affecting their lives,
13 health, and safety, including saving
14 their homes, preventing homelessness, and
15 helping seniors live safe and independent
16 in their communities, allowing them to
17 age in place. We accomplish our mission
18 in many ways, serving over 8,000 seniors
19 in Pennsylvania each year, the majority
20 of whom are right here in Philadelphia.
21 We focus on low income, minorities, the
22 most vulnerable seniors, homeowners, and
23 tenants in our city. We address the full
24 universe of critical legal issues
25 affecting senior homes, including direct

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 legal representation to seniors in
3 Mortgage Foreclosure Diversion Court, and
4 we address an array of mortgage and
5 reverse mortgage problems and crises and
6 also serve elderly tenants facing
7 eviction in Landlord-Tenant Court. We
8 pursue quiet title for seniors who are
9 living in homes with tangled title,
10 remedying the theft of homes through
11 fraudulent deed transfers. We negotiate
12 on behalf of seniors faced with real
13 estate tax delinquencies and work to
14 protect seniors from financial
15 exploitation and to get stolen funds
16 refunded by banks and credit card
17 companies. Our statewide SeniorLAW Help
18 Line provides daily legal counsel,
19 advice, information, and referral to
20 seniors over the phone. We make home
21 visits to homebound seniors in order to
22 serve those who are severely disabled,
23 chronically ill, and extremely
24 vulnerable. We conduct five community
25 legal clinics each month in diverse

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 neighborhoods of the City, from the
3 Greater Northeast to West Philadelphia
4 and Kensington. We educate, train, and
5 advocate for individuals and collaborate
6 with our partner legal service agencies
7 on systemic problems facing our seniors.

8 Philadelphia has the largest
9 percentage of seniors of the ten largest
10 cities in the country and one of the
11 poorest. Almost 20 percent of
12 Philadelphians are 60 and older, and
13 almost 20 percent, one in five, of our
14 seniors live in poverty. Based on 2012
15 census figures, we estimate there are
16 215,000 senior homeowners in
17 Philadelphia. Many of these seniors have
18 lived in their homes for decades, and the
19 mortgage used to purchase the home was
20 paid off years ago. That means there's
21 no longer a mortgage company watching to
22 make sure real estate taxes get paid.
23 When the tax bills come, many seniors
24 living on fixed incomes and with
25 increasing medical, food, and heating

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 bills and family expenses have a hard
3 time keeping up and often fall behind
4 with tax payments. And in many cases,
5 those tax delinquencies have accumulated
6 over the course of ten or more years.
7 Seniors who want to pay these taxes are
8 often overwhelmed with the amount they
9 owe. Acknowledging this, the Revenue
10 Department created the Owner-Occupied
11 Payment Agreement Program for homeowners
12 with delinquent taxes and based the
13 monthly payments on household income. So
14 SeniorLAW Center staff advises seniors
15 about these agreements on our Help Line,
16 in our neighborhood clinics, and during
17 emergency walk-in hours. We assist the
18 frail and homebound to complete these
19 applications. Many homeowners can apply
20 for these agreements themselves, and help
21 is also available through the OHCD-funded
22 housing counselors.

23 But applying for a payment
24 agreement is not so simple for the
25 delinquent taxpayers living in

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 approximately 14,000 Philadelphia
3 properties with tangled titles. Many
4 seniors and others who occupy properties
5 assume they own the home because they
6 have lived in the property for their
7 entire life, possibly residing there with
8 their grandparents and parents and now
9 with their children and grandchildren.
10 Many seniors are surprised when we
11 explain the probate process and what must
12 be done to make them the record owner of
13 the home. One SeniorLAW Center client is
14 72 years old and he moved into his aunt's
15 home 41 years ago when he was 31. He
16 cared for his aunt until she died in the
17 mid '90s. After her death, the tax bills
18 continued to come in her name and our
19 client tried to keep up. When the client
20 called our Help Line, he had already been
21 sued for tax foreclosure and was
22 threatened with loss of his home.
23 SeniorLAW Center stopped in to unravel
24 his problems and advocate with the City
25 on his behalf to get him into an

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 owner-occupied agreement. We also
3 enrolled him in the homestead exemption,
4 LOOP, and an installment plan for 2014
5 taxes. Now we're probating the aunt's
6 estate and working with her five heirs to
7 transfer the property to our client.
8 During our meeting to work on probate
9 issues, the senior always proudly brings
10 his payment receipts from Revenue,
11 showing that he is keeping up with his
12 tax agreement, making his property
13 compliant and allowing the City to focus
14 its efforts and resources on more
15 valuable unpaid accounts.

16 We are grateful that OHCD has
17 funded a tangled title program which pays
18 the probate fees for our low-income
19 clients living in tangled title
20 properties, but the process of untangling
21 titles and probating the intervening
22 estate consumes considerable legal
23 resources. SeniorLAW Center has
24 experienced a 120 percent increase in the
25 demand for property tax services in the

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 past 12 months. With our current
3 resources, which include no City or OHCD
4 funding, we are able to provide extended
5 legal representation to probate estates
6 and untangle titles for only 31 percent
7 of the seniors who seek our assistance.
8 We offer advice and limited
9 representation to the remaining 69
10 percent who contact us with property
11 issues. We have reassigned staff and
12 added an ABA Fellow and Drexel Public
13 Interest Fellow to handle this work, but
14 the need is overwhelming and both Fellows
15 will leave in the next ten months, with
16 no replacement funding identified.

17 We appeal to City Council to
18 prioritize the funding needed to protect
19 seniors in our communities, those who
20 built our country and provide us with
21 many of the opportunities we all enjoy
22 today. We also have a civil justice gap
23 in Philadelphia and in our country today,
24 and we all should be concerned that only
25 20 percent of the poor who need legal

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 help obtain it, including in the area of
3 shelter. The approach of SeniorLAW
4 Center is multi-faceted. We represent,
5 educate, and advocate for seniors and
6 their rights. We appear several times
7 each month at various forums throughout
8 the City providing legal instruction and
9 education, since we believe that seniors,
10 when armed with legal information, can
11 better protect themselves and thereby
12 lessen the need for legal services in the
13 future. We have gone out into the
14 neighborhoods and instructed seniors
15 about AVI, senior citizen tax freeze,
16 property tax rebate, homestead exemption,
17 owner-occupied payment agreements for
18 delinquent taxes, as well as the changes
19 in the government-guaranteed reverse
20 mortgage product and how to protect
21 themselves from unscrupulous repair
22 contractors and deed fraud. We educate
23 thousands of seniors and their families
24 and professionals working with them every
25 year to also prevent legal problems and

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 strengthen communities.

3 For the past 35 years, we have
4 worked hard to create working
5 relationships with all the players in the
6 diverse aging network in the City and
7 throughout the Commonwealth, and we have
8 established our agency as the expert on
9 legal issues affecting seniors. We are
10 happy to share our insights and have done
11 so for many years as a member of the
12 Tangled Title Committee, administering
13 OHCD funds to low-income homeowners to
14 untangle titles, and at the request of
15 the Department of Records, we joined the
16 Fraudulent Deed Conveyance Committee and
17 we co-chair the Housing Working Group of
18 the Civil Gideon and Access to Justice
19 Task Force, among others.

20 We are a small, nimble agency
21 with a large impact, and we hope to do
22 much more for the seniors of our
23 community in partnership with City
24 Council in the future. We are well
25 positioned to respond to crises as they

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 develop in the senior community in
3 Philadelphia, and this is why I am here
4 making this appeal for funding for
5 SeniorLAW Center and for a new focus on
6 the needs of senior homeowners in our
7 city. Housing is the number one issue
8 facing Philadelphia seniors, and the idea
9 of aging in place is only a dream if
10 those houses are uninhabitable after
11 seniors are ripped off by home repair
12 contractors or if those homes are
13 foreclosed upon due to delinquent real
14 estate taxes or delinquent mortgages or
15 stolen through fraudulent deeds.

16 In response to the rising
17 demand for property tax assistance,
18 SeniorLAW Center developed a targeted
19 intake for seniors threatened with
20 foreclosure due to unpaid taxes, to
21 evaluate and enroll them in the various
22 City and State real estate tax programs.
23 Our quick action has meant that many
24 seniors applied on time for the homestead
25 exemption, the senior citizen tax freeze,

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 the property tax rebate, and the 2014
3 installment plan, and LOOP. In many
4 cases, seniors who opted into these City
5 and State programs saved their homes from
6 foreclosure, reduced their real estate
7 taxes, which allowed them to balance
8 their household budget and provide
9 security to them and their family.

10 Our city and state had the
11 foresight to build programs and
12 protections for seniors, but funding for
13 legal services is critical if seniors are
14 to be able to access these protections.
15 Meanwhile, SeniorLAW Center struggles to
16 meet the increasing legal needs of
17 seniors with no funding from the City.
18 We ask that you recognize the special
19 needs of senior homeowners, including the
20 critical role of legal services in
21 protecting the rights of seniors. The
22 City's support and partnership would be
23 tremendously meaningful and appreciated
24 by the elders of our community, to whom
25 we all owe our respect, attention, and

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 gratitude.

3 Thank you.

4 COUNCILMAN GOODE: Mr. Wilson.

5 MR. WILSON: Do you have

6 questions or shall I...

7 Thank you. Council, my name is
8 Monty Wilson. I'm a lawyer with
9 Community Legal Services in Philadelphia,
10 where I've been defending mortgage
11 foreclosures from private banks since
12 2001, increasingly since, pick a year,
13 2004, 2008. I've been representing more
14 and more homeowners facing property tax
15 foreclosures. Most of you know me. I've
16 been working with the City to try to urge
17 the passage of the tax collection reform
18 ordinance that you voted for unanimously
19 last June and I think was a terrific
20 success.

21 Basically, I represent
22 homeowners, but there are days, Council,
23 that I think it's fair to say I also work
24 for Clarena Tolson. She'd probably be
25 surprised to hear that, but the function

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 of that act isn't just to preserve homes.
3 It's to help the City collect those taxes
4 while the people remain in their homes.
5 And that's an important distinction.
6 This isn't -- this wasn't just a law to
7 keep people in their homes and
8 permanently excuse them from paying
9 taxes. No one who testified here today,
10 including myself, thinks that's a good
11 idea and that the past strategy of make a
12 payment agreement, break it is the way to
13 go. We need to have a strategy that
14 let's homeowners who owe delinquent
15 property taxes remain in their home, yet
16 at the same time pay both the property
17 taxes that are delinquent and maintain
18 their current property taxes that are due
19 each year.

20 One of the things Kevin Gillen
21 pointed out, or perhaps it was
22 Mr. Ginsberg, was the need not just to
23 have the delinquency continually rolling
24 over and aging. We have to let people
25 work their way out of the hole while

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 maintaining their current taxes.

3 I'm here -- we've had a lot of
4 suggestions about things to do to improve
5 collection in the City of Philadelphia,
6 and I have a few for you, but I'm here to
7 also tell you about something we're doing
8 successfully right now. Because of that
9 statute you passed in October, we started
10 moving homeowners into payment
11 agreements. As Mr. Ginsberg pointed out,
12 no other city of the major 30 cities they
13 surveyed has a statutory program like
14 Philadelphia. In my opinion, that makes
15 us a leader in the nation. We are not
16 doing something way out in left field.
17 We are leading the way, and we are doing
18 that by setting up a formal system of
19 written agreements that will let people
20 make affordable payments and pay their
21 current taxes. That is not just
22 something we should think about as an
23 afterthought. That is key to the
24 collection efforts you are making.

25 You've heard a lot about early

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 intervention. That is a form of early
3 intervention. I have a dream, to use
4 another metaphor -- we've heard a lot of
5 metaphors here today -- that one day no
6 one will come into my office who is more
7 than two years delinquent on their
8 property taxes.

9 COUNCILMAN JONES: Amen,
10 brother.

11 MR. WILSON: That it's easy to
12 get them into a payment agreement, they
13 pay their current taxes. If they're a
14 senior, perhaps they're eligible for LOOP
15 or for the senior freeze, and that's the
16 end of it. We don't have to deal with
17 \$20,000, \$30,000 property tax
18 delinquencies for homeowners.

19 The item I passed out to you
20 when the hearing began is a copy of the
21 current contract homeowners get now when
22 they enter an owner-occupied payment
23 agreement. I wanted you to see what's
24 happening right now every day at the
25 Revenue Department and at the City's two

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 co-counsels.

3 In the past when we've heard
4 about default rates on written hardship
5 agreements, in my opinion, those have
6 often been written agreements where there
7 was no actual agreement or form of
8 writing saying these are your obligations
9 to the City and this is what we will do
10 and, at the same time, these are your
11 options. Many of those agreements in the
12 past were simply verbal. You went in,
13 you agreed -- you met with someone at
14 Revenue, and you agreed to make a \$50
15 payment. You made it for a few months
16 and then it fell off the edge of the
17 earth. This is a contract with the City.
18 If you pay and we'll keep your payments
19 affordable, they're tiered to your
20 income, we'll keep you in your home. If
21 you maintain your current taxes, we'll
22 keep you in your home. But like
23 Mr. Gillen noted, if you breach this
24 agreement, there is no second chance,
25 there is no third chance, there is no

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 fourth chance. The Department has
3 discretion to give some people the chance
4 to try again, but in most cases, they
5 will enforce within a year. What we need
6 to do is make sure that that initial
7 break is there to give them the
8 opportunity to remain in their homes.

9 The other thing that that
10 statute did was say that homeowners will
11 be referred to legal service agencies and
12 housing counseling agencies to assist
13 them in getting in these agreements.
14 That is a home -- that is a form of
15 homeowner preservation and a form of tax
16 collection. So when we talk about
17 different ways to get the message out,
18 that non-compliance is no longer
19 acceptable and that we need to let
20 neighborhoods know that they need to pay
21 their taxes, there's already an entire
22 system in place in Philadelphia to help
23 homeowners struggling with their
24 mortgages. We have legal services and
25 homeownership agencies that are funded by

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 OHCD to do work with delinquent mortgage
3 homeowners. We now have, pursuant to
4 that statute, the same expectation that
5 legal services and housing counseling
6 agencies will work with delinquent
7 taxpayers to help them get into the
8 programs they need to get into and start
9 paying on their taxes.

10 I think that will decrease
11 delinquency and, of course, increase
12 payments to the City. That is working to
13 collect taxes for the City.
14 Unfortunately, right now it is unfunded
15 work to collect the taxes for the City.
16 No one would expect the Department of
17 Revenue to do this collection work or
18 their co-counsels to do the collection
19 work, yet not be paid.

20 Currently, as Ms. Shay said,
21 they've seen a 120 percent increase in
22 the number of homeowners coming in.
23 We've seen a 70 percent increase. We are
24 helping and advising hundreds of
25 homeowners how to get into these

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 agreements, as well as on the LOOP
3 program, the deferral program, the
4 homestead exemption. We do it all. But
5 we cannot handle the increasing load and
6 we cannot get these numbers where you
7 want them to be without funding.

8 The article that was in Plan
9 Philly and in the Inquirer last year that
10 set off a lot of this pointed out that
11 there are 40,000 homes in Philadelphia
12 that are residential property tax
13 delinquent properties. Twenty-one
14 thousand of those are probably low- and
15 middle-income families. We need to get
16 those numbers up to where we are advising
17 and assisting 20,000, even 40,000 of
18 those homeowners over the next couple
19 years. We simply can't do that without
20 funding.

21 There are two issues I did not
22 put in my prepared testimony that I want
23 to cover quickly today because they came
24 up and I think they're highly relevant to
25 homeowners. One, I got into this work

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 initially in 2004 because the
3 securitization liens came due in that
4 year, and suddenly over night we
5 literally had 60 people in our office one
6 day on intake, all holding notice of
7 delinquent tax collection based on those
8 old liens that had been securitized, and
9 we began to see more and more increased
10 tax collection for homeowners. What I
11 learned that day very quickly was, there
12 was very few -- well, there were no
13 systematic and formal protections for
14 homeowners in that original
15 securitization agreement. There was --
16 and I sometimes wonder if I'm the only
17 person who has an extant copy of that --
18 an agreement by City Council that no
19 senior would lose their homes and that
20 there would be a hardship payment program
21 and that there would be something called
22 the Lien Substitution Program and that
23 there would be a million dollars set
24 aside out of that lien sale as a grant
25 program for low-income homeowners. Very

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 little of that happened. I do not know
3 what happened to the million dollars. As
4 far as I know, no low-income homeowners
5 that I ever represented received any of
6 those funds. The Lien Substitution
7 Program did happen for years, and I think
8 that's what made the program largely keep
9 homeowners with delinquencies off the
10 radar, but in 2004, it was just
11 unilaterally ended by the City.

12 I'm not against securitization,
13 but I would urge you to recognize that if
14 you're going to securitize the liens or
15 if you're going to sell the liens or the
16 properties at private third-party sales,
17 you need to make sure those same
18 homeowners have either had the
19 opportunity to get into a payment plan
20 with the City and breach and therefore
21 should be eligible for subsequent sale or
22 that those same protections are available
23 for homeowners regardless of who you sold
24 the liens to. We cannot have two
25 different classes of homeowners, those

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 who are lucky enough to be collected on
3 by the City and those who unluckily find
4 themselves privatized.

5 Secondly, I want to talk for a
6 minute about redemption. There was some
7 brief testimony that redemption is unfair
8 and that perhaps it should be eliminated.
9 I do not agree. I would urge Council,
10 before you consider urging Harrisburg or
11 taking any action to eliminate
12 redemption, to look at it carefully. The
13 law does allow right now that you can
14 purchase your property back for nine
15 months from the date the deed is
16 acknowledged. We'll call that nine
17 months from the date of sale. Upon
18 payment in full, if you are an occupant
19 of the property who has lived there for
20 three months. That essentially means
21 this is not an option for everyone. You
22 have to have lived in the property. It
23 has to have been a residential property.
24 You have to have been there for three
25 months at least, and you must make

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 payment in full. This is simply not an
3 option for most people in Philadelphia if
4 they haven't paid the taxes already.

5 I would urge Council, number
6 one, before considering moving against
7 redemption to get the data. Are we
8 suffering from a flood of redemptions in
9 the courts? Ninety percent of the work I
10 do is with homeowners, and I am doing an
11 increasing number of redemptions, but
12 I've still in the past 10 years have
13 perhaps done only 10 or 15. If we have a
14 flood of redemptions and purchasers at
15 these sales are complaining that their
16 title is impaired, there are steps we
17 could take beyond elimination. We could
18 shorten the period for redemption. The
19 buyer isn't even required to make payment
20 until 60 days after the auction. We
21 could limit the redemption period until
22 the deed is recorded. We could limit
23 redemption to owner-occupants so it would
24 be something for homeowners only.

25 But I also want to highlight

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 for you with redemption that the reason I
3 don't think there's a hue and cry is
4 because those third-party purchasers
5 aren't upset when someone redeems,
6 because they are paid back in full, all
7 their costs must be covered, and they
8 must be paid back with interest by
9 statute. So by and large, in every case
10 where I have had a client where I could
11 do redemption, there's been no problem.
12 In fact, the City has been the party who
13 has come in and said, well, it's not just
14 the taxes, remember you must pay all the
15 liens in full, water, gas, any lien on
16 the property in order to redeem.

17 I understand why there was a
18 feeling why should someone be able to do
19 that if they let the property go for
20 sale, but I would urge you to look at it
21 carefully and get the data on whether
22 this is really a problem before you make
23 a decision to say where someone can buy
24 back the property that they live in and
25 pay the City in full, why would we stop

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 that?

3 I've already gone over
4 essentially for why we are already
5 working for the City and doing work that
6 needs to be done to collect the taxes.
7 Right now I have a law intern and a Penn
8 law student intern who are doing a lot of
9 the work for homeowners who are your
10 constituents, including -- and I think
11 Council will be interested in this --
12 drafting a comprehensive real estate
13 property tax handbook, which we intend to
14 be a guide, not just to our low-income
15 program and the owner-occupied
16 delinquency program, but all the tax
17 programs. Hopefully that will become
18 something that Revenue finds useful
19 enough to give to its employees, perhaps
20 even adopt, hopefully something that your
21 staff will want, that all counselors will
22 want. That level of message needs to get
23 out there so that the people that are
24 doing this work have the expertise.

25 We've had a lot of metaphors

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 today. The one I want to use besides
3 being a tree or a house is, we're a
4 little bit of a virus. We are in the
5 position to be out there in the community
6 already to get the word out. Legal
7 services has a reputation in North
8 Philadelphia and South Philadelphia and
9 West Philadelphia. Homeowners know they
10 can come to us. Beyond us, the housing
11 counseling agencies, the HUD-funded ones
12 in Philadelphia, of which there are 26,
13 are already in those neighborhoods. You
14 want to get the word out about tax
15 collections and the options that are
16 available? Get the word out through
17 what's already there, and just like the
18 common cold, pretty soon everybody will
19 have it and everyone will be getting
20 paid.

21 The last suggestion I want to
22 make is one that I think is a winner for
23 everyone. Right now, to the best of my
24 knowledge, it is possible for a taxpayer
25 to pay their property taxes in one lump

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 sum via a credit card electronically to
3 the City of Philadelphia. However, it is
4 not possible to pay it in installments
5 electronically automatically debited from
6 their bank account, not their current
7 taxes, not their delinquent taxes.
8 Mortgage companies have been doing this
9 for years, not because they're the friend
10 of the homeowner, but because it works
11 for them. You want to reduce default
12 rates on taxes, you want to reduce
13 default rates on agreements, you want to
14 reduce the erraticness of collection and
15 make collection easier? I think it is a
16 win-win both for the homeowner and for
17 the City to set up a system, not just
18 where you can call in and make a credit
19 card payment, but where you can authorize
20 the automatic monthly electronic
21 deduction of your current taxes,
22 hopefully in advance so that when you
23 arrive at the end of the year, you've
24 paid in full, and a separate withdrawal
25 for delinquency, if that's necessary.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 That will guarantee a certain flow of
3 income to the City and keep the homeowner
4 in their home. I don't see how we could
5 not possibly work towards it, and I would
6 urge Council to urge the Revenue
7 Department to make that a priority.

8 In closing, we're doing good
9 work. You're moving forward.
10 Surprisingly, I want to be one of the
11 tools in Ms. Tolson's toolbox, but in
12 order for legal services, the SeniorLAW
13 Center, and the housing counseling
14 agencies to do that, we need the funding,
15 and I hope you can see your way to not
16 just giving us the money because it helps
17 homeowners, but giving us the money
18 because it helps you collect the property
19 taxes each year.

20 Thank you.

21 COUNCILMAN GOODE: Thank you
22 for your testimony.

23 Councilman Jones.

24 COUNCILMAN JONES: I just want
25 to thank both of you, the SeniorLAW

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 project, who is meeting with my staff
3 today, I believe, and Community Legal
4 Services for what you do. You are the
5 moral compass for me not to come and
6 affix with Nicholas Panerella's kind of
7 intoxicating collection efforts. I
8 understand there are unintended
9 consequences that come with that, and one
10 of them is homelessness, and those things
11 have an adverse effect on poor people
12 trying to maintain.

13 So I applaud you on your work
14 with reverse mortgages. We just had a
15 case come into our office where
16 individuals after demise of their
17 parents, six or so kids that lived in the
18 house are now going to become homeless
19 because they are calling due the amount
20 that was given while the mother was
21 alive. And so those are the kinds of
22 services that we need continued. And I
23 heard at least seven times -- I counted
24 the number of times -- that we don't pay
25 you, we don't fund you. So it got

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 through to at least me.

3 MR. WILSON: Good.

4 COUNCILMAN JONES: So we will
5 take a look at that.

6 Predatory lending, something
7 that Councilwoman Tasco has long been a
8 voice against, and we did something
9 together on the Mortgage Diversion
10 Program calling stakeholders together
11 when we saw the high number of Sheriff
12 Sales coming in the City to bring banking
13 institutions, advocacy groups to come
14 with Judge Rizzo to do an award-winning
15 national model for diversion. And I also
16 salute Maria Sanchez and Bill Green for
17 introducing the bill and law that you
18 spoke about approved by members of
19 Council.

20 So we appreciate what you're
21 doing. We know that we should pay you at
22 least attention, and if not, something
23 else for what you do for our
24 constituents, and we get it.

25 AVI and the tangled title

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 issue, it came to light because a lot of
3 the remedies for people that might be
4 long-term homeowners, particularly in
5 older parts of the City. North, South,
6 West Philadelphia, even Northeast
7 experience the fact that families, three
8 generations, four generations, bought the
9 house, but now have never updated the
10 title to reflect the current owners, and
11 so many of them aren't necessarily
12 eligible for some of the reliefs that we
13 have.

14 MS. SHAY: Well, when we
15 created -- the legal services community
16 weighed in on those payment plans. We
17 advocated and were successful in getting
18 equitable owners eligible. So an
19 equitable owner is somebody who you won't
20 find their name in the City's land
21 bank -- the land records. It's somebody
22 who is living in it and is an heir of the
23 person who owns that property, and that
24 makes them the equitable owner. And
25 thank goodness we were able to work with

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 Revenue to get those equitable owners
3 protected, but the City wants those
4 titles cleared and they want those deeds
5 transferred to those owners so that the
6 day will come that our record owners will
7 be listed on our rolls and not just the
8 heir of the --

9 COUNCILMAN JONES: So that's
10 when the issue came to at least my light.
11 And the other part of the shoe to fall to
12 that is they can't get loans on home
13 improvement.

14 MS. SHAY: And the City's basic
15 repair programs, for instance, they can't
16 opt into those, right. It's terrible.
17 And that's when the repair scams happen,
18 because there's no other alternative for
19 these poorer individuals.

20 COUNCILMAN JONES: So I just
21 want to thank you, and we heard you loud
22 and clear at least on several occasions
23 that we have not funded you, which comes
24 as a basic surprise to me, because you're
25 an integral part of what we do by way of

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 our outreach and protection for our
3 constituents.

4 So thank you.

5 MS. SHAY: Thank you.

6 COUNCILMAN GOODE: One slight
7 correction in the record, Councilman. We
8 don't pay SeniorLAW Center. We do pay
9 Community Legal Services. Maybe not
10 enough, but we do pay them.

11 MR. WILSON: I was going to
12 make that correction. You don't fund us
13 for this work, though.

14 COUNCILMAN GOODE: Councilman
15 Oh.

16 COUNCILMAN OH: Thank you.

17 COUNCILMAN JONES: Councilman,
18 just real quick. We've committed some
19 money for expungements for CLS. My staff
20 told me that. So it's a different
21 column.

22 MR. WILSON: Yes. You do fund
23 other projects. I think that since this
24 is work to help the City collect, this
25 should be on your list of priorities.

1 3/24/14 - APPROPRIATIONS - RES. 140071

2 On the tangled title issue, if
3 you could just speak for one minute.

4 COUNCILMAN JONES: I'm sorry,
5 Councilman.

6 COUNCILMAN GOODE: Councilman
7 Oh.

8 COUNCILMAN OH: Yes. Thank you
9 very much. Well, I just wanted to thank
10 you both for coming in and adding that
11 balance to these hearings. I think there
12 are a lot of very valuable programs that
13 need to be funded, such as yours. We are
14 faced with the issue of the fact that if
15 we increase taxes and fees and other
16 things once again upon this population,
17 it makes it even more burdensome, and we
18 have a lot to fund. We're short on
19 funds. Everybody is aware of the schools
20 and things like that. What's on the
21 table is this uncollected money, and to
22 the extent that we can aggressively and
23 effectively collect it while being
24 balanced and fair and ensuring that we
25 are not doing things that are harmful to

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 our community, we really have to pursue
3 that to the best of our ability, and I
4 hope what comes from this, with your
5 input, is an ability to put all our heads
6 together to come up with a way of
7 ensuring that we are able to receive
8 these resources and put them to work as
9 quickly as possible.

10 So thank you for your testimony
11 and time.

12 MR. WILSON: Thank you.

13 MS. SHAY: Thank you.

14 COUNCILMAN GOODE: Thank you
15 very much.

16 MS. SHAY: Thank you.

17 COUNCILMAN GOODE: Is there
18 anyone else to testify on this
19 resolution?

20 (No response.)

21 COUNCILMAN GOODE: Seeing none,
22 the hearing on this resolution is
23 recessed to the call of the Chair.

24 Thank you very much.

25 (Committee on Appropriations

1 3/24/14 - APPROPRIATIONS - RES. 140071
2 recessed at 1:05 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
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foregoing matter, and that this is a true and
correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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certifying reporter.)

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AAA 106:22	70:25 71:10	additional 17:17	advises 148:14	139:11 147:20
ABA 151:12	77:2 107:21,25	62:4 64:2 92:19	advising 162:24	149:15
ability 8:17,19	108:4 110:5	additionally	163:16	agree 25:8 47:5
13:24 124:17	150:15	41:17 42:6	advocacy 174:13	89:9 117:11
125:15 127:18	accumulated	address 10:15	advocate 91:4	166:9
132:21 179:3,5	148:5	13:17 15:25	109:23 147:5	agreed 160:13,14
able 12:6 18:6	accuracy 77:4	25:11 31:9 33:7	149:24 152:5	agreement 89:21
27:25 31:20	accurate 77:7	37:10,15 43:21	advocated 175:17	112:19 148:11
35:13 40:15	accurately 28:2	96:12 145:23	affect 93:19	148:24 150:2,12
46:16 59:3	181:5	146:4	affiliation 73:16	157:12 159:12
104:16 105:3	achieved 16:20	addressed 124:10	affix 173:6	159:23 160:7,24
121:23 141:24	acknowledged	addresses 28:25	afford 87:13	164:15,18
151:4 155:14	166:16	29:3	affordable 158:20	agreements 7:12
168:18 175:25	Acknowledging	addressing 25:14	160:19	18:21 89:10
179:7	148:9	33:10 40:11	afraid 98:20	148:15,20
absence 77:8 78:3	act 24:23 74:7,7	adds 46:5	113:4	152:17 158:11
78:19	74:11,13 157:2	adhere 56:2 74:5	afternoon 60:22	158:19 160:5,6
Absent 90:17	acting 56:24	80:18	134:7 144:20	160:11 161:13
absolutely 78:9	action 5:19 10:12	administered	afterthought	163:2 171:13
academics 112:4	16:9,20 19:5	57:23 101:8	158:23	aid 89:24
accept 16:15	50:20 119:21	administering	age 145:6,17	ala 89:3
29:18	154:23 166:11	153:12	agencies 9:17,18	Alan 4:10 139:20
acceptable 28:17	actions 50:16	administration	10:18 12:11	alarm 14:19
161:19	55:25 56:9 57:7	14:14 17:15	40:23 43:20	alive 173:21
accepted 74:12	57:13 67:6 74:2	26:21,22 46:5	47:10 69:3 75:7	Allan 109:22
access 153:18	active 21:23 22:3	55:19 67:24	76:10,13 109:11	allocate 88:24,25
155:14	62:14 66:21	70:14 72:11	128:20 142:2	98:15
accomplish	111:22	82:10 90:5 98:5	147:6 161:11,12	allocated 72:6
121:24 126:17	actively 64:13	103:11 106:17	161:25 162:6	allocation 90:11
145:17	activities 5:19	112:12 143:12	170:11 172:14	allow 11:24 24:25
accomplished	38:15 41:4	Administrations	agency 9:24 10:24	45:17 119:7,19
122:18	activity 6:16,17	45:16	40:18 44:24	166:13
account 10:25	38:11 47:8	administrative	67:25 70:6	allowed 45:6
60:16 64:18	actual 23:24	67:22 72:21	73:19 75:10	89:21 155:7
65:24 70:18	54:21 93:22	73:25 75:20	91:10 153:8,20	allowing 15:23
71:8 72:14,16	111:22 115:4	administrator	agency's 73:20	145:16 150:13
75:20 76:2,4	116:19 118:3	68:12 89:18	agents 85:5	allows 125:23
91:7,7 108:25	160:7	adopt 17:24	aggressive 17:25	126:2
110:25 111:25	Act's 74:12	169:20	64:22 106:4	all-city 52:18
171:6	add 18:4 75:13	adult 80:12	aggressively 38:5	alternative
accounting 38:14	118:2	advance 108:8	178:22	176:18
70:24 71:18	added 49:17	171:22	aging 153:6 154:9	amazing 34:25
accounts 7:4 9:23	151:12	advantage 78:21	157:24	135:6 140:22
10:15 11:11	adding 178:10	137:23	ago 32:23 34:3,18	ambit 74:10
15:8 20:11	addition 7:3 8:25	adverse 173:11	56:15 102:18	Amen 159:9
62:10 63:11	9:16 10:8 16:2	advice 107:14	107:21 120:3,5	amended 56:15
	59:13	146:19 151:8	121:16 132:24	America 66:23

amnesty 33:18,23 33:25 34:6,9,14 82:11	applications 148:19	42:1 43:1 44:1 45:1 46:1 47:1 48:1 49:1 50:1 51:1 52:1 53:1 54:1 55:1 56:1 57:1 58:1 59:1 60:1 61:1 62:1 63:1 64:1 65:1 66:1 67:1 68:1 69:1 70:1 71:1 72:1 73:1 74:1 75:1 76:1 77:1 78:1 79:1 80:1 81:1 82:1 83:1 84:1 85:1 86:1 87:1 88:1 89:1 90:1 91:1 92:1 93:1 94:1 95:1 96:1 97:1 98:1 99:1 100:1 101:1 102:1 103:1 104:1 105:1 106:1 107:1 108:1 109:1 110:1 111:1 112:1 113:1 114:1 115:1 116:1 117:1 118:1 119:1 120:1 121:1 122:1 123:1 124:1 125:1 126:1 127:1 128:1 129:1 130:1 131:1 132:1 133:1 134:1 135:1 136:1 137:1 138:1 139:1 140:1 141:1 142:1 143:1 144:1 145:1 146:1 147:1 148:1 149:1 150:1 151:1 152:1 153:1 154:1	applied 74:15 130:16 154:24 apply 31:13 32:9 74:8 124:18 130:5 148:19 181:20 applying 28:18 76:17 148:23 appoint 7:16 appointed 94:16 121:9 123:19 appointing 122:10 appointment 120:17 appreciate 9:9 117:11 174:20 appreciated 119:22 155:23 appreciation 119:12 approach 97:11 105:25 109:9 152:3 approached 4:12 48:10 98:4 118:20 144:18 appropriate 10:8 16:16,20 33:8 33:23 34:16 41:3 Appropriations 1:3 2:5 3:1 4:1 5:1 6:1 7:1 8:1 9:1 10:1 11:1 12:1 13:1 14:1 15:1 16:1 17:1 18:1 19:1 20:1 21:1 22:1 23:1 24:1 25:1 26:1 27:1 28:1 29:1 30:1 31:1 32:1 33:1 34:1 35:1 36:1 37:1 38:1 39:1 40:1 41:1	155:1 156:1 157:1 158:1 159:1 160:1 161:1 162:1 163:1 164:1 165:1 166:1 167:1 168:1 169:1 170:1 171:1 172:1 173:1 174:1 175:1 176:1 177:1 178:1 179:1,25 180:1 approved 174:18 approximately 7:24 149:2 April 12:4 59:17 128:13 area 68:21 78:8 152:2 areas 16:12 49:16 132:3 argued 18:17 armed 152:10 Army 66:19 107:5 array 146:4 arrested 69:15 87:20 arrive 171:23 arrived 60:20 arsenal 54:16 80:25 article 163:8 articles 27:19 aside 164:24 asked 27:17 94:11 asking 47:15 87:23 104:13 asset 96:3 assets 87:11 96:4 96:8 assigned 8:2 assignments 66:23 assist 25:21 127:23 148:17 161:12	assistance 145:2,5 151:7 154:17 assistant 67:9,22 assisting 163:17 assists 8:24 associated 55:10 association 59:16 119:2 134:15 137:7 assume 149:5 assure 10:6 Atlanta 53:4 attached 103:5 121:11 attaching 10:23 attempt 71:16 attempts 62:14 attendance 20:3 attendant 79:14 attended 67:8 attention 16:12 30:25 86:25 94:6 121:23 133:25 155:25 174:22 attitude 19:16 attorney 78:7 attorneys 79:22 auction 55:15 65:2 167:20 audit 14:25 22:21 22:22 23:15,17 27:4 71:11 72:15 77:6,9,15 83:8,11,13 89:5 89:25 90:20,25 98:9,12,23 99:7 103:24 104:2,7 104:16 105:8 138:16 142:20 audited 88:18,19 98:15 135:2,5 137:14 142:21 auditing 135:21 136:19 auditor 23:18 104:8
---	-------------------------------	---	--	---	--

auditors 138:14 140:14	46:9,14 55:4 56:14 58:20	battle 107:9	beverage 142:11	bravado 76:11
audits 70:18 77:3 77:3,10,21,25 88:17 97:20 142:7	82:9,12,19,22 83:3 104:8,18 114:2 117:5 120:2 124:16,22 125:3 127:18 132:15 166:14 168:6,8,24	battlefield 107:7	beyond 77:16 86:21 167:17 170:10	breach 160:23 165:20
aunt 149:16	backfire 59:6	beautiful 129:7,8	big 23:6 54:8 94:4 108:2 109:23	break 86:11 100:7 157:12 161:7
aunt's 149:14 150:5	background 66:16 68:23	becoming 50:15 77:23	bigger 95:11	breaking 86:22
auspices 123:11	backlog 26:10	began 10:19 159:20 164:9	biggest 54:16 63:6 64:7 95:8	breeds 136:23
author 48:22	bad 14:25 15:5,20 16:5 103:11 108:10 137:25 138:5 140:6 141:4	beget 63:3	bill 42:3,4,8,19,24 43:8,13 44:22 111:18 130:19 174:16,17	BRESLIN 21:14 21:17,20 22:2 22:12,16 23:3,7 23:16
authorities 54:24	bailiwick 123:8	beginning 63:8 96:22 135:19 141:21	billed 33:15	Bridge 83:15
authorize 171:19	balance 80:6 155:7 178:11	behalf 91:13 118:7 146:12 149:25	billing 42:6	brief 61:11 125:22 166:7
authorizing 1:13 2:11 4:25	balanced 178:24	behavior 6:20 71:23 72:4 80:7 105:7 143:5	billion 2:23 3:17 37:11 39:11,15 40:12 41:8 44:11 114:4 127:14	briefly 70:19
automatic 171:20	Baltimore 53:4	believe 6:24 16:19 24:23 27:4 28:6 39:10 40:14,17 41:21 44:20 68:25 80:14,16 91:11 92:6 94:25 109:21 111:10 126:16 136:18,21 138:12 140:13 152:9 173:3	bills 14:20 33:4,9 42:11,20 43:7 43:11,16 147:23 148:2 149:17	Brilliant 124:8
automatically 53:20 171:5	bandit 143:5	believed 3:16 30:19	Bingo 101:16	bring 82:8 87:9 104:17 122:5 131:8,19 136:20 174:12
automobiles 9:14	bank 15:3,4,9,18 15:22 16:11 60:13 125:23,24 125:25 126:2,8 127:8 171:6 175:21	beneficial 89:23	BIRT 7:10 20:17 21:16,22 22:3 22:13	bringing 69:22 90:8 113:7 136:18
available 3:20 8:19 17:22 35:20 49:20 112:2 148:21 165:22 170:16	banking 174:12	Bensalem 68:15	bit 170:4	brings 132:15 150:9
average 8:10 61:22 62:2 137:21	banks 54:24 146:16 156:11	Beret 102:6	Black 68:17	broader 95:12
averse 112:13	bar 38:13 67:13	best 3:20 10:13 43:18 51:6 54:4 61:12 62:5 65:22 113:12 170:23 179:3	board 13:3 73:24 126:2	brochures 129:8
AVI 20:9 24:4,4 152:15 174:25	bars 30:15	better 11:25 17:24 27:24 36:7 57:17 96:10 97:20 105:2 111:17 139:14 140:5 142:14,19,25 152:11	body 143:24	broke 114:3
avoid 24:6	base 78:12 82:22	beneficial 89:23	bold 132:16	brother 159:10
avoided 130:2	based 18:13 71:3 109:2 115:23 116:8 147:14 148:12 164:7	Bersalem 68:15	bond 71:3	brought 86:13 122:14
avoiding 133:11	basic 176:14,24	Beret 102:6	books 23:19,23 58:12 137:4 142:14	Bucks 24:18
award 68:20 128:12	basically 22:5 72:25 82:11,15 82:17 156:21	best 3:20 10:13 43:18 51:6 54:4 61:12 62:5 65:22 113:12 170:23 179:3	board 13:3 73:24 126:2	budget 3:7 27:14 45:22 46:24 142:5 155:8
awarded 68:18	basis 10:5,22 57:13	better 11:25 17:24 27:24 36:7 57:17 96:10 97:20 105:2 111:17 139:14 140:5 142:14,19,25 152:11	body 143:24	build 37:18 155:11
award-winning 174:14	batch 103:18		bold 132:16	building 5:18 8:16 9:2
aware 178:19			bond 71:3	buildings 10:11
awful 26:25			books 23:19,23 58:12 137:4 142:14	built 151:20
axiomatic 78:2			bootstrap 103:24	bull 36:25
axion 113:9			born 66:16	burden 13:23 70:2 87:2 96:6 100:23 136:7
a.m 1:7			Boston 54:2	burdensome 178:17
B			bottom 134:2	
back 7:17 13:12 17:4,10 45:15			bought 175:8	
			box 102:7	
			boxer 105:11	
			boy 88:25	
			branch 121:6	

bus 77:16 98:10 99:8	174:10	centers 107:6	13:9	68:9 86:4 87:24
business 6:19	calls 76:8	Central 66:23	characteristics	92:3,13,18,19
10:20,23 11:3	Camden 66:17	certain 31:4 49:18	116:11	93:6,12,17
18:15 23:19	109:25 110:4,6	172:2	charge 137:19	94:22 105:21
31:8,10 38:16	candidates 71:11	certainly 9:8	140:19	115:14 138:22
38:19,22,23	104:17	33:22 34:15	Charitable 3:15	147:10 158:12
40:24 67:23	can-do 19:15	41:13 80:12	39:10 48:22	citizen 143:8
75:2 76:22	capacity 10:17	82:13 116:4	61:8	152:15 154:25
77:11 78:18	card 16:14 146:16	CERTIFICATE	charts 50:3	citizens 13:25
79:5 81:17	171:2,19	181:2	cheaper 113:20	96:7
91:19 92:14	care 24:16 43:14	certification	cheat 143:3	city 1:2,6,13,15
94:23 95:14	cared 149:16	181:19	cheating 137:11	2:12,15 3:6,9,21
99:18 107:11	careful 81:8	certified 16:13	137:13	4:11,23 5:6 6:23
131:6 134:12	124:13	CERTIFY 181:3	check 15:10 16:8	9:11,11,19
135:20 139:17	carefully 166:12	certifying 181:23	16:13	12:14 13:17
businesses 6:22	168:21	chain 85:9	checking 135:9,11	14:3,14 15:2,21
7:2 8:4 10:6	caricatured 13:2	Chair 1:10 2:7	136:19 140:11	16:8 17:2,8,13
14:23 30:4,6,7	Carlton 32:2	20:2 31:19	140:14	17:16,19,23
30:10 77:11,12	carries 57:6	179:23	checks 14:25 15:5	18:18 19:14
79:14 139:6,16	carrot 64:14,14	Chairman 2:21	15:7,13,14,21	24:11 25:12
business-oriented	66:3 109:9	4:4 12:23 20:6	15:22,23 16:5	28:25 30:23
96:17	carrots 29:17	36:9,15 47:25	16:15 30:17	32:13 34:2
busy 121:5 123:4	cascade 63:20	112:9 118:23	cherry 112:22	37:18 41:14,18
123:5 131:11	case 85:7 87:17	143:16 144:14	Chester 68:14,15	45:7 46:10,18
Butkovitz 4:10	93:3 109:14	chairs 120:4	Chief 4:21 120:17	49:15,22 51:5
12:22 13:15	128:8 168:9	challenge 17:17	children 6:23	52:17 54:2,2
20:7 26:4,7,8	173:15	challenges 20:18	149:9	56:15,23 58:23
30:20 32:16	cases 64:17 67:23	44:19 49:13	chilling 85:18	59:13 62:15
139:20	69:7 76:14	challenging 78:12	choice 56:9	67:9,10,12,13
button 130:10	118:9 148:4	champion 120:11	choose 83:4,6	67:19 68:11,14
buy 168:23	155:4 161:4	chance 2:19	chose 49:15	69:6,12,21 70:9
buyer 167:19	cash 15:10	160:24,25 161:2	chosen 56:19	71:6 73:3,9,10
buys 84:6	cashiering 11:15	161:3	chronically	73:23,24 74:4
	11:17	chances 111:10	146:23	74:20 75:14,24
	caught 136:25	142:20	Cindy 84:7	76:19,21,24
C	142:20	change 6:20 35:7	circumstances	77:13,13,14
CAL 8:3 10:25	causing 15:9	71:23,24 80:17	33:13	78:7,8,15,19,25
29:24 35:19	cautious 123:5	86:24 101:14	circumvent 99:12	79:23 80:2,10
California 68:8	census 147:15	104:2 120:12	cities 17:15 49:8	80:11,15,17,20
call 43:5,10 73:21	center 107:9	139:13 143:4	49:17 50:9,11	81:25 82:8,14
75:11 166:16	144:25 145:9	changed 33:15	50:12,13,18,24	83:8 85:4,8
171:18 179:23	148:14 149:13	60:9 139:2	50:24 51:8,11	88:12,20,21
called 2:3 43:5	149:23 150:23	changes 41:25	52:13,15,20,22	89:6,13,17 90:2
78:6 103:14	152:4 154:5,18	47:7 52:14	53:2,9 54:8,15	90:14,14 91:13
149:20 164:21	155:15 172:13	103:25 152:18	54:20 55:3 56:2	92:25 95:3 96:7
calling 43:4 76:7	177:8	changing 47:21	56:8 57:18 58:5	97:23 98:6,7,10
106:5 173:19	centerpiece 6:15	characteristically	62:3,7 64:12	98:25 99:2,7

104:14 108:7,13 110:16,23,24 111:13 112:7,12 115:16 118:3,7 118:8 120:24,25 123:12,18 124:17 125:4,7 126:14,19 128:20 129:6,14 130:3,18,25 131:5,6,11 133:4,9 134:13 134:17,23 135:3 135:6,12,14 136:16,16,17 137:7,20 138:2 138:7,17,18 139:2,8,18,22 139:25 140:3,5 140:10,17,23 141:8 145:23 147:2 149:24 150:13 151:3,17 152:8 153:6,23 154:7,22 155:4 155:10,17 156:16 157:3 158:5,12 160:9 160:17 162:12 162:13,15 164:18 165:11 165:20 166:3 168:12,25 169:5 171:3,17 172:3 174:12 175:5 176:3 177:24 city's 13:23 15:18 45:10 54:16 67:14,16 68:24 80:24 112:3 124:19 155:22 159:25 175:20 176:14 City-based 78:18 civic 110:11 civil 73:5,7 74:21 75:21 80:19	87:18 151:22 153:18 civilian 69:8 90:7 90:8,21 claim 75:19 140:8 claims 70:8 73:5 clamored 30:21 Clarena 4:9,21 36:18 141:23 156:24 clarification 97:20 Clarify 108:6 class 87:24 90:9 classes 165:25 clear 51:2 53:11 53:16,18 60:8 133:20 176:22 clearance 10:8 32:8,14,18 cleared 32:6 176:4 clearly 27:10 52:24 55:10 Cleveland 53:14 54:7 58:20 client 68:6 88:20 89:22 103:22 149:13,19,19 150:7 168:10 clients 68:7 88:19 99:6 150:19 clinics 146:25 148:16 closed 15:8 30:18 closely 9:18 closer 9:2 15:11 53:6 closing 172:8 CLS 177:19 club 97:2 cluster 62:25 code 79:24 89:15 codes 97:25 codified 58:2 coerced 72:3 80:7 coercion 98:18	cold 170:18 collaborate 147:5 colleague 96:22 colleagues 61:8 collect 3:22 7:19 14:13 17:7 45:8 45:14 46:16 51:18 62:3,19 76:24 85:23 95:4 101:4 103:20 108:14 115:7 116:5 117:4,7,19 122:11 123:20 127:9 133:17 142:15 157:3 162:13,15 169:6 172:18 177:24 178:23 collected 7:8,23 30:3 39:17 44:9 78:24 114:6,8 116:4 135:17 166:2 collectible 3:18 39:13 40:14 49:10 114:17 115:3,20 116:6 116:11,12 117:13 collecting 16:18 17:14 29:22 33:5 41:8 45:11 46:9 67:16 69:13 82:24 85:5,10 116:9 117:13 collection 5:7,19 6:2,15 8:24 9:17 9:24 10:18 11:3 11:7 12:12 15:17 16:6 17:20 24:20 37:11,17 38:2 40:11,16,18,22 41:2,4,5 43:20 43:22 44:3,23	47:7,10 49:7 55:11,24 57:7 61:13,19 62:6 62:14,17 63:10 63:12 64:6,8,13 65:17,18 69:3 70:6 71:2 72:16 72:17 73:13,19 74:4,7 75:7,10 76:10,13 80:25 91:10 97:10 102:20,22 107:17 108:25 109:5,11,24 115:11 116:18 116:22 133:14 144:7 156:17 158:5,24 161:16 162:17,18 164:7 164:10 171:14 171:15 173:7 collections 1:14 2:13 4:22 5:4 6:6,8,10,12,14 9:21 11:12 12:2 18:9 19:20 37:5 37:15,25 45:23 49:3 50:7 63:5 70:18 72:15 80:16 116:10 120:18 170:15 collectively 117:21 collector 108:9 collectors 44:8 46:12,20 53:23 76:2,3,6 133:21 collects 127:6 color 122:20 colored 129:8 Columbia 68:9 column 177:21 come 4:11 12:25 29:7 30:7 32:7 34:25 35:4 36:24 80:5 83:6 83:9 84:7 90:22	119:8 121:14 123:8 139:17 143:3 147:23 149:18 159:6 168:13 170:10 173:5,9,15 174:13 176:6 179:6 comes 38:22,24 55:24 92:5 104:8 112:16 115:11 176:23 179:4 comfortable 46:7 coming 30:16 36:17 47:8 90:19 94:4 132:18 162:22 174:12 178:10 commanded 67:3 commend 125:18 126:9 127:21,22 comment 143:21 commentary 44:18 commercial 6:16 9:23 24:13 38:11,15 74:15 124:2 125:11,17 127:20 136:12 Commissioner 4:10,15,17,23 13:5,13 18:6,7 18:10 19:17 20:7,25 21:14 21:17,20 22:2 22:12,16 23:3,7 23:16 24:21 28:3,22 31:6,23 32:2 33:6,22 36:19 37:6,12 39:18 40:2,6,21 41:12 44:14 45:4 46:25 48:5 60:10 81:3 89:8 114:11 122:3 138:11
--	---	---	--	--

Commissioners 21:3	comparing 50:11	95:10	considering 33:19	contractors 19:2
Commissioner's 132:4,10	comparison 49:14	compound 74:3	93:20 142:10	32:12 152:22
committed 7:12	59:14 79:8	comprehensive 11:16 77:8	167:6	154:12
109:17 110:10	compass 173:5	169:12	consist 134:17	contracts 32:13
177:18	compel 74:2 75:8	computerization 26:23	consistent 143:2	76:20
committee 1:3 2:5	79:22 87:20	computers 131:10	consistently 52:17	contrary 60:14
2:7 5:2 20:3	compelling 71:20	concept 86:9	constantly 126:12	contribute 5:13
118:23 119:13	91:21	120:9 122:2	constituents 169:10 174:24	contributes 56:10
153:12,16	compels 77:6	126:7 130:15	177:3	contributing 27:10
179:25	compete 137:25	133:20	constitute 94:25	control 181:22
common 42:23	138:4	concern 43:25	constitutes 116:10	Controller 4:11
57:14 70:11	compiling 54:13	45:3 47:19,20	construction 70:4	12:21,22 13:15
86:18 100:11	60:12	concerned 151:24	Consultant 60:25	20:6 24:8 26:4,6
101:12,25 142:3	complaining 167:15	concerns 20:10	consultants 44:4	26:8 32:11,16
170:18	complete 148:18	45:19 85:2	44:8 46:11	139:19
Commonwealth 102:18 153:7	completeness 77:4	concession 83:12	Consulting 104:24	convening 119:14
communicate 6:21	compliance 5:12	83:16	consumer 74:11	121:17
communities 103:16 145:16	8:18 56:11	conclude 114:15	consumes 150:22	Conversely 62:15
151:19 153:2	69:18,23 70:2	concludes 12:17	consuming 71:21	convert 118:4
community 107:17 123:11	71:5,8,18,20,25	concurrent 66:17	109:19	Conveyance 153:16
146:24 153:23	72:3 74:2 75:8	conditions 49:18	contact 76:18	cooperating 133:2
154:2 155:24	75:17 76:8 77:7	conduct 146:24	151:10	cooperatively 12:11
156:9 170:5	78:20 79:6,9,10	conducted 69:23	contacted 103:8	coordinate 145:2
173:3 175:15	79:16 80:5,6	70:5 79:21	contained 181:5	copies 50:3
177:9 179:2	87:21 88:22	Conference 68:17	contemplated 71:7	copy 43:12 121:11
commute 99:21	90:10 98:18,21	confident 12:15	contempt 87:19	121:12 159:20
companies 40:25	106:25 113:8	confidentiality 18:11,21 74:19	continually 17:10	164:17
42:15 44:3	compliant 37:20	81:23	157:23	core 49:15
136:20 137:19	78:17,22 81:5	confiscation 9:13	continue 8:6 9:18	Corporation 134:11
146:17 171:8	81:10 104:23	conjunction 70:9	12:12 27:5	correct 115:20,21
company 43:6	150:13	conscious 73:11	40:22 42:2	115:22 117:24
53:20,22 67:3	complies 64:24	consequence 34:11	43:18 45:2	181:8
77:20 83:21	compliments 133:25	consequences 5:17 16:4 31:5,7	79:24 143:24	correction 177:7
135:4 136:3	comply 79:20,21	37:21 44:21	continued 149:18	177:12
137:15,17,23	79:23 100:24	47:11 173:9	173:22	correctly 23:24
140:18 147:21	101:16 122:14	consider 96:14,15	continuously 41:10 138:15	122:8
comparable 61:14 92:2	complying 35:12	137:17 143:23	continuum 102:19	correlation 51:3
compare 23:22	98:20	166:10	contract 128:13	52:24 53:8
39:19 86:4	component 18:18	considerable 150:22	159:21 160:17	cost 71:19 78:19
compared 6:3	120:7 128:22	considerations 144:8	contractor 81:10	100:22 115:3,6
	components 66:22		81:11 118:8	116:25 124:20
	composition			124:20 125:2,3

126:21,24 129:10 costly 71:21 costs 17:8 168:7 Council 1:2,13 2:12 5:5 14:14 17:16 29:23 55:20 56:21 66:13 112:12 119:13 120:25 120:25 126:19 143:23 151:17 153:24 156:7,22 164:18 166:9 167:5 169:11 172:6 174:19 Councilman 1:10 1:10,11 2:2,18 2:20 4:5,6,14,18 4:19,20 12:19 12:23,24 18:22 19:22,25 20:4,5 21:6,16,19,24 22:8,14,25 23:5 23:14,25 24:22 26:3,6 27:13 28:4,19 31:4,17 32:10,21 33:17 35:23 36:10,11 36:12,14 37:13 39:7,24 40:5,9 41:7 43:24 45:3 45:21 47:2,22 48:2,3,7,12,15 48:16,16 59:23 60:2 61:3 66:8 91:16 93:18 94:10 95:16 96:19,20,21 97:4,5,16 99:9 100:12,18 101:17 102:8,12 105:15 106:15 108:6 112:8 113:22,24,25 115:18,25 117:9 118:11,13,14,17	118:24 119:12 120:15 126:9 127:12 128:9 131:15 134:5 141:10,13,14,14 141:16 142:13 143:17,17,19 144:11,15,21 156:4 159:9 172:21,23,24 174:4 176:9,20 177:6,7,14,14 177:16,17,17 178:4,5,6,6,8 179:14,17,21 Councilmembers 18:22 123:12 Councilmen 134:8 Councilwoman 174:7 counsel 118:25 146:18 counseling 161:12 162:5 170:11 172:13 counselors 148:22 169:21 counted 173:23 counties 24:14 25:6,21 26:2 27:25 28:14 49:17 54:20,20 57:4,11,19 country 49:16 114:25 147:10 151:20,23 county 24:18,19 25:2 87:3 89:19 95:20 couple 20:16 27:19 31:17 32:23 53:17 80:9 97:18 102:13,17 138:13 139:9 141:5,6 163:18	coupled 9:24 courage 112:25 course 51:20 52:6 83:4 110:14 121:22 148:6 162:11 court 17:8 70:11 74:9 87:9,21 122:10 146:3,7 courts 7:15 25:5 28:15 70:11,12 167:9 cover 86:2 87:6 163:23 covered 168:7 co-chair 153:17 co-counsel 8:12 43:20 47:10 67:15 73:8 co-counsels 68:25 160:2 162:18 co-defendant 75:15 create 8:3,18 153:4 created 79:4 126:21 140:3 148:10 175:15 creating 5:11,16 creation 69:25 70:10 125:23 credibility 26:14 66:6 111:5 credible 50:22 75:18 77:5 78:3 89:4 107:15 111:20 credit 16:14 74:17 146:16 171:2,18 creditor 72:25 80:22 100:10 crises 146:5 153:25 criteria 105:8 critic 13:3 critical 3:10 62:11 119:19	121:20 128:16 145:24 155:13 155:20 criticism 20:14 criticisms 20:11 crossover 97:5 cross-reference 129:22 130:17 cross-referencing 129:19,23 131:7 cry 168:3 crying 121:2 culture 5:12 8:18 37:18 44:19 45:6 56:10 136:23 138:25 cumbersome 84:4 curious 37:2 current 37:16 38:6 41:24 43:8 51:15 110:4 151:2 157:18 158:2,21 159:13 159:21 160:21 171:6,21 175:10 currently 11:21 60:24 162:20 curtain 19:6 Curtis 1:10 19:25 customized 103:19 cut 141:24 cutting 131:11 cycle 139:5,13 cycles 106:25 D daily 146:18 dangerous 10:10 124:15 Darrell 118:18,25 data 11:16,23 16:11 17:24 19:13 25:17 39:20 49:20 65:11 89:22 107:22 112:6	128:7 131:24,24 133:7 167:7 168:21 databases 89:12 data-driven 17:25 date 42:25 65:3 114:7 166:15,17 dating 56:14 daunting 17:17 DAVID 1:11 day 88:10 94:21 96:16 98:19 101:7 113:18 133:19 159:5,24 164:6,11 176:6 days 28:7 156:22 167:20 deadline 56:20,24 57:3 deadlines 50:21 deal 10:10 29:4 46:22 90:11 91:19 127:3 159:16 dealing 107:10 109:6 death 149:17 debited 171:5 debt 41:9 49:9 51:10 59:15 60:6 74:6,12,16 74:16 114:15,24 116:12,20 debts 44:10 108:10 decade 34:4,19 decades 34:20 38:4 139:9 147:18 decades-old 45:17 December 39:22 39:22 40:3 42:9 decision 12:3 168:23 decisions 79:20 decline 65:15 decrease 162:10
--	---	--	--	--

dedicated 145:10	94:13 106:8	10:17 11:7,13	74:24	24:10
deducted 16:25	109:8 115:23	11:21,24 13:7	deterrent 79:19	discovery 69:20
deduction 171:21	128:7 157:23	16:10 18:19	113:16	70:19 71:12
deed 130:20	162:11 169:16	31:24 32:18,22	Detroit 53:13	72:15 73:15
146:11 152:22	171:25	46:11 49:24	54:7 58:20	77:10 78:11,11
153:16 166:15	delinquent 1:14	54:12 68:13,18	68:10 104:25	79:2,18 80:3
167:22	2:14,24 3:22 5:7	121:2 123:4,4,5	devastating 137:3	82:7,12 87:10
deeds 27:8 154:15	6:5,8,9,12,13,18	127:6,9 129:4	develop 11:22	88:22 89:25
176:4	7:22 9:22 11:11	138:13 148:10	25:6 31:14	107:3
deemphasis 45:11	14:16 17:2	153:15 159:25	103:19 154:2	discretion 56:13
default 51:12	24:12 26:16	161:2 162:16	developed 67:11	161:3
58:14,22,25	29:7,9 36:3 38:9	172:7	154:18	discuss 5:22 120:5
59:2,6 86:23	39:12 45:8	departments 9:19	devote 95:6	121:14
101:15 160:4	48:23 50:16	19:14 121:21	devoted 65:18	discussed 120:16
171:11,13	54:6,18 59:19	Department's 5:9	devoting 117:6	discussions
defaulting 58:19	62:10,12,16,22	123:8	died 149:16	120:23
defaults 102:21	62:24 63:17,25	depend 93:11	dies 100:16	disincentivized
defending 156:10	64:5,16 65:6,10	deploy 64:13	differ 101:23	116:21
deferral 163:3	65:25 69:13	deployed 64:22	difference 105:23	disparity 96:12
defined 94:18	70:17 71:10	67:5	differences 23:11	disposition 65:6
definitive 93:25	72:14,16 75:19	deployments	different 23:8	disproportionat...
delete 73:21	75:20 76:2 77:2	66:25	29:8,9,10 57:5	94:23 95:6 96:6
delinquencies 3:5	83:18 84:20	Depot 18:25	59:22 84:22	disputes 57:10
10:16 14:10	85:16,24 91:7	deputies 111:15	93:15 100:5	distant 77:25
37:8 39:14	97:23 99:19	Deputy 21:3,14	106:6,9 118:6	distinct 78:21
41:23 44:6	107:21,23,25	21:17,20 22:2	121:7 132:16	distinction 157:5
45:18 52:5,9	108:2,12,19	22:12,16 23:3,7	161:17 165:25	distinguishes
61:7 63:2,3,9,13	110:24 111:25	23:16	177:20	72:11
63:22 64:3,10	114:4 116:20	described 29:2	difficult 3:12	distribution
65:13,23 105:24	117:2,4 122:21	describing 37:14	98:24	107:24
106:12 117:18	123:13 124:23	deserve 80:23	digging 58:6	district 1:15 2:15
146:13 148:5	127:16 148:12	design 12:4	diligent 17:19	6:13 17:6 68:9
159:18 165:9	148:25 152:18	designed 71:7	direct 145:25	74:9 92:25 93:6
delinquency 5:20	154:13,14	78:13 104:20	181:22	districts 123:13
10:3 21:18,22	157:14,17 159:7	desk 129:17	directed 32:4	District's 12:14
22:3 34:13	162:2,6 163:13	destined 53:2	direction 27:2	diverse 12:9
37:17,22 39:21	164:7 171:7	detailed 57:6 58:5	127:24 141:20	146:25 153:6
40:7,12 43:21	delinquents 9:15	details 51:23	141:22	diversion 146:3
44:15 49:6 50:7	51:9	60:19	directly 42:12	174:9,15
50:8,13,17 51:4	delve 55:22	detect 104:16	49:24	doctor's 103:4
51:10,19 52:2,7	demand 150:25	determination	Director 122:16	documentation
52:11,25 53:5	154:17	83:24 119:19	122:17	38:18
53:12 54:5,9	demise 173:16	determine 22:11	disabled 146:22	documented
56:2,17 57:21	dentists 103:16	determined 15:16	disbarred 69:16	26:12
58:12,21,24	Denver 56:5	determines	discipline 131:5	documents 23:20
61:21,25 62:23	57:19	116:17	disclosure 82:5	23:21 49:22
92:3 93:20	department 10:2	determining	discovered 15:14	doing 3:19 24:19

28:16 31:3 33:4 33:19 34:4 36:21 41:10 43:2 70:8 77:11 78:8 84:15 96:5 98:6,7,8 99:3 101:3 102:5 103:7 115:3 123:6 140:20 143:23 158:7,16 158:17 167:10 169:5,8,24 171:8 172:8 174:21 178:25	due 15:7 37:7 41:24 42:10,20 43:12 52:4 58:12 154:13,20 157:18 164:3 173:19 dunning 43:10 duration 57:2 duties 110:11 dwellings 83:20	efforts 8:24 9:25 11:7 12:13,13 15:17 18:24 20:8 25:25 29:24 35:24 37:13 62:18 71:15 119:24 135:22 150:14 158:24 173:7 eight 14:10 either 38:25 54:21 64:24 65:14 123:21 132:19 165:18 elaborate 90:10 elderly 146:6 elders 155:24 elected 94:16 110:21 electronic 16:14 171:20 electronically 171:2,5 elements 47:17 79:18 eligible 159:14 165:21 175:12 175:18 eliminate 166:11 eliminated 74:14 77:18 166:8 elimination 167:17 Elizabeth 144:16 144:24 emergency 14:20 148:17 emphasize 114:13 employ 17:23 employed 60:24 68:4 employee 16:24 employees 17:2,9 68:4 69:9 73:24 90:7,8,21,22 134:19 169:19 Employer 68:19	employing 5:14 10:9 empower 56:15 141:24 enable 9:5 encourage 31:12 encouraged 141:2 encouraging 28:5 ended 98:9 112:23 165:11 endorsed 28:4 68:16 ends 3:14 64:23 energy 13:8 19:15 enforce 56:20 144:4 161:5 enforced 57:9 80:7 enforcement 9:25 18:2 19:5,8 49:7 56:17 63:5 64:22 67:25 71:15 72:12,14 78:3 89:7 92:8 136:15,22 138:8 139:15 144:6 enforcing 73:4 enhance 5:7,18 75:25 80:24 enhanced 141:7 enjoy 32:3 151:21 enjoyed 51:16 enjoying 96:24 enlightening 124:6 enroll 154:21 enrolled 150:3 ensure 3:21 ensuring 178:24 179:7 enter 64:19 159:22 entered 80:20 enterprise 125:18 enters 112:18 enthusiasm 13:5 enthusiastic	133:6 entire 10:24 41:20 102:16 149:7 161:21 entireties 99:11 entirety 86:9 100:4 entities 32:24 33:3 entity 53:23 99:3 entrepreneur 125:15 envelope 129:8,11 environment 107:11 envolvee 86:10 equal 79:3 equipment 26:23 equitable 175:18 175:19,24 176:2 era 67:2 erraticness 171:14 especially 98:13 136:8 essentially 87:7 166:20 169:4 established 153:8 establishments 6:18 estate 1:14 2:14 5:8 6:13 7:17 31:11 37:25 38:8,24 39:2 40:23 42:9 43:15 44:16 51:17 52:3 55:14 73:13 75:2 83:18 84:20 85:16,23 85:24 86:14 95:22 96:4,14 96:18 99:22 115:15 124:18 126:3,4,5,6 132:7 135:24 136:5,12 145:7
---	---	--	---	---

146:13 147:22 150:6,22 154:14 154:22 155:6 169:12 estates 126:5 151:5 estimate 28:20 147:15 estimated 58:18 Europe 66:25 evaluate 127:17 154:21 everybody 86:8 113:15 121:5 170:18 178:19 evict 111:16 evicted 110:23 eviction 146:7 evidence 181:4 exact 60:5 120:5 exactly 94:12 108:4 123:7 examine 92:3 examining 42:3 62:5 example 56:5 79:21 84:23 86:7 107:2 128:23 130:13 examples 130:14 141:6 excellent 11:2 21:2 94:10 exceptions 23:13 73:23 exchange 89:10 89:21 excluded 74:10 exclusively 84:19 excuse 110:25 157:8 execute 18:20 execution 76:16 80:18 exempt 95:22 exemption 150:3 152:16 154:25	163:4 exhibit 63:20 exhibited 19:16 exists 71:14 74:20 91:2 expanded 10:17 expanding 59:5 expect 11:18 12:2 12:6,13 35:21 51:17 162:16 expectation 162:4 expectations 12:16 expended 62:18 expense 6:23 expenses 87:13 148:2 expensive 111:14 experience 120:19 175:7 experienced 150:24 experimenting 57:12 expert 21:4 40:17 138:17 153:8 expertise 44:2 67:11 169:24 experts 44:5 expiration 74:17 expire 74:22 expired 82:3 explain 60:19 149:11 exploitation 146:15 explore 13:17 37:3 55:21 exposure 104:9 express 13:5 expressing 43:25 expungements 177:19 extant 164:17 extend 77:15 extended 151:4 extension 74:4	extent 29:17 32:3 178:22 extract 75:16 extreme 13:23 87:17 extremely 16:3 18:23 146:23 extremes 103:13 F fabulous 129:5 face 81:6 97:9 faced 82:9 146:12 178:14 facilities 95:25 134:18 136:11 137:6,8 facing 17:16 145:7 146:6 147:7 154:8 156:14 fact 40:24 93:21 94:15 109:18 135:21 143:2 168:12 175:7 178:14 factor 84:14 factors 55:12 115:14 116:16 fact-finding 120:20 failed 69:16 87:8 fails 64:19,20 failure 119:17 fair 5:13 74:6 94:3 108:14 116:14 156:23 178:24 fairly 101:9 fall 10:19 11:20 50:14 58:17 72:8 85:8 148:3 176:11 false 14:19 76:11 familiar 86:8 families 152:23 163:15 175:7	family 148:2 155:9 fanfare 126:19 fantastic 37:4 far 83:12,15,16 108:22 165:4 fascinating 139:24 fast 34:25 father 69:15 fault 131:10,10 fear 141:4 February 120:2 fed 106:9 federal 8:21 18:14 18:14,15 67:18 69:8 89:11 90:6 90:8,12,21 95:23 fee 9:23 72:19 124:25 feel 136:24 137:13 feeling 168:18 fees 1:14 2:14,24 3:5,23 13:21 14:18 15:6 39:12 45:9,15 137:20 150:18 178:15 fell 160:16 Fellow 151:12,13 Fellows 151:14 Fels 59:16 60:25 fewer 53:10 field 143:7 158:16 fifth 54:10 81:20 fight 26:20 105:17 105:18 figure 58:13 59:8 60:15 figured 30:7 96:10 figures 58:5 147:15 file 76:14 112:2 115:24 118:4 filed 77:4	files 73:2 filing 28:13 89:14 filling 106:11 final 11:21 12:3 finally 33:17 128:15 financial 12:15 146:14 financially 110:12 find 30:24 34:7 51:7 55:7 59:3 78:14 98:2 166:3 175:20 finding 17:17 138:23 findings 49:2 61:11 finds 169:18 fine 72:19 132:10 142:13 fined 142:21 fines 13:21 14:18 17:8 finger-pointing 26:25 finite 95:4 firing 122:9 firm 38:14 68:2 73:17 76:21 91:6 firmness 66:6 firms 70:4 73:14 73:14 79:23,24 79:25 91:4,12 first 2:17 4:8 7:25 8:15 9:21 10:19 12:7 16:22 17:5 25:10,13 29:25 30:9 53:17 61:16 62:9 67:9 69:19 76:22 87:24 100:16 105:17 112:14 117:3 119:14 136:17 141:16 fiscal 6:3 8:14,15 15:4 47:14
---	---	---	---	--

Fiscals 8:13	forensic 27:3	154:25 159:15	garages 143:6	108:13 114:9
five 8:15 12:8	foresight 155:11	frequently 13:2	garnish 88:3	115:9,21 116:7
55:6 56:6,7	forget 42:13,18	42:3,4,24	garnishment 88:2	117:25 157:22
63:22,25 146:24	53:19	friend 171:9	gas 168:15	158:11
147:13 150:6	form 64:15 66:2	fruit 72:7,7,9	gate 102:15	give 2:17 23:5
fixed 83:2 147:24	80:7 159:2	73:17 76:17	gather 121:20	29:15,16 83:13
flagging 15:19	160:7 161:14,15	127:4	geeky 96:23	97:20 105:7
Flint 68:11	formal 158:18	frustrated 19:6	general 27:23	125:14 128:23
flood 167:8,14	164:13	full 11:19 64:18	93:2,7,17	133:7 161:3,7
Florida 57:20	formally 19:24	123:19 145:23	generally 67:17	169:19
flow 172:2	formed 67:21	166:18 167:2	76:7 90:12	given 61:5 62:14
focus 7:4 30:9	former 18:9 68:21	168:6,15,25	generate 13:18	63:2,23 95:3
41:4,16 61:11	forms 29:8	171:24	generated 7:12	173:20
145:21 150:13	Fortunately 6:24	fully 11:6 51:16	87:24	gives 78:20
154:5	forums 152:7	67:25 71:9	generation 79:4	giving 13:11
focused 65:21	forward 4:11	181:5	generations 175:8	172:16,17
focuses 5:4	59:12 65:22	function 70:22	175:8	glass 133:2
folk 101:25	117:5 172:9	140:15 156:25	genesis 27:16	glee 97:12
103:18	found 15:2 16:2	functional 71:9	gentleman 138:20	go 17:10 23:18
folks 25:11	30:23 50:5,12	fund 16:15 93:2	gentlemen 86:3	38:21 44:23,24
follow 57:5	50:18,24 51:2	173:25 177:12	gentrify 110:25	51:22 53:23
119:17	51:14 52:25	177:22 178:18	geographic 109:4	56:7 81:12
followed 17:6	55:3,25 57:8,22	funded 150:17	geographically	82:19,22 83:25
following 5:16	57:25 58:4,7	161:25 176:23	62:25 64:6	92:25 99:18
16:9 29:11	59:18 60:3	178:13	getting 20:8 27:6	102:20 103:2
food 147:25	61:19 63:21	funding 26:24	27:8,8 36:7 37:5	106:2 111:11
force 92:15 144:5	78:25 93:3	145:5 151:4,16	45:25 46:21	113:12,20 117:4
153:19	105:21 109:10	151:18 154:4	85:21 88:12	122:10 123:15
forced 72:4	111:2 114:21	155:12,17 163:7	89:13 92:11	130:22 137:24
Forces/Infantry	115:13 116:24	163:20 172:14	104:3,12 108:8	140:19 141:5
66:19	137:5,9	funds 15:8 17:18	117:10 127:2	157:13 168:19
forcing 133:21	four 4:8 5:23 12:8	35:15 146:15	137:22 161:13	goal 5:24 6:19 8:3
foreclose 111:10	175:8	153:13 165:6	170:19 175:17	10:21
foreclosed 154:13	fourth 64:12	178:19	giant 106:8	God 88:3 141:4
foreclosure 50:18	161:2	further 47:24	Gideon 153:18	goes 27:11 30:20
56:5,16 57:7	Fox 110:22 113:5	63:13,14 64:5	Gillen 48:8,12	75:5,5 107:14
64:23 66:4	113:14	120:16 125:19	59:15 60:21,23	108:23
94:17 110:18	fraction 111:19	future 4:2 45:16	91:23 94:9	going 3:13 4:15
111:5,21 124:14	frail 148:18	46:19 65:23	107:19 108:11	20:12 21:2
145:8 146:3	Francisco 56:6	76:13 79:19	108:22 115:2	26:15,25 27:13
149:21 154:20	fraud 152:22	152:13 153:24	116:16 118:16	28:7 29:14
155:6	fraudulent		157:20 160:23	31:11 34:7 35:3
foreclosures	146:11 153:16	G	Ginsberg 48:8,14	35:21 40:18
50:23 111:13	154:15	gains 63:6 64:7	48:21 59:25	43:17 45:21
156:11,15	free 53:10,16,18	65:19	60:3 91:23	46:20 52:3
foregoing 181:7	113:19	gals 138:6	92:17 93:23	59:12 60:18
181:19	freeze 152:15	gap 151:22	97:2 105:19	65:22 81:4

82:18,22 88:3 94:5 95:5 96:14 97:9 98:15 100:24,25 101:7 102:2 105:6,7 105:12 106:3 112:17,19,20,24 113:5,11,13 114:10 117:2,5 125:5 127:15 128:10,12 131:19,23 132:18 136:24 138:19,20,23 140:2 141:3 143:10 165:14 165:15 173:18 177:11 good 2:2 4:17,19 12:22 36:8,16 48:13,14 60:22 77:10 88:25 104:5 108:10 111:13 118:22 119:23 131:2 134:7 137:16,17 137:24 138:3,10 139:6 140:5 141:18 144:20 157:10 172:8 174:3 Goode 1:10 2:2,6 4:5,14,18,19 12:19,23 19:22 36:10 48:2,7,12 48:15 66:8 90:4 91:16 93:18 95:16 96:19 113:22 118:13 118:17 134:5,8 141:10,14 143:17 144:11 144:15,21 156:4 172:21 177:6,14 178:6 179:14,17 179:21 goodness 175:25	gotten 86:25 105:2 government 18:19 19:14 33:2,3 59:17 61:2 72:20,23 89:11 100:22 119:16 121:5 governmental 80:20 governments 8:22 government-gu... 152:19 grad 112:5 grandchildren 149:9 grandma 110:22 grandparents 149:8 grant 164:24 granted 57:23 58:9 grateful 150:16 gratifying 122:2 gratitude 156:2 gravity 107:6,10 great 29:19 36:20 36:21 104:25 134:13 Greater 147:3 Green 102:5 174:16 grew 67:23 gripes 13:10 gross 134:24 ground 125:16 group 28:10 52:18 54:23 69:9,14,18 78:15 92:20 113:11 153:17 groups 112:4 123:11 174:13 growing 51:16 106:14 138:6,6 grown 136:7 guarantee 172:2	guess 85:18 86:24 88:14 97:5 99:19 101:3 104:8 105:11 112:16 guide 169:14 guides 14:11 Gulf 67:2 guy 88:7 guys 96:25 138:5 H habitable 123:25 half 2:23 3:16 15:14 37:11 39:11,15 40:12 41:8 44:11 114:4 127:14 128:14 144:2 Hall 1:6 hammer 29:16,16 hand 51:23 60:18 handbook 169:13 handful 54:23 handle 40:25 151:13 163:5 handouts 50:2 HAPCO 119:2 120:10 happen 76:12 81:7 102:17 126:10 127:24 132:20 165:7 176:17 happened 86:17 92:23 105:13 131:20 140:18 165:2,3 happening 76:4 159:24 happens 22:11 86:12 87:16 96:2 100:9 101:11 103:25 happy 36:18 153:10 harassing 75:13	hard 24:5 26:19 93:8 114:23 121:6 127:10 131:24 148:2 153:4 harder 116:23 137:25 hardship 57:15 64:17 109:14 160:4 164:20 hard-working 14:3 harmful 178:25 Harrisburg 80:23 87:23 88:14 166:10 harsher 50:16 Harvey 119:4 headed 28:9 headlines 50:5 119:18 headquartered 134:12 headquarters 20:21 heads 121:2 123:14 179:5 health 55:13 145:13 hear 4:7 109:21 122:3 141:18,23 156:25 heard 59:21 62:8 84:19 89:8 92:6 122:16 124:5 158:25 159:4 160:3 173:23 176:21 hearing 2:3,4,10 4:4 46:24 49:2 119:14 134:9 159:20 179:22 hearings 1:13 2:12 5:3 120:2 143:13 178:11 heating 147:25 heavily 41:5	heinous 78:16 heir 175:22 176:8 heirs 150:6 held 88:11 help 3:9 42:18 88:16,16 112:7 126:14 146:17 148:15,20 149:20 152:2 157:3 161:22 162:7 177:24 helped 70:10 helpful 29:23 41:22 59:10 helping 90:6 145:15 162:24 helps 63:14 172:16,18 Hey 88:14 He'll 109:23 high 49:19 51:10 51:12 52:15 53:3 54:9 58:21 59:7 62:13 63:11 64:12 69:5 89:2 94:13 98:16 110:2 114:14 115:4 143:25 174:11 higher 2:25 50:8 52:17 53:11 55:11 77:6 93:4 93:4,15 95:25 96:6 100:23 137:23 138:9 highest 38:3 54:8 65:16,19 75:16 134:22 highlight 5:25 167:25 highly 77:23 163:24 hired 14:21 138:13,17 hiring 68:21 Historically 62:20 history 45:10
--	---	---	--	---

134:20,22 hit 142:23 hold 1:13 2:12 5:2 32:20 holding 4:4 164:6 holdings 24:19 hole 140:7 157:25 home 18:25 69:14 85:20 110:23 146:20 147:19 149:5,13,15,22 154:11 157:15 160:20,22 161:14 172:4 176:12 homebound 146:21 148:18 homeless 173:18 homelessness 145:14 173:10 homeowner 161:15 171:10 171:16 172:3 homeowners 53:18 119:2 145:2,22 147:16 148:11,19 153:13 154:6 155:19 156:14 156:22 157:14 158:10 159:18 159:21 161:10 161:23 162:3,22 162:25 163:18 163:25 164:10 164:14,25 165:4 165:9,18,23,25 167:10,24 169:9 170:9 172:17 175:4 homeownership 161:25 homes 53:10,11 53:16 113:9 145:14,25 146:9 146:10 147:18 154:12 155:5	157:2,4,7 161:8 163:11 164:19 homestead 150:3 152:16 154:24 163:4 honestly 42:13 Honor 126:18 Honorable 66:12 hope 19:14 27:23 140:25 143:14 153:21 172:15 179:4 hoped 46:2 hopeful 29:5 hopefully 18:6 128:12 169:17 169:20 171:22 horns 36:25 hours 148:17 house 70:15 170:3 173:18 175:9 household 148:13 155:8 households 110:6 houses 154:10 housing 126:21 129:20,21,24,25 130:12,15 148:22 153:17 154:7 161:12 162:5 170:10 172:13 HUD-funded 170:11 hue 168:3 huge 140:6 human 71:23 hundred 127:11 128:24 140:16 hundreds 14:7 126:22 139:8 162:24 hurt 135:20,22 husband 100:6 hybrid 57:12 hypothetical 47:4	I idea 26:14 27:11 55:20 126:20 131:20 133:15 154:8 157:11 identification 11:10 16:16 identified 14:7 33:12 39:15 151:16 identify 8:20 9:5 16:11 25:20 49:12 71:9 103:6,7,14,18 117:7 identifying 15:19 25:14,21 102:25 ignore 17:13 ill 146:23 imagine 95:5 106:8 immediate 64:18 65:23 145:4 immediately 44:17 immensely 89:23 impact 10:3 60:13 136:15 137:2 153:21 impacts 136:16 impaired 167:16 impasse 26:18 implement 11:23 16:24 25:7 28:11 120:12 implementation 11:14,19 12:4 implemented 17:7 77:20 123:2 implementing 5:24 12:9 importance 79:3 important 8:20 25:9 33:24 34:2 37:16,19 38:6 38:12,17 43:15	70:14 79:17 105:9 106:10 109:13 110:10 157:5 impose 100:25 101:7 imposition 76:15 impressions 116:9 117:24 impressive 35:24 35:24 122:17 132:3,7 improve 5:21 9:21 12:12,14 16:6 36:4 158:4 improvement 16:18 84:10 176:13 improvements 131:18 improving 8:9 19:20 35:22 36:5 inability 128:20 inadvertently 34:10 incentive 8:4 95:8 100:17 144:3 incentivize 24:16 incentivizes 110:14 inception 7:8 incident 82:6 include 50:3 69:6 91:12 151:3 included 3:2 14:15 53:13 66:23 68:7 69:21 including 5:16 12:10 53:3 55:13 57:11 145:13,25 152:2 155:19 157:10 169:10 income 6:4,5 7:19 7:21 9:6 88:6	90:11 91:20 92:14 93:14,16 145:21 148:13 160:20 172:3 incomes 147:24 income-based 74:20 75:3,4 81:18 96:11 increase 3:11 6:11 7:5 16:7 46:6 61:23 71:17 80:15 132:5,12 132:13 135:15 135:23 150:24 162:11,21,23 178:15 increased 6:6,8 6:10 8:12 47:12 134:24 136:2 164:9 increases 46:23 132:2 increasing 24:6 46:7 59:5 147:25 155:16 163:5 167:11 increasingly 156:12 incumbent 101:2 indefinite 76:13 independent 63:18 145:15 independently 94:15 indicate 117:14 indicated 3:16 90:3 indication 56:8 individual 85:15 104:9 107:13 individuals 14:23 15:2 16:4 109:7 137:4 147:5 173:16 176:19 inducement 26:15 industries 42:23 143:25
---	---	--	--	---

industry 74:12 79:12 84:16 134:21,21,23 135:8,22 136:8 136:9 137:3,5 138:16,17 139:4 139:5 142:9,17 Infantry 67:4 inform 112:7 information 3:2 8:19,23 9:4 11:25 15:24 18:13,14 19:8 25:24 44:23 89:14,20 104:3 146:19 152:10 informational 2:9 inherent 78:19 initial 76:18 79:6 120:22 161:6 initially 119:7,11 164:2 initiate 56:9 initiated 69:19 initiative 17:5 initiatives 5:23 9:12 26:24 innovation 11:13 43:3 innovative 7:15 input 40:17 179:5 Inquirer 61:9 163:9 inside 28:25 insights 145:4 153:10 Inspections 9:20 31:25 installations 67:18 installment 51:8 57:15 150:4 155:3 installments 171:4 instance 176:15 instances 131:4	instant 81:24 institute 3:24 45:15 59:16 60:25 instituted 79:11 institutions 95:24 174:13 instructed 152:14 instruction 152:8 instructive 59:8 instrumental 90:5 insufficient 15:8 15:24 insurance 124:19 125:3 intake 154:19 164:6 integral 176:25 integrated 11:23 68:2 72:17 integrating 5:20 11:5 intend 169:13 intended 37:14 74:8 intention 42:14 intentions 46:4 interest 67:16 82:20 116:19 124:18,24 151:13 168:8 interested 169:11 interesting 91:18 102:23 126:20 interests 126:3,5 interlink 128:21 intern 169:7,8 Interstate 89:7 intervening 150:21 intervention 62:10 65:24,25 159:2,3 interviews 116:8 intoxicating 173:7 intrigued 99:13	99:16 intriguing 102:2,3 introduced 120:16 introducing 174:17 investigative 18:24 investment 101:21 invite 83:3 91:15 98:12 invited 61:5 109:22 invites 77:9 78:4 88:22 89:5 98:22 inviting 61:4 involved 41:5,13 106:21 111:17 112:10 involves 72:4 in-the-dirt 81:9 iron 19:6,7 IRS 8:23 18:11,15 19:11 73:22 isolation 63:19 issue 3:8,18 24:3 37:15 44:7 45:13 61:6 81:22 82:9 90:6 95:12 97:19 98:5 119:17,20 121:19 124:9,10 131:6 154:7 175:2 176:10 178:2,14 issued 32:5 issues 5:3 31:10 32:22 33:11 37:2 108:20 145:24 150:9 151:11 153:9 163:21 item 15:18 133:13 159:19	J Jersey 66:17 67:12,14,17,23 68:8 84:23 85:14,17 86:7 86:11,15 89:20 99:21 100:3,3,8 109:21 113:8 Jim 28:9 job 36:20,21 37:4 129:5 139:12 140:20 142:25 jobs 139:9,17 Join 97:2 joined 153:15 Jones 1:10 12:24 19:25 20:4,5 21:6,16,19,24 22:8,14,25 23:5 23:14,25 26:3,6 27:13 28:19 31:4,17 32:10 32:21 33:17 35:23 48:16 59:23 60:2 96:20,21 97:4 97:16 99:9 100:12,18 101:17 102:8,12 105:15 106:15 108:6 112:8 134:8 141:13,15 141:16 159:9 172:23,24 174:4 176:9,20 177:17 178:4 Jr 1:10,10 2:7 Judge 174:14 judgements 44:12 judges 111:17 judgment 70:8 74:21 75:21 80:19,21 81:19 81:23 85:17 86:13,14 88:2 99:23 100:6,10 101:13 117:15	117:18 118:9 judgments 35:20 73:7 81:21 118:4,5 judicial 17:6 70:7 87:8,18 judicially 76:15 July 11:19 June 56:21 132:25 156:19 jurisdiction 62:19 89:2,4,22 98:16 jurisdictions 10:14 68:6 81:6 88:20 93:21 103:23 justice 151:22 153:18 K Kansas 68:11 keep 17:11 36:8 50:15 61:10 64:20 75:12 110:15 149:19 157:7 160:18,20 160:22 165:8 172:3 keeping 140:2 148:3 150:11 keeps 106:11,14 Kenney 18:23 Kensington 147:4 Kevin 48:8,19 51:24 59:15 60:19,23 157:20 key 6:2 7:4 8:17 50:21 56:25 58:13 61:11 158:23 kicked 11:14 kids 173:17 kind 20:23 58:9 97:6 132:5 143:6 173:6 kinds 126:4 173:21
---	---	---	--	--

know 14:6 18:22 24:9 26:9 44:4 44:12 46:18 55:19 59:8,10 71:13 80:4 94:21 95:11 97:15 101:20 102:14 107:5 109:20 112:21 120:10,10,10,21 121:22 126:11 128:3,25 130:18 131:16,22 133:10 143:11 156:15 161:20 165:2,4 170:9 174:21 knowing 79:25 knowledge 99:4 124:8 170:24 known 72:17 78:12 113:11 knows 98:14 Knudsen 121:8 121:13,23 KOZ 140:8 KOZ's 139:22,23 140:3	116:18 123:9 128:22 153:21 168:9 largely 165:8 larger 123:3 largest 147:8,9 Las 54:3 lastly 111:24 139:19 late 128:3 latest 49:20 law 8:11 16:24 17:13 18:12 32:18 56:14,18 57:5,6,10,25 67:8 68:2 70:4 73:14,16 79:23 91:4,6,12 123:4 123:5 140:10 157:6 166:13 169:7,8 174:17 lawful 67:20 lawlessness 136:23 138:25 laws 56:4 57:13 80:18 100:3 lawyer 118:6 156:8 lawyers 103:17 111:16 lax 136:15 laying 129:17 lead 17:6 leader 20:2 158:15 leadership 13:6 41:19 leading 158:17 leads 19:4 91:22 learned 164:11 leather 17:23 leave 84:24 139:7 151:15 leaving 20:24 61:17 led 114:15 left 77:18 138:8	158:16 legal 28:9 35:19 69:10 118:25 120:8 145:5,12 145:24 146:2,18 146:25 147:6 150:22 151:5,25 152:8,10,12,25 153:9 155:13,16 155:20 156:9 161:11,24 162:5 170:6 172:12 173:3 175:15 177:9 legally 38:16 legislation 28:5 Legislature 24:25 28:6,11 lending 174:6 lengths 50:19 lessen 100:22 152:12 lesser 89:3 letter 32:8 127:9 129:10 130:3 letters 30:2 129:7 letting 82:2 117:3 let's 137:21 157:14 level 24:20 44:2 88:12 125:8,17 143:7 169:22 levels 103:13 leverage 54:17 106:2 levied 101:5 levy 101:6 liabilities 69:14 72:21 73:6 82:25 87:12 liability 72:18,18 83:11 84:24 85:9 99:24,25 100:2 124:12 liable 86:17 license 30:13 31:21,25 32:9	38:11,15 81:4 129:21,22,24,25 130:12,16,16,24 131:2,3 licensed 137:6,10 licenses 1:14 2:13 6:17 9:20 10:7 15:6 31:19 32:5 103:4 lien 24:25 32:19 44:16 50:25 54:22 55:23 60:16 107:20 108:21 109:23 112:11 164:22 164:24 165:6 168:15 liens 31:15 35:19 55:6,7,9,19 108:16,18 164:3 164:8 165:14,15 165:24 168:15 lieu 64:17 life 80:12,13 149:7 light 133:19 175:2 176:10 liken 72:6 likewise 25:24 limit 91:9 167:21 167:22 limitation 74:13 limitations 22:5 74:6,15,18 75:6 82:4 limited 73:25 75:8 151:8 limits 101:19 line 50:10 96:9 115:13 146:18 148:15 149:20 linkage 129:3 liquor 6:7,8 7:4,9 30:12,13 133:2 list 54:10 73:7,21 88:18 177:25 listed 27:9 73:14	176:7 listen 97:13,14 100:20 104:19 listens 143:12 literally 90:9 164:5 litigate 76:14 91:12 litigating 69:7 litigation 73:5 75:25 litter 14:18 little 35:17 57:16 60:7 96:23 129:16,17 131:5 139:4 165:2 170:4 live 88:5 99:19 145:15 147:14 168:24 lived 85:13 147:18 149:6 166:19,22 173:17 lives 145:12 living 101:23 146:9 147:24 148:25 150:19 175:22 load 18:25 163:5 loans 176:12 lobbied 80:24 lobbying 69:11 local 54:24 55:14 56:22 58:2 72:22 78:6 82:17 88:23 90:16 95:24 98:14 107:12 locally 57:23,24 67:3 68:11 located 68:3 69:2 69:3 long 44:9 50:20 84:3,9 111:6,9 111:23 135:11 141:17 174:7
--	---	--	--	--

longer 6:22 81:21 147:21 161:18	108:19 112:21 121:6 133:3	125:2	108:12 110:3 112:24 127:13	met 160:13
long-term 10:16 50:16,17 52:7 105:24 106:7 130:7 175:4	137:11 140:9,25 158:3,25 159:4 163:10 169:8,25 175:2 178:12,18	major 27:3,10 38:13 52:24 92:19 93:14 158:12	meaning 21:23 126:6	metaphor 159:4
look 15:11 22:20 23:11,18,20,22 24:5 25:10 28:24 31:8,12 43:18,19 49:6 60:11,12 80:17 81:13 82:9 83:3 84:15 86:5 88:24 92:2,4,24 95:18 97:25 101:13,18 105:25 107:5,6 118:2 122:18 123:12 132:9,23 133:8 143:10 166:12 168:20 174:5	loud 176:21 Louis 54:7 love 80:11 low 50:12 54:5 55:25 57:20 61:18 62:17 109:8 142:22 145:21 163:14 lower 53:6 58:24 115:12 126:15 144:5 lowered 61:25 lowering 139:15 low-hanging 127:4 low-income 50:10 145:6 150:18 153:13 164:25 165:4 169:14 lucky 166:2 lump 170:25 L&I 10:5	majority 20:2 40:25 134:16 145:19 making 33:11 47:16 50:22 97:4 114:18 138:11 150:12 154:4 158:24 manage 99:11 122:11 126:3 managed 122:5 122:22 management 11:11 124:25 128:8 manually 22:24 map 138:18 March 1:7 42:10 42:21 margin 137:22 Maria 174:16 marital 99:12 markedly 52:10 market 51:17 55:14 115:15 127:19 mass 82:15 matches 133:10 math 135:16 matter 28:12 50:20 109:13 120:7 181:7 matters 67:12 131:16 maximize 11:6 84:13 109:5 Mayor 56:22 77:19 94:17 Mayors 68:17 MBIA 106:22 mean 20:9 41:9 46:15 97:21	means 32:6 52:22 102:22 110:5 114:17 147:20 166:20 181:21 meant 154:23 measure 28:18 49:19 measured 71:3 measures 5:5 38:10,21 mechanism 56:18 Media 68:15 median 52:10,12 52:17,18 53:6 53:12 medical 14:20 147:25 meet 3:14 5:24 12:16 28:14 155:16 meeting 10:4 142:8 150:8 173:2 member 153:11 members 4:20 73:24 118:23 120:25 174:18 memo 121:10 mention 89:9 109:24 122:16 mentioned 10:25 56:25 81:15 86:3 88:18 107:19 109:3,7 126:23 131:22 132:24 mercy 14:4 mesh 125:24 128:21 message 6:21,24 161:17 169:22	metaphorically 61:17 metaphors 159:5 169:25 meter 33:11 method 73:12 methodically 92:22 116:9 methods 106:2 metro 49:16 Meuser 9:9 Miami 53:14 MICHELE 181:14 microphone 21:7 mid 149:17 middle-income 163:15 millage 24:7 million 3:4,17 7:7 7:9,10,10,11,24 14:16,17,19,21 15:3 17:4 21:9 22:7,9 30:3 37:8 39:11,20,23 40:4,8 51:21 59:20 60:7 61:24 62:4 65:9 74:25 78:24 106:18 115:19 122:6,14 131:18 131:19 135:7,8 135:15,17,18 140:16 164:23 165:3 millions 14:8,13 126:23 Milwaukee 53:4 mind 114:5 144:9 mindful 33:24 mine 11:25 minimum 72:9 minorities 145:21 minute 166:6 178:3
looked 20:9 48:23 51:25 52:19 54:14 55:4 59:14 71:16 92:18,18	magical 71:22 magically 141:7 magnet 90:15 magnificently 122:19 mailing 25:11 28:25 mailings 106:5 maintain 96:8 98:17 104:5 157:17 160:21 173:12 maintained 80:3 maintaining 110:15 158:2 maintains 73:9 maintenance	margin 137:22 Maria 174:16 marital 99:12 markedly 52:10 market 51:17 55:14 115:15 127:19 mass 82:15 matches 133:10 math 135:16 matter 28:12 50:20 109:13 120:7 181:7 matters 67:12 131:16 maximize 11:6 84:13 109:5 Mayor 56:22 77:19 94:17 Mayors 68:17 MBIA 106:22 mean 20:9 41:9 46:15 97:21	member 153:11 members 4:20 73:24 118:23 120:25 174:18 memo 121:10 mention 89:9 109:24 122:16 mentioned 10:25 56:25 81:15 86:3 88:18 107:19 109:3,7 126:23 131:22 132:24 mercy 14:4 mesh 125:24 128:21 message 6:21,24 161:17 169:22	metaphorically 61:17 metaphors 159:5 169:25 meter 33:11 method 73:12 methodically 92:22 116:9 methods 106:2 metro 49:16 Meuser 9:9 Miami 53:14 MICHELE 181:14 microphone 21:7 mid 149:17 middle-income 163:15 millage 24:7 million 3:4,17 7:7 7:9,10,10,11,24 14:16,17,19,21 15:3 17:4 21:9 22:7,9 30:3 37:8 39:11,20,23 40:4,8 51:21 59:20 60:7 61:24 62:4 65:9 74:25 78:24 106:18 115:19 122:6,14 131:18 131:19 135:7,8 135:15,17,18 140:16 164:23 165:3 millions 14:8,13 126:23 Milwaukee 53:4 mind 114:5 144:9 mindful 33:24 mine 11:25 minimum 72:9 minorities 145:21 minute 166:6 178:3

misplace 42:12 mission 5:10 120:20 145:17 mistaken 117:23 mix 12:9 91:11 93:13 95:10 model 174:15 modern 17:21 modest 123:24 modification 72:3 80:8 133:14 modify 105:7 Monday 1:7 money 16:14 20:9 20:24 25:25 31:2 35:2,4 46:2 46:21 47:8 51:2 61:16 76:24 85:5,10 94:4 98:16 104:14 108:14 114:6,23 115:7 122:11 123:23,24 127:10 131:8 132:24 136:18 136:20 172:16 172:17 177:19 178:21 Montgomery 24:18 57:11 144:16 month 8:13,14 125:13,14 127:2 146:25 152:7 monthly 10:22 148:13 171:20 months 8:15,25 12:5,8 56:6 84:8 151:2,15 160:15 166:15,17,20,25 Monty 156:8 moral 173:5 morning 2:3 4:18 4:19 12:23 36:16 48:13,14 62:9 118:22 129:18 133:24	mortgage 42:15 53:20,22 83:21 86:23 101:13 146:3,4,5 147:19,21 152:20 156:10 162:2 171:8 174:9 mortgaged 53:10 mortgages 53:9 154:14 161:24 173:14 mother 173:20 motivations 29:10 mount 98:25 107:15 mountainful 130:4 mounted 69:20 85:22 move 5:15 73:11 141:21 moved 149:14 moves 75:19 141:20 movie 83:15 moving 158:10 167:6 172:9 multiple 10:13 multiplier 107:18 multi-faceted 152:4 multi-jurisdicti... 70:3 Municipal 70:12 municipalities 61:14 109:8 111:3 MURPHY 181:14 myriad 131:4 N nail 93:25 name 2:6 4:21 15:24 60:22 118:24 130:20 130:20 144:22	144:24 149:18 156:7 175:20 narrow 73:23 nation 158:15 national 67:24 68:16 174:15 nationally 98:23 natural 125:24 near 21:7 69:17 81:20 nearby 63:21 nearly 3:4 15:14 47:13 59:18 60:4 114:22 122:5 necessarily 47:15 55:10 91:19 104:10 175:11 necessary 2:9 13:24 18:20 171:25 need 10:15 11:8 13:17 16:12 26:13 29:14,15 30:25 34:3,19 43:12,13 47:19 87:2 98:22 123:7 128:16 141:3 142:4 143:5 145:5 151:14,25 152:12 157:13 157:22 161:5,19 161:20 162:8 163:15 165:17 172:14 173:22 178:13 needed 3:9 76:6 151:18 needle 141:19 needs 16:10 124:10 132:14 136:18 154:6 155:16,19 169:6 169:22 negligence 85:3,3 negligent 85:7	negotiate 146:11 negotiations 33:10 neighborhood 63:2,4,24,25 111:2 123:10 148:16 neighborhoods 63:7,14,16 64:9 65:14,20 125:16 147:2 152:14 161:20 170:13 neither 76:14 net 7:21 network 153:6 never 74:7 75:11 76:6 97:11 127:15 175:9 Nevertheless 74:11 new 6:15 11:15,18 13:8,8,18 18:7 19:17 20:22 26:23 36:23 37:10 58:23 66:17 67:12,14 67:17,22 68:8 68:10 78:24 79:4,25 84:23 85:14,17 86:7 86:11,15 89:19 99:20 100:2,3,7 104:19,21 105:24 106:3 109:21 113:7 123:9 126:20 132:16,20 154:5 Newark 109:25 news 2:22 110:22 113:5,15,19 114:3 138:11 nice 43:9 nicely 38:7 Nicholas 48:9 173:6 Nick 78:9 117:22 night 110:22	164:4 nightmare 110:22 nimble 153:20 nine 84:9 166:14 166:16 Ninety 167:9 nobody's 131:9 nominal 109:16 110:8 non-compliance 5:17 71:24 78:4 98:22 107:2 161:18 non-compliant 78:20 non-disclosure 19:7 non-filers 71:10 non-profit 126:13 non-resident 69:8 79:4,22 85:12 90:7,19 non-taxpayer 100:15 non-voluntary 72:2 Norristown 68:14 North 170:7 175:5 Northeast 147:3 175:6 notable 68:7 105:17 notably 69:21 79:10 note 2:8 19:24 27:14 30:24 57:10 101:14 noted 43:8 65:3 68:23 78:6 81:2 99:5 160:23 notes 181:6 notice 62:23 75:21 92:23 129:15 164:6 notices 76:22 notifications
---	--	--	--	---

106:4 notified 82:16 notify 50:13 notifying 129:5 no-brainer 126:8 130:21 nuclear 111:4 nuisance 10:10 number 2:25 7:3 8:10 15:22,25 21:9 24:11,23 59:5 60:5 64:2 73:21 107:20,25 118:9 122:24 128:25 129:2 131:17 136:16 154:7 162:22 167:5,11 173:24 174:11 numbers 29:19 37:22 39:5 52:11 54:11,13 59:21 60:9,12 60:20 105:22 115:23 118:3 131:21,25 163:6 163:16 numeric 64:9 numerous 66:24 Nutter 26:21	45:6,18 63:18 occurred 79:9 October 7:23 158:9 offenders 15:20 16:13 offer 95:7 119:12 145:3 151:8 offered 29:17 64:16 66:5 offering 66:2 office 8:8 11:12 14:7 16:23 26:22 27:4 40:15 69:15 70:10 85:4 103:4 139:10 159:6 164:5 173:15 Officer 4:22 66:20 120:18 official 49:21 52:10 110:21 officially 59:19 officials 110:19 oftentimes 42:12 oh 1:11 2:18,20 4:20 12:24 36:12,14 39:7 39:24 40:5,5,9 41:7 43:24 45:3 47:22 48:16 61:3 75:11 88:3 97:5 113:24,25 115:18,25 117:9 118:11,24 119:12 120:16 127:12 128:9 131:15 134:8 143:18,19 177:15,16 178:7 178:8 OHCD 150:16 151:3 153:13 162:2 OHCD-funded 148:21	okay 22:8 32:21 40:5 47:22 87:10 88:2 97:22 98:11 101:17 104:18 112:15 115:25 118:11 Oklahoma 68:8 old 39:13 44:7 46:15 64:11 106:14 114:15 114:22 131:10 140:12 149:14 164:8 older 145:7 147:12 175:5 old-fashioned 17:22 once 63:24 65:24 80:19 87:20 116:20 178:16 ones 25:13 65:16 65:20 92:19 105:24 106:3,7 106:13 142:15 170:11 one-time 106:19 one-year 56:20 ongoing 26:18 76:9 online 49:22 open 112:3 opening 2:19 operate 7:20 operated 68:5 operation 38:24 98:25 operations 79:3 93:17 operator 137:17 operators 134:16 136:24 137:12 137:16,21,24 138:2,3,5,23 141:4 144:2 opinion 3:3 40:19 158:14 160:5	opportunities 13:18 14:9 31:9 42:4 151:21 opportunity 12:25 13:4,16 37:9 48:25 66:13 125:7,19 161:8 165:19 opposed 24:17 82:2 89:3 94:16 opt 176:16 opted 155:4 optimist 140:24 optimize 5:10 option 40:19 55:21 166:21 167:3 options 111:4 160:11 170:15 order 2:4 3:21 16:14 32:9 38:18,18 54:19 80:24 81:14 85:23 86:4 87:3 87:8,18,20,21 96:11 101:4 107:9 146:21 168:16 172:12 orders 87:5,7 ordinance 56:23 58:2 156:18 organization 69:11 75:23 126:13 organized 69:10 original 19:9 64:25 164:14 originate 20:20 Orlando 54:3 Orleans 68:10 outlining 14:12 outreach 177:2 outside 9:16,17 9:24 10:18 22:18 25:2,11 47:9 75:5 77:21 85:22 89:2	90:13 98:16 99:7 102:6 outsourced 99:2,3 outsourcing 76:25 outstanding 10:3 14:20 20:12 41:9 44:10 46:17 51:19 58:10 out-of-state 99:6 out-of-town 19:2 overall 5:9 45:24 71:4,17 overdue 17:8 44:15 overlapping 133:3 overseas 66:22 overwhelmed 148:8 overwhelming 70:25 151:14 owe 7:16 8:20 9:6 148:9 155:25 157:14 owed 1:14 2:15 3:6 14:22 16:19 17:20 59:19 117:8 owned 25:22 86:6 91:5 owner 27:12 62:21 64:19,24 66:3 81:11 84:6 123:21 124:3,13 124:20,21 125:5 129:14 130:19 130:22 149:12 175:19,24 owners 24:11 25:23 33:14 64:17 126:16 129:19 131:3 133:16,21 175:10,18 176:2 176:5,6
---	--	--	---	--

ownership 86:24 101:15	143:6	79:24 83:10	32:22 64:21	54:11 58:8,11
owner-occupants 129:6 130:7 167:23	Parkway 134:11	87:5,7,13,17	70:24 71:19	58:19,22,24,25
owner-occupied 83:20 123:22 130:13 148:10 150:2 152:17 159:22 169:15	part 18:18,18 19:15 22:22,22 24:2,8 36:23 47:2 48:19 71:3 94:2,6 112:2 114:18,19 116:3 176:11,25	94:6 100:21 103:8 105:12 109:20 111:8,18 116:22 131:3 133:16 136:6,9 136:25 140:9 143:9 148:7 157:16 158:20 159:13 160:18 161:20 168:14 168:25 170:25 171:4 173:24 174:21 177:8,8 177:10	79:6 148:4,13 158:20 160:18 162:12 payoff 95:8 pays 124:3 150:17 peace 66:21 peak 68:3 penalties 116:18 penalty 82:20 124:23 Penn 169:7 Pennsylvania 1:6 25:4 56:13 57:3 61:3 84:22 86:10 94:18 102:19 125:22 145:19	60:15 76:21 92:11,12 95:2 95:21 110:2,3,5 114:16,19,20,21 132:5,6,8,9,9 132:13,14 134:24,25 135:15 136:2,3 136:5,6,9 137:18,22 147:11,13 150:24 151:6,10 151:25 162:21 162:23 167:9
owning 126:4 owns 175:23	particular 55:8 55:15 60:11 63:24 93:2 94:5 97:7 103:2,15	payable 20:12 paychecks 17:3 payers 58:15 59:6 paying 30:13 34:12 42:14 43:15 53:21 57:16,17 58:17 76:21 109:15 110:7 133:7,9 137:18 144:2 157:8 162:9 payment 7:12 15:5 31:14 32:12 51:8,12 57:15 58:6,9,14 58:19 59:11 64:15,18,20,25 65:5 66:3 75:9 103:12 106:19 108:8 109:15 111:8 112:18 148:11,23 150:10 152:17 157:12 158:10 159:12,22 160:15 164:20 165:19 166:18 167:2,19 171:19 175:16 payments 11:10 16:8 30:8 32:15	people 3:13 14:3 18:25 26:16 27:6 28:24 29:18 34:8,11 34:13,25 35:12 37:18 38:5,17 38:20 41:23 42:5,8,11,13,24 44:20 59:11 88:5 92:8 94:13 102:14 103:7,9 103:15 109:17 110:10 111:7,16 111:18 113:7 116:21 117:2 122:12 130:11 131:11 133:11 137:10 157:4,7 157:24 158:19 161:3 164:5 167:3 169:23 173:11 175:3 percent 6:5,6,7,9 6:10,11,14 7:5 23:2 30:14 38:2 51:18 52:11,12 52:20,21,21 53:13,15 54:6,9	132:13,14 134:24,25 135:15 136:2,3 136:5,6,9 137:18,22 147:11,13 150:24 151:6,10 151:25 162:21 162:23 167:9 percentage 58:15 61:20 71:2,4,17 75:4,17 92:5 93:4 147:9 percentile 24:7 perform 122:22 performance 14:25 performed 90:13 period 21:23 22:4 83:19 84:9,11 116:15 142:5 167:18,21 permanently 157:8 permit 1:14 2:14 32:9 permits 10:7 15:6 32:4 permitted 17:12 person 81:5 83:4 121:8 130:8 138:21 164:17 175:23 personal 9:13 18:24 66:15 68:23 99:24 104:6 110:21 118:5,9 120:19 personalize 84:24 personally 45:20
P	particularly 78:16 85:13 175:4			
paid 24:15 30:21 30:22 42:15,16 42:22 43:8 52:5 52:6 53:25 85:6 85:7 87:4 125:3 147:20,22 162:19 167:4 168:6,8 170:20 171:24	parties 33:8,12 40:24			
pale 79:7	partner 9:10 99:12 147:6			
panel 4:9 36:13 48:4,8 102:17 117:11 118:18 141:12 144:16	partners 8:21 19:19			
panels 4:8	partnership 8:8 153:23 155:22			
Panerella 48:9 66:9,11 91:17 95:17,18 97:8 97:13,22 99:17 100:14,20 102:4 102:10 103:21 106:20 112:10 117:23 124:6	partnerships 5:18 8:17 36:2			
Panerella's 173:6	parts 175:5			
parcel 26:19	party 88:12 168:12			
parcels 60:4	pass 28:6 119:20			
parents 149:8 173:17	passage 156:17			
parking 134:14 134:16,18,21 135:8 136:8 137:2,6,8 138:16 139:4,16	passed 24:24 28:11 56:22 67:12 119:18 158:9 159:19			
	passing 96:5			
	pat 13:12			
	path 51:6			
	patient 128:4			
	Pavlovian 84:21			
	pay 8:4 14:3 16:13 17:11 30:5,25 31:8,10 33:3,8,9 34:8 38:6 42:11,22 44:22 45:2 51:9 53:19 67:20			

46:18 85:15 perspective 119:16 Pew 3:15 39:9 48:21 61:8 122:19 PGW 130:19 ph 86:10 Philadelphia 1:2 1:6,15 2:16 4:24 16:17 22:19 24:12 25:3,12 26:11 27:12 31:2 32:13 48:24 49:6,9,23 50:6 51:11,14 52:9,16 53:15 54:10,15 55:2 55:17 56:12,19 58:3,7,18 59:9 61:7,9,15,17,21 62:3,20 65:4 67:10 68:3,10 68:21 69:4 75:14 77:14,23 79:2 86:14 87:3 89:3,16,24 90:14,22 93:3 93:11,13 94:12 94:21 95:13,19 95:22 96:2,7 98:10 104:10,11 115:10,12 119:3 125:4 134:14 145:6,20 147:3 147:8,17 149:2 151:23 154:3,8 156:9 158:5,14 161:22 163:11 167:3 170:8,8,9 170:12 171:3 175:6 Philadelphian 143:8 Philadelphians 147:12 Philadelphia's	53:7 59:14 61:24 65:9 Philadelphia-b... 104:4 Philly 24:17 50:11 52:21 163:9 philosophy 140:4 phone 15:25 43:10 73:21 106:5 121:13 146:20 physical 23:9,10 physically 36:5 68:25 69:3 pick 23:21 83:4,5 156:12 picked 112:22 picketed 69:14 picture 52:14 piece 99:10 pile 116:20 pillars 70:17 Pinckney 119:3,8 Pittsburgh 53:14 57:4 58:25 place 55:16 78:2 92:21 117:3 119:15 145:17 154:9 161:22 placed 8:10 44:17 places 73:20 109:25 placing 9:22 13:23 plan 29:11 31:14 57:15,18 58:9 58:16,17,19 59:6 64:16,20 64:25 66:3 109:15 111:8 150:4 155:3 163:8 165:19 planning 40:15 plans 51:9,13 57:22 58:6,14 59:12 65:5 175:16	play 55:13 100:15 115:15,17 played 24:8 players 121:20 153:5 playground 105:16 playing 83:5 143:7 Pleas 70:12 please 4:11 21:25 42:21,22 43:14 100:18 144:21 pledge 83:9 plenty 112:3 plus 65:9 125:6 point 18:5 20:15 21:5 22:10 32:25 45:14 60:6 61:20 65:15 92:7 94:10 100:13 101:10 103:9 105:20 108:17 115:10 127:23 pointed 157:21 158:11 163:10 points 45:9 69:5 82:8 95:11 106:24 128:2 police 13:22 14:22 policies 124:19 policy 63:12 64:6 64:14 82:14 political 112:25 Pontiac 68:11 pool 74:24 112:15 112:20,23 113:3 poor 15:16 115:13 151:25 173:11 poorer 176:19 poorest 52:16,20 147:11 population 178:16 populus 49:16 portion 29:3	46:17 65:12 74:25 75:2 portions 12:7 position 12:15 18:10 36:24 37:10 67:9,13 121:9 170:5 positioned 153:25 positive 16:19 possible 3:23 71:11 117:19 170:24 171:4 179:9 possibly 93:19 149:7 172:5 post 67:5 posted 49:22 posting 71:19 pot 106:8 potential 21:11,15 71:13 120:24 124:12 pour 123:9 poured 126:7 poverty 49:19 52:16,22 53:3 115:16 147:14 power 54:17 123:20 powerful 111:22 powers 51:15 practical 81:9 83:23 practice 42:23 57:14 practiced 61:13 practices 3:20 10:13 43:18 49:7 61:12 62:6 74:6 82:18 102:20 practitioner 98:14 99:5 107:12 practitioners 88:24 pre 67:21	Predatory 174:6 predictable 143:2 prepaid 69:10 preparation 78:5 prepared 18:20 61:10 91:14 121:10 126:12 163:22 prescribe 49:10 present 1:9 48:25 presented 120:24 Presently 42:8 preservation 161:15 preserve 157:2 President 119:4,5 126:18 134:10 prestigious 68:19 presume 61:5 pretty 13:2 57:8 136:13 140:21 170:18 prevent 63:13 69:12 117:2 152:25 prevented 18:12 preventing 145:14 previously 13:20 pre-dates 45:4 pre-designated 83:10 pride 89:9 primarily 117:22 primary 2:17 72:13 94:24 101:20 104:15 principal 22:6 73:4 prior 18:5 34:17 45:5 priorities 177:25 prioritization 144:6 prioritize 151:18 prioritizing 85:6 priority 45:12
--	---	--	--	---

90:25 172:7	75:22 83:23	programs 31:13	39:3 44:24	155:12,14
private 14:22	94:17 99:13	33:18 34:7	45:24 48:24	164:13 165:22
84:16 134:16	111:14 113:21	69:24 70:5 76:9	49:5 50:24	prothonotaries
156:11 165:16	118:6,10 138:19	77:17 78:13	54:18,21,22	25:5
privately 142:18	149:11 150:20	85:22 107:15	58:8 61:13 62:6	proudly 66:18
privatized 166:4	processed 15:21	132:23 154:22	62:21 63:15	68:16 134:12
privilege 66:14	processes 97:10	155:5,11 162:8	64:19,25 84:5	150:9
97:14 120:4	processing 11:9	169:17 176:15	84:12 85:19	provide 13:24
probability 62:13	70:16,21	178:12	92:6,12,14	42:5 143:25
62:17 63:10	prodigies 67:5	progress 50:7	93:12,14,19	151:4,20 155:8
65:17 108:25	produce 112:6	114:18,20	94:25 95:15	provided 14:11
109:5 116:17	producing 132:24	progressing 27:18	101:22 110:15	provides 64:4
142:21	product 36:7	progressive	115:5 122:11	124:16 143:4
probably 18:17	152:20	102:21	123:13,24,25	146:18
19:19 34:3,19	professional	prohibits 19:13	124:2,21,22	providing 41:15
38:4 47:5 52:23	69:22 79:12	project 11:17	125:6,11 126:15	41:18 152:8
94:5 127:22	80:13 90:17	125:25 173:2	126:16 127:16	province 76:23
137:10 139:7	105:11 135:4,12	projecting 139:11	127:18 129:14	proving 11:2
156:24 163:14	Professionally	projects 177:23	129:19 130:9,18	provision 16:23
probate 149:11	67:7	proliferate 64:3	130:22,22,23	psychologically
150:8,18 151:5	professionals	proliferation 63:8	131:2 149:6	109:10,12 110:9
probating 150:5	68:5 152:24	promises 46:4	150:7,12,25	110:13
150:21	professions 66:18	properly 33:16	151:10 152:16	public 1:13 2:4,12
problem 4:2	profit 137:22	45:7 63:12	154:17 155:2	5:2 68:18,22
43:21,22 49:5	program 6:20 7:5	properties 7:16	156:14 157:15	81:24 109:19
74:3 119:24	7:13,15,18,23	7:20,20,25,25	157:16,18 159:8	119:23 151:12
120:5 128:19,22	16:25 17:7	8:10 24:14,17	159:17 163:12	181:15
129:13 134:3	29:25 34:14	25:2,15 27:7,9	166:14,19,22,23	publication 82:16
168:11,22	35:9 68:20	33:14 36:3,4,6	168:16,19,24	publicize 105:9
problems 27:6	69:20 75:18	55:5,6,9,18	169:13 170:25	107:16
119:15 131:8	77:6,9,15,18,24	59:19 62:11,15	172:18 175:23	publicly 112:2
138:21 145:12	77:25 78:3	62:24 63:17,21	property's 123:20	publish 59:9
146:5 147:7	79:10,19,22	64:2 65:6 83:25	proportion 93:15	published 2:22
149:24 152:25	80:3 81:14,18	86:6 96:3	114:14	58:5
procedure 45:16	82:7,12 88:22	108:19 112:22	proposed 120:6	pull 32:25
procedures 3:24	89:5 90:18 91:2	113:2 122:15,21	prosperous	purchase 147:19
16:7	98:21 107:3	122:23 123:10	139:18	166:14
proceed 144:22	112:14 122:4,7	123:15 124:14	protect 146:14	purchased 71:6
proceedings	123:9,15 127:2	125:9 126:25	151:18 152:11	purchasers
64:23 111:12	127:17 129:7	127:3,10,11,12	152:20	167:14 168:4
120:2 181:4	132:20 140:4,11	129:24,25 149:3	protected 74:18	purpose 129:21
process 3:8 8:9,11	145:3 148:11	149:4 150:20	176:3	142:3
10:9 20:22	150:17 158:13	163:13 165:16	protecting 80:13	pursuant 162:3
22:23 25:6	163:3,3 164:20	property 3:12	145:10 155:21	pursue 72:20
41:20 46:14	164:22,25 165:7	7:21 9:13 24:11	protection 74:20	80:10 146:8
55:15 60:14	165:8 169:15,16	25:18,23 26:13	177:2	179:2
70:23 72:7 73:5	174:10	27:12 35:10,11	protections	pursued 16:21

117:15 push 30:23 130:10 pushed 30:22 put 18:3 58:22 91:21 101:24 112:25 116:13 123:14,23 127:7 127:16 141:3 142:13 163:22 179:5,8 P&I 116:20 p.m 180:2 Q quality 36:4 quarter 39:20 question 21:2,4 24:2,22 27:22 37:7 39:14 40:10 44:10 47:15 91:23,25 94:8 105:20 114:2 117:16 143:20 questions 20:16 27:17 31:18 36:13,22 47:24 74:23 91:15 97:18 103:3 113:23 141:12 156:6 quick 31:18 97:18 154:23 177:18 quickly 3:23 35:5 35:12,22 86:2 106:4 117:19 163:23 164:11 179:9 quiet 146:8 quite 61:19 64:4 quorum 2:8 R rabbis 103:15 radar 165:10 radius 77:22 98:9 99:8	raise 81:16 100:25 raised 66:16 124:9 raising 17:11 139:5 random 15:12 rapidly 64:4 rate 17:14 24:7 50:8 51:5,12 54:5 58:15,24 59:7 61:19,22 61:25 77:7 94:13 109:9,24 115:11 rates 52:2 53:3,5 54:9 55:11 57:21 58:21,22 64:13 86:4 92:3 160:4 171:12,13 ratings 71:3 reach 43:6 77:16 81:19 read 27:15 76:20 97:22 140:13 readily 73:10 ready 127:24 real 1:14 2:14 5:7 6:13 7:17 31:11 37:25 38:7,24 39:2 40:23 42:9 43:15 44:16 51:16 52:2 55:14 61:19 73:13 74:25 83:18 84:20 85:16,23,24 86:13 95:21 96:4,14,17 99:22 115:15 120:12 124:18 126:3,4,5 131:24 132:7 135:23 136:5,12 145:7 146:12 147:22 154:13 154:22 155:6	169:12 177:18 reality 47:18 really 26:19 35:25 49:9 76:11 86:5 90:18 96:21 99:15 113:18 114:23 119:22 121:4 124:5 130:5 131:22 136:13 168:22 179:2 realtors 36:2 reason 19:9 168:2 reasonably 51:17 reasons 15:9 29:9 53:17 reassigned 151:11 rebate 152:16 155:2 recall 73:17 106:23 112:14 receipts 150:10 receivable 28:20 33:5 receivables 24:6 103:12 receive 8:23 25:25 35:15 115:8 179:7 received 9:4 15:22 121:10 129:15 165:5 receiver 8:2 35:14 123:19 receivers 7:16,18 receivership 34:24 receiving 70:23 recessed 179:23 180:2 recession 135:19 recipients 68:22 recognize 155:18 165:13 recognized 119:23 recognizes 11:8	recognizing 17:4 recommend 16:8 recommendatio... 14:12 reconciling 15:20 record 19:25 21:12 81:24 91:22 133:19 144:22 149:12 176:6 177:7 recorded 27:8 167:22 records 23:23 33:15 59:17 140:2 153:15 175:21 recover 51:2 54:19 recovery 73:12,15 84:14 86:5 recurring 62:7 116:23 red 141:25 redeem 168:16 redeems 168:5 redemption 83:19 84:11 166:6,7 166:12 167:7,18 167:21,23 168:2 168:11 redemptions 167:8,11,14 reduce 37:23 61:21 65:23 70:7 171:11,12 171:14 reduced 44:12 70:21 74:21 85:16 99:23 155:6 reduces 81:19 reducing 73:6 106:10 reduction 40:7 references 119:25 referral 146:19 referrals 10:20,21	10:22 referred 161:11 reflect 33:16 52:5 175:10 reflection 39:4 reform 95:12 156:17 refunded 146:16 refunds 27:6 refusing 67:19 regard 10:12 11:5 21:5 38:7,9 regarding 83:18 100:4 120:23 132:4 regardless 62:18 136:10 139:23 165:23 regards 110:17 region 114:25 regional 69:24,25 96:2,3,8 registered 77:12 78:14 104:11 regrets 119:5 regrettably 113:6 regular 10:5 34:6 64:21 regulations 19:12 144:4 reinforces 10:14 related 5:3 14:9 58:14 relates 24:2 relationship 27:25 31:24 32:3 104:6 relationships 9:3 153:5 relative 76:22 79:11 81:22 83:20 115:4 116:19 relatively 53:9 63:11 65:13 115:12 release 27:3
--	--	---	---	---

released 14:24 139:21	Rendell 77:19 82:10 98:4	represents 137:8	88:1 89:1 90:1	61:6,12 112:6
relevant 163:24	103:10 106:17	reprioritization	91:1 92:1 93:1	114:13 118:2
reliance 93:16	107:20	72:5	94:1 95:1 96:1	reserve 66:22
relied 70:7	renders 84:12,13	reproduction	97:1 98:1 99:1	reserved 76:19,25
reliefs 175:12	renew 120:13	181:20	100:1 101:1	resident 101:20
relies 94:22	renewal 31:20	Republic 66:24	102:1 103:1	residential 24:13
reluctant 110:19	rent 35:3 123:25	republican 99:15	104:1 105:1	124:3 127:19
rely 72:23 92:13	125:8,13	reputation 170:7	106:1 107:1	163:12 166:23
96:4	rental 7:19	request 153:14	108:1 109:1	residents 67:17
relying 99:4	123:20 125:12	requests 13:10	110:1 111:1	residing 149:7
rem 99:24 118:5	126:6 129:14	require 16:12	112:1 113:1	resigned 67:13
remain 74:16	renters 36:6	required 80:2	114:1 115:1	resolution 1:13,13
108:19 157:4,15	renting 130:8,23	129:20 140:10	116:1 117:1	2:5,10,11,18
161:8	rents 38:25	167:19	118:1 119:1	4:25 13:16
remained 15:15	139:10	requirements	120:1 121:1	91:18 108:18
remaining 151:9	repair 152:21	18:11 28:13	122:1 123:1	119:25 120:15
remarks 2:19	154:11 176:15	requires 72:10	124:1 125:1	128:9 131:15
61:10 78:5	176:17	118:6	126:1 127:1	179:19,22
91:14 92:7	repeat 15:19	requiring 56:23	128:1 129:1	resolve 90:6
104:15	16:12 59:24	RES 3:1 4:1 5:1	130:1 131:1	resort 76:6
remedies 35:19	60:2	6:1 7:1 8:1 9:1	132:1 133:1	resources 65:18
72:21,24 76:16	repeatedly 16:5	10:1 11:1 12:1	134:1 135:1	72:6 95:4,6
80:25 175:3	replacement	13:1 14:1 15:1	136:1 137:1	117:6 150:14,23
remedy 84:20	151:16	16:1 17:1 18:1	138:1 139:1	151:3 179:8
87:14 88:9,13	report 22:17	19:1 20:1 21:1	140:1 141:1	respect 20:17
remedying	27:16,21 74:17	22:1 23:1 24:1	142:1 143:1	155:25
146:10	93:10 108:24	25:1 26:1 27:1	144:1 145:1	respond 26:9
remember 73:22	115:18 116:2,3	28:1 29:1 30:1	146:1 147:1	38:20 153:25
81:16 83:14	reported 23:24	31:1 32:1 33:1	148:1 149:1	responded 38:7
86:13 95:19	reporter 181:23	34:1 35:1 36:1	150:1 151:1	responds 143:14
96:13 98:17	reports 14:11	37:1 38:1 39:1	152:1 153:1	response 76:8
102:5 105:6	27:5 60:15	40:1 41:1 42:1	154:1 155:1	154:16 179:20
106:16,21	represent 134:15	43:1 44:1 45:1	156:1 157:1	responsibility
108:15 131:17	152:4 156:21	46:1 47:1 48:1	158:1 159:1	26:20
168:14	representation	49:1 50:1 51:1	160:1 161:1	responsible 41:14
remind 38:5	69:6 146:2	52:1 53:1 54:1	162:1 163:1	41:18 77:21
41:22 42:24	151:5,9	55:1 56:1 57:1	164:1 165:1	rest 57:3
123:17	representative	58:1 59:1 60:1	166:1 167:1	restaurant 38:13
reminded 43:14	91:8	61:1 62:1 63:1	168:1 169:1	restaurants 30:16
reminder 42:20	representatives	64:1 65:1 66:1	170:1 171:1	result 15:17 20:24
43:9,11	10:5	67:1 68:1 69:1	172:1 173:1	27:20 30:15
reminders 42:7	represented	70:1 71:1 72:1	174:1 175:1	61:18,22
reminds 105:15	58:11 67:15	73:1 74:1 75:1	176:1 177:1	results 6:2 16:19
remittance 11:15	89:17,18 165:5	76:1 77:1 78:1	178:1 179:1	35:24 39:5
remote 88:23	representing	79:1 80:1 81:1	180:1	return 15:18
removal 108:17	134:14 156:13	82:1 83:1 84:1	rescue 13:22	16:11 70:16,21
		85:1 86:1 87:1	research 60:24	74:13 77:5

returned 15:3,5,7 15:12 returning 67:7 returns 18:15,16 22:21,23 69:25 70:24 revelation 140:23 revenue 4:9,22,22 5:3 11:14 12:16 13:6 14:8 16:10 18:5,9,13,19 21:11,15 36:19 37:6 49:25 54:12 68:13 73:14 74:24 78:25 81:3,16 81:24 88:25 89:8 92:5,11,12 94:24 95:7 119:20 120:17 122:3,6,16 123:3,8 127:5,8 129:4 130:25 132:3,6,10 148:9 150:10 159:25 160:14 162:17 169:18 172:6 176:2 revenues 5:10 13:19 16:7 17:14,20 30:11 61:23 92:24 93:5 95:2 115:5 133:3 140:17 141:7 reverse 146:5 152:19 173:14 review 10:13 22:23 23:10 125:22 reviewed 19:11 revived 7:17 revocation 6:16 8:3 11:2 29:25 38:10 reward 82:25 ride 77:16 98:11	right 31:7 32:17 33:12 36:21 46:19,22 80:15 83:13 84:21 86:19 87:25 88:10 99:21 100:8 104:22 105:14 106:20 108:2 111:18 113:3 116:7 117:15 127:5 138:19 140:7 141:20,21 142:4 142:7,10 145:20 158:8 159:24 162:14 166:13 169:7 170:23 176:16 rights 72:24 145:11 152:6 155:21 ripe 72:8,10 ripped 154:11 rise 34:13 rising 59:7 154:16 risk 83:5 84:6,10 84:14 85:20 112:13 Rizzo 174:14 Road 67:4 Robert 118:18 134:10 robo 43:4 rogue 137:20 138:23 role 155:20 rolling 127:2 157:23 rolls 176:7 roof 70:15 room 1:6 16:18 121:17 124:7 roughly 135:18 136:4 roulette 100:16 RPR-Notary 181:15	rules 28:15 37:20 90:10 run 19:3 111:23 running 35:9 128:15 129:18 Russian 100:15 S safe 55:12 59:4 145:15 safeguards 101:25 safety 145:13 sale 8:11 10:9 20:19 21:5 22:10 23:24 26:13,15 27:7,9 34:23 39:2 44:25 54:21,22 60:17 65:7 84:13 85:23 100:13 107:20 108:21 112:11 113:12,14,21 164:24 165:21 166:17 168:20 sales 8:6 20:21 22:18 23:21 26:11 31:16 47:12 50:25,25 55:23 84:21 93:14 95:14 109:23 165:16 167:15 174:12 salon 38:12 SALT 107:17 salute 174:16 sample 15:12 23:21,22 sampling 23:2,4,6 23:9 San 56:6 Sanchez 174:16 sanctioned 76:16 77:19 sat 142:11 satisfied 7:22	save 14:13 saved 128:24 155:5 saving 145:13 savings 13:19 14:9 saw 32:23 53:8 54:2 126:22 133:18 174:11 saying 105:11,13 110:24 113:17 121:14 133:6 160:8 says 73:19 75:11 84:7,9 104:8 127:12 128:10 scale 123:3 scams 176:17 scan 97:25 scary 100:19 scheduled 4:7 school 1:15 2:15 6:4,5,12 9:6 12:14 67:8 92:25 93:6,22 schools 5:11 17:18 30:11,15 178:19 score 109:2 scoring 108:23 109:2 screening 22:20 22:23 screw 29:14,15 seamless 75:23 seat 95:20 seats 21:7 89:19 Seattle 54:3 second 23:25 39:19 42:19 62:24 99:10 136:22 160:24 secondly 53:21 166:5 Secretary 9:9 section 85:4 91:8 securitization 108:16,21 164:3 164:15 165:12	securitize 165:14 securitized 164:8 security 13:22 155:9 see 3:13 19:4,12 23:23 24:19 27:18 36:18 44:22,24 46:6,8 49:8 63:8 97:16 112:23 113:15 119:9 125:6 127:15 128:11 130:17 131:21 131:23 132:11 133:9 159:23 164:9 172:4,15 seeing 18:25 47:6 179:21 seek 76:15 151:7 seeking 10:6 seen 7:3 13:7 97:11 162:21,23 segments 102:24 102:25 seize 54:17 seized 65:2 selected 15:12 selecting 11:22 selection 12:3 selections 89:25 self-assessed 22:13 self-sustaining 88:16 sell 81:20,25 103:11 165:15 selling 55:4,5,7,9 55:18 106:16 send 42:7,8,19 76:21 119:5 129:10 sending 70:23 130:2 senior 60:24 145:25 147:16
--	--	---	---	---

150:9 152:15 154:2,6,25 155:19 159:14 159:15 164:19 SeniorLAW 144:25 145:9 146:17 148:14 149:13,23 150:23 152:3 154:5,18 155:15 172:12,25 177:8 seniors 145:6,11 145:15,18,22 146:2,8,12,14 146:20,21 147:7 147:9,14,17,23 148:7,14 149:4 149:10 151:7,19 152:5,9,14,23 153:9,22 154:8 154:11,19,24 155:4,12,13,17 155:21 sense 23:6 105:3 sent 29:25 81:12 separate 93:22 171:24 SEPTA 77:16 98:10 99:8 sequestered 125:10 sequestration 7:14 34:23,24 35:18 84:25 120:9,23 121:25 122:23 123:2,16 124:11 125:20 125:25 126:7,24 127:8 132:25 142:2 sequestrator 123:18 series 78:13 serious 26:10 seriously 26:17 serve 97:15 126:12,14 146:6	146:22 served 66:18 service 97:17 147:6 161:11 services 3:8 5:11 6:23 13:21,24 14:17,21,22 69:11 73:15 88:13 109:19 150:25 152:12 155:13,20 156:9 161:24 162:5 170:7 172:12 173:4,22 175:15 177:9 serving 62:22 145:18 set 49:4 56:4 125:7 163:10 164:23 171:17 setting 158:18 settle 37:9 83:7 settlement 112:18 settles 112:16,17 seven 173:23 Seventeen 7:7 102:10 severely 146:22 sewer 14:17 74:10 shaking 72:10,10 share 5:13 89:22 153:10 sharing 19:13 25:24 Shay 144:16,20 144:24,25 162:20 175:14 176:14 177:5 179:13,16 shelter 152:3 Sheriff 8:6,11 10:9 26:10,13 26:14 27:9,15 31:16 34:23 44:25 47:12 65:7 84:21 87:2 94:15 111:15	113:12,14,21 174:11 Sheriff's 8:8 26:22 65:2 84:8 She'd 156:24 shifted 100:23 shifting 95:13 shocked 140:22 shocking 142:8 shoe 17:23 176:11 short 18:4 50:20 105:4 178:18 shorten 167:18 shot 122:9 showed 39:5 107:24 114:14 115:22 showing 29:20 150:11 shut 30:6 shutter 7:2 side 88:5,5 sign 59:11 signed 56:22 significant 9:6 10:2 29:4 47:7 63:23 65:12 89:24 119:15 similar 17:7 90:16 simple 128:23 133:8 148:24 simplest 70:22 simply 28:12 34:8 71:12 80:19 160:12 163:19 167:2 sincere 29:21 sincerity 66:5 single 25:17 51:6 singled 136:13 sit 119:9 120:4 site-inspection 18:2 situation 47:5 85:12 six 18:16 22:5	49:17 74:22 82:12,19,23 83:10 92:19 173:17 six-year 82:9 83:3 slight 177:6 slightly 58:23 slip 85:8 slower 35:17 slowly 141:20 small 9:22 153:20 smaller 92:20 smart 109:3 132:19 smile 97:8 100:19 sobering 142:12 socioeconomic 63:15 sold 27:7 65:2 83:25 84:5 106:17 113:8 165:23 solely 41:4 Solicitor 67:10 Solicitor's 70:9 85:4 solution 71:22 131:14 139:14 solutions 49:11 solve 119:24 131:8 somebody 81:4 82:25 84:25 85:7 87:9,17,20 88:4 96:9 97:11 175:19,21 somebody's 86:25 88:4 soon 50:14 102:14 170:18 sophisticated 107:10 sore 18:5 sorry 39:24 59:23 59:25 69:2 178:4 sort 81:8 82:11,19	83:3 sounds 114:11 source 25:17 94:4 94:24 sources 19:9 106:10 South 170:8 175:5 Southampton 67:4 sovereignty 73:2 speak 45:20 91:5 178:3 speaking 119:10 Spear 119:4 special 66:19 155:18 specific 49:11 54:14 specifically 9:14 30:12 31:25 94:8 128:10 specifics 94:14 spending 94:7 104:14 spends 72:5 spent 80:11 spike 108:2 spillover 63:20 spirit 13:8 spits 23:13 130:11 spoke 76:3 81:3 110:19 174:18 sponsor 2:18 sports 69:22 79:12 90:17 spread 114:24 spring 7:9 115:24 squads 13:22 St 54:7 stability 63:16 stable 65:14 stabler 51:16 stack 129:16,17 staff 32:4 131:12 148:14 151:11 169:21 173:2 177:19
--	---	--	---	---

stages 11:22 staggering 122:24 126:22 stakeholders 174:10 stale 75:5 stamp 129:9 standard 142:16 stands 133:16 start 4:16 13:11 22:17 34:21 35:14 48:18 56:23 125:17 138:16 162:8 started 158:9 starting 25:9 67:21 starts 56:5 116:20 state 1:14 2:13 8:22 9:3,12 16:24 24:24 25:3,18,22 36:17 56:4 57:5 57:25 72:22 78:6 82:17 85:20 88:23 89:11,19 90:12 90:16,21 95:23 98:13 103:23 104:6 107:11,16 114:9 133:3,4,5 141:22 144:21 154:22 155:5,10 stated 13:20 46:4 80:19 statement 47:16 states 66:19 68:5 68:7 72:20 97:24 98:3 statewide 146:17 state-of-the-art 11:8 128:7 stating 47:3 status 80:21 86:6 131:16 statute 22:4 56:13 74:14,18 75:5	82:3 124:15 125:22 126:2 158:9 161:10 162:4 168:9 statutory 83:19 84:11 158:13 stay 38:18 110:15 111:9 stenographic 181:6 stepchild 88:15 stepped-up 46:14 steps 167:16 stick 54:16 58:16 64:14,21 66:4 109:9 110:17 sticking 50:21 stolen 146:15 154:15 stop 18:25 58:17 168:25 stopped 149:23 stories 2:22 strategic 30:9 35:25 strategies 5:15,23 12:10 51:4 54:14 103:2 106:6 strategy 25:7 29:12 40:16 41:15 55:8 103:19 157:11 157:13 streams 95:7 Streets 9:20 strengthen 153:2 strict 56:3 stricter 92:8,16 strictly 56:20 57:9 strictness 56:10 57:2 strides 138:12 strong 6:21 91:3 stronger 5:17 strongly 10:14	structure 92:4,21 93:7 96:11 structuring 41:19 struggle 139:7 struggles 155:15 struggling 161:23 student 169:8 students 112:5 studied 57:18 studies 129:9 study 3:15 39:10 48:23 49:15 55:21 60:11 94:2,7 95:21 122:19 139:20 139:25 stuff 97:6 sub 81:12 subject 86:19 90:23 submit 16:5 submitted 14:25 15:23 subsequent 165:21 subsidize 6:22 substantial 79:7 Substitution 164:22 165:6 suburbs 99:20 success 17:5 121:3 122:4 156:20 successful 25:20 77:24 79:18 88:21 138:22 175:17 successfully 69:7 158:8 suddenly 85:19 164:4 sue 75:12 sued 85:14 86:16 149:21 suffering 167:8 sugary 142:11 suggest 71:11	111:24 117:6 122:25 132:22 suggested 63:4 suggestion 120:14 170:21 suggestions 80:10 81:9 158:4 suggests 65:11 96:23 suit 73:2 sum 171:2 summarize 50:4 summary 65:8 66:15 supervision 181:22 support 9:11 43:19 63:15 64:5 79:14 155:22 supported 30:10 70:16 79:15 supporting 95:23 supportive 29:24 supports 80:4 supposed 104:21 136:9 sure 2:25 28:16 28:23 33:11 43:9 81:13 85:25 97:24 101:8 103:22 104:3,13 124:7 133:18 147:22 161:6 165:17 surprise 176:24 surprised 129:12 149:10 156:25 Surprisingly 172:10 surrounding 24:14 surveyed 158:13 survivorship 86:19 100:9 sustain 70:10 swiftly 50:14	SwiftReach 43:6 system 11:15,18 11:24 12:7 25:7 42:6 43:4 70:7 76:5 84:2 104:19,20,24 108:24 109:3 128:8 130:10 140:7 158:18 161:22 171:17 systematic 164:13 systematically 69:12 systemic 147:7 systems 17:24 31:12 129:4
T				
table 4:13 20:24 48:11 61:18 118:21 144:19 178:21 tactic 25:10 29:2 tactics 25:19 70:6 take 12:5 13:4 16:9 21:7 24:4 24:16 35:3,10 36:2 43:14 50:19 66:2 81:4 86:12 102:17 125:9 127:4,15 128:13 133:8 142:19 167:17 174:5 taken 5:6 36:25 117:15 181:6 takes 19:8 26:12 64:15 125:4 talk 8:16 34:24 48:19 70:13 84:18,25 122:3 142:2,17,18 161:16 166:5 talked 81:16 83:17 92:7 128:6 133:13 talking 21:10				

44:16 109:11 116:14 119:21 tangled 146:9 149:3 150:17,19 153:12 174:25 178:2 tape 141:25 targeted 63:6 64:7 102:23 154:18 targeting 108:23 109:4 Tasco 174:7 task 43:15 153:19 taught 102:6 tax 3:12 6:4,6,7 7:11 9:7,14 10:8 18:15 21:4 22:13,20 29:22 30:10,13 32:6,8 32:14,17,20 37:5 45:22,24 46:6,23 48:24 49:5,9 50:23,25 51:10 53:23 55:11 59:15,18 60:16 61:6,13 61:18 62:6 63:11 64:6 67:12,24 68:4 68:12 69:13,23 69:25 70:11,13 70:15,21,23 71:2,5,15 72:2 72:11,12,14,18 73:4,6 77:4 78:6 78:19 79:16,23 80:16 81:5 82:17 85:16 87:4 89:2,4,7,18 90:23 92:4,5 93:7,12,15,20 93:22 94:5 95:10,12,15,22 96:5,11,18 98:14,16,17 99:5 100:25	101:2,8 106:25 107:12 109:23 109:24 112:11 113:8 116:10,12 124:23 133:17 133:21 135:13 135:16,23 136:7 136:10 142:11 142:13 144:3 145:7 146:13 147:23 148:4,5 149:17,21 150:12,25 152:15,16 154:17,22,25 155:2 156:14,17 159:17 161:15 163:12 164:7,10 169:13,16 170:14 taxed 134:22,23 taxes 1:14 2:15,24 3:22 5:8 6:19 7:17,22 8:5 10:20,23 11:4 13:20 14:4 15:6 17:2,4,12 24:15 26:16 31:11 34:12 38:6,10 38:22 39:12 40:24 41:24 42:9 45:8,15 46:8,9,15 51:19 52:3 53:25 54:19 58:10 65:10 67:16 73:13 74:8,21 75:3,4,9 76:23 77:2 79:25 81:18 83:18 84:21 85:24 87:23 91:20 92:6,13,14,15 93:16 94:24,25 95:5,14 96:15 96:16 100:21 101:4 114:4	117:5,13 126:15 133:12 134:20 135:24,25 136:4 136:5,25 137:20 137:24 138:9 139:6,15 140:9 143:9,25 144:5 147:22 148:7,12 150:5 152:18 154:14,20 155:7 157:3,9,15,17 157:18 158:2,21 159:8,13 160:21 161:21 162:9,13 162:15 167:4 168:14 169:6 170:25 171:7,7 171:12,21 172:19 178:15 taxing 62:19 taxpayer 11:25 69:18,19 71:14 72:5 73:19 74:19 75:10 76:4,19 78:12 78:17,18,21,22 79:20 81:22 86:20 89:14 99:18 104:4,19 104:22 105:14 107:13,14 109:18 113:11 170:24 taxpayers 5:12 9:5 22:17 29:7 50:14 58:8 69:9 70:3 77:13 78:14 79:5 80:22 82:6 88:23 90:9 97:23 110:4 148:25 162:7 team 28:9 teams 79:13,15 technical 86:22 101:15 techniques 22:20	technological 17:21 23:10 technology 5:20 11:6,9,13 71:5 104:15 105:6 technology-based 71:22 tell 21:8,13 35:2 90:4 104:18 120:18 121:15 127:13 128:17 128:17 142:9 158:7 telling 122:12 ten 55:5 62:16 82:24 107:4 139:12 147:9 148:6 151:15 tenancy 86:22 100:4,7 tenant 86:18 100:10 101:11 123:22 133:18 tenants 35:4 86:9 99:10 133:22 145:23 146:6 tenant-occupied 123:23 130:21 tend 50:13 51:11 53:11 56:2 62:25 63:3,19 tends 57:8 64:3 tenure 73:3 terms 25:14 26:23 26:24 40:10 41:15,19 57:24 84:18 90:13 92:4 109:6 terrible 176:16 terrific 134:19 156:19 testified 60:10 84:3 157:9 testify 4:24 61:4 109:22 179:18 testimonies 20:17 testimony 5:4	12:17,20 19:23 35:6,8 66:10 91:17,20 96:25 99:10 115:19 117:20,22 121:12 122:8 124:6 128:5,11 132:4,11 133:23 141:11,19 144:23 163:22 166:7 172:22 179:10 testing 11:18 Texas 94:19 thank 2:20 4:3,5 4:18 12:18,19 12:24 13:13 19:21,22 20:5,6 20:7,25 24:22 36:9,10,15,16 39:7 43:24 46:25 47:22,25 48:2,4,5,15,16 48:24 60:21 61:3 66:7,8,11 66:12 91:16 96:19 97:17 112:8 114:2 117:9,24 118:11 118:13,15,16,24 133:24 134:4,5 134:9 141:9,10 141:17 143:16 143:19 144:10 144:11,13 156:3 156:7 172:20,21 172:25 175:25 176:21 177:4,5 177:16 178:8,9 179:10,12,13,14 179:16,24 theft 146:10 themes 62:7 116:24 theory 57:16 thing 18:4 33:24 88:11 96:13
--	--	--	--	---

101:22 107:8 113:13 135:6 142:6 143:11 161:9 things 3:6 23:12 24:10 41:22 80:14 81:2 101:21 102:15 115:17 121:6 132:14 141:2 143:11,22 157:20 158:4 173:10 178:16 178:20,25 think 13:7 20:13 21:8,9 25:8,19 27:19,23 28:4 29:19 30:2 34:21 37:13 41:14 43:17 44:17,25 47:2 47:14,16 70:14 80:22 84:7 90:25 91:5 92:9 93:19 94:3,9,12 96:9 101:20 102:6 103:6 113:6,17 116:2 116:24 125:19 135:18,20 136:17 137:11 138:10,18 140:25 141:3,6 143:21,22 144:3 144:4,7 156:19 156:23 158:22 162:10 163:24 165:7 168:3 169:10 170:22 171:15 177:23 178:11 thinking 132:16 thinks 157:10 third 63:17 160:25 third-party 40:18 40:22 44:8	46:12,20 165:16 168:4 Thirty 6:11 Thomas 48:8,21 thought 91:20 thousand 125:13 127:11 128:24 163:14 thousands 139:8 152:23 threat 35:11 111:20 threatened 149:22 154:19 threatening 122:12 three 34:3,18 47:11 62:12 70:17 72:13 93:14 113:9 166:20,24 175:7 threshold 63:23 64:10 tiered 160:19 time 3:10 9:21 10:19 14:4 16:22 27:24 35:5 42:16 45:10 50:19 51:15 57:17 59:20 71:21 94:11 118:7,10 120:6,13 121:18 128:3 131:12 138:2,7 142:10 148:3 154:24 157:16 160:10 179:11 timeframe 57:6 116:13 timely 45:8 times 143:13 152:6 173:23,24 timetables 56:3,4 timing 33:25 tipping 65:15 title 2:10 54:25	146:8,9 150:17 150:19 153:12 167:16 174:25 175:10 178:2 titles 149:3 150:21 151:6 153:14 176:4 today 3:3 4:8,24 5:4 12:18 35:6 46:22 48:17 59:22 61:4 66:14 69:17 71:7 77:25 79:25 84:3 91:2 119:6 120:14 121:12 122:20 125:21 128:11 151:22,23 157:9 159:5 163:23 170:2 173:3 today's 114:6 told 30:4 99:5 110:21 137:7 177:20 Tolson 4:9,17,21 13:13 20:8,25 24:21 28:3,22 31:6,23 33:6,22 36:18 37:12 39:18 40:2,6,21 41:12 44:14 46:25 48:5 138:11 141:23 156:24 Tolson's 13:6 172:11 tool 8:7 11:3 28:8 29:6,12 33:23 34:16 71:12,22 73:4 toolbox 172:11 toolkit 29:6,13 34:23 tools 17:22 29:13 31:21 33:20 34:22 72:13 75:8 172:11	topics 124:9 total 6:4,7,11 15:20 51:21 58:11 59:15 60:6 65:10 94:6 114:12 touch 70:19 track 71:8 tradition 135:2 traditionally 136:6 train 147:4 trained 138:15 training 68:20 transcript 181:8 181:20 transfer 16:15 54:25 150:7 transferred 176:5 transfers 146:11 transparency 112:3 trash 9:23 travel 88:17 97:19 98:9 treat 26:16 tree 72:7 73:17 76:17 81:14 170:3 tremendous 44:5 tremendously 155:23 trends 49:12 Trenton 109:25 tried 49:11 69:12 69:16 149:19 trigger 23:15,17 triggers 102:13 102:14 trip 102:17 troubling 16:3 true 44:21 181:7 Trust 3:15 39:10 trusting 22:15 Trusts 48:22 61:9 try 19:3 42:18 92:23 119:24	131:13 156:16 161:4 trying 25:20 108:9 113:20 117:4,7,18 120:11 134:2 173:12 turn 31:18 Twelve 132:13 Twenty-one 163:13 twice 67:5 two 8:20 38:4 47:9 62:22 66:17 82:8 103:13 106:9,24 113:9 137:4 143:11 159:7,25 163:21 165:24 two-year 57:6 type 3:24,25 42:5 43:10 98:25 types 3:5 46:3 typically 62:12,20 63:18,21 64:15
U				
ultimate 38:21,23 38:25 ultimately 30:5 31:16 84:5 94:20 113:2 unable 53:19 unanimously 156:18 unauditability 18:8 uncollected 2:24 3:4 13:20 14:18 15:15 119:20 178:21 uncollectible 65:11 114:21 undercuts 131:2 underpaying 102:24 underreporting				

77:9 89:5 98:13 102:24 105:4 understand 20:19 37:19 49:5 110:18 138:14 168:17 173:8 understanding 28:13 31:15 133:5 understood 6:25 122:7 unemployment 52:23 uneven 65:4 unfair 14:2 166:7 unfortunately 25:16 38:20 59:2 93:24 162:14 unfunded 162:14 unified 42:6 uniform 75:23 unilaterally 165:11 uninhabitable 154:10 unintended 34:11 173:8 unique 84:22 94:22 Unit 8:12 15:18 22:21,22 United 66:18 72:19 98:2 units 126:21 universal 21:10 universe 145:11 145:24 University 61:2 unluckily 166:3 unpaid 52:3 150:15 154:20 unpopular 110:20 unravel 149:23 unregistered 77:11 78:16 82:6	unscrupulous 152:21 untangle 151:6 153:14 untangling 150:20 unusual 95:10 updated 175:9 updating 5:5 upset 168:5 urge 156:16 165:13 166:9 167:5 168:20 172:6,6 urgent 145:4 urging 166:10 use 8:19 11:25 12:6 17:21 22:19 29:12 31:22 32:11 33:21 40:22 43:4,6 54:20 60:16 64:5 65:5 69:25 83:24 106:7 109:3 110:20 111:6,22 127:5 133:15 135:25 136:3 159:3 170:2 useful 71:12 169:18 user 72:19 usually 57:23 utilize 34:22 utilized 16:23 utilizing 47:9 U&O 6:9 10:22 96:15 133:17,22 136:10 U.S 62:2	123:21 125:12 valued 15:13 values 63:15 varieties 55:22 various 10:7 12:11 45:9 46:3 97:10 121:21 152:7 154:21 varying 50:19 Vegas 54:3 vehicle 120:12,24 vehicles 74:5 vendor 11:22 verbal 160:12 verification 20:23 22:10 verify 20:20 versus 58:16 92:25 108:21 veteran 67:2 viable 40:19 125:17 Vice 20:2 119:3 Victor 119:3 Vietnam 66:24 67:2,8 violations 14:19 virtual 69:17 virtually 72:23 74:14 80:11 virus 170:4 visits 146:21 vocal 18:23 voice 121:2 174:8 voluntarily 74:5 voluntary 71:4,8 71:18,19,24 77:7 79:8,15 80:6 82:5 voraciously 28:10 vote 45:22 voted 55:21 156:18 voting 46:23 vulnerable 145:22 146:24	W W 1:10 2:6 wage 7:11 67:16 69:13 87:25 90:23 93:16 94:23 95:13 wages 88:4 139:16 wait 34:4,9,12,13 34:19 waited 62:21 waiting 83:2 waiver 82:20 walking 119:9 walk-in 148:17 wall 19:7 want 13:11 24:9 29:13 30:18 31:2 70:19 80:9 81:15 82:7 83:6 88:15 98:7,8 99:14 101:6 106:24 107:8 109:17 113:19 120:18,21 124:12 131:22 131:23 141:22 148:7 163:7,22 166:5 167:25 169:21,22 170:2 170:14,21 171:11,12,13 172:10,24 176:4 176:21 wanted 49:18 159:23 178:9 wants 91:24 131:16 176:3 war 66:20 67:2 warehouse 11:16 11:23 128:8 wasn't 81:10 86:17 88:20 94:2 104:10 108:17 157:6 watchdog 112:4 watching 147:21	water 14:17 32:21 33:4,9 74:10 168:15 way 24:5 27:10 28:16 30:7,23 32:11 33:5 46:21 53:2 64:7 65:22 66:15 75:11,13 76:5 141:25 142:7,12 143:6 157:12,25 158:16,17 172:15 176:25 179:6 ways 14:12 23:8 136:17 145:18 161:17 website 73:9 84:8 week 121:13 139:21 weighed 175:16 weighing 55:20 welfare 68:22 Welfare's 68:19 well-deserved 13:12 well-publicized 75:18 77:5 went 30:14 81:11 82:12 88:17 135:13 137:5 160:12 weren't 47:15 137:6 West 68:15 147:3 170:9 175:6 we'll 18:6 23:21 25:13 27:18,24 28:23 29:16 125:13 133:6 138:4 160:18,20 160:21 166:16 we're 3:13 4:15 21:10 22:14 24:19 28:7 29:14,20,21 31:3,11 33:7
--	---	--	--	---

35:21 42:3,25 43:17 45:21,25 46:3 88:15 112:16,19 114:10 116:14 126:13,15 127:15,24 143:10 150:5 158:7 170:3 172:8 178:18 we've 7:17 13:7 19:11 27:17 29:16 37:14 38:4 39:3 41:21 42:17 59:21 86:25 93:9 101:5 127:13 128:6 158:3 159:4 160:3 162:23 169:25 177:18 what-have-you 94:19 White 84:7 whittling 114:12 wholesale 99:14 wide 145:11 widely 50:19 wider 93:13 wife 86:17,20 99:20 100:6,11 101:12 wilderness 121:3 Williams 32:2 willing 29:18 39:3 103:8 Wilson 1:10 2:6 144:17 156:4,5 156:8 159:11 174:3 177:11,22 179:12 win 107:9 window 32:8 winner 170:22 win-win 171:16 withdrawal 171:24	withheld 88:7,9 withhold 31:20 withholding 16:25 witness 4:12 48:10 118:20 144:18 Witnesses 4:12 48:10 118:20 144:18 wonder 164:16 wonderful 9:10 132:12 word 127:5 170:6 170:14,16 words 48:18 51:5 68:13 83:9 89:13 92:10 work 8:7 9:11,18 10:24 18:7 19:19 36:8 41:2 41:6 48:20 73:16 81:14 90:13 99:21 108:4,7,9 111:7 132:18 144:25 146:13 150:8 151:13 156:23 157:25 162:2,6 162:15,17,19 163:25 167:9 169:5,9,24 172:5,9 173:13 175:25 177:13 177:24 179:8 worked 38:4 67:18,19 88:8 132:17 153:4 worker 90:12 workers 90:17 working 11:12 12:10 25:4 28:10,15 33:7 35:16 59:15 90:24 120:21,22 131:12 150:6 152:24 153:4,17	156:16 162:12 169:5 works 55:2 76:5 88:6 171:10 world 47:20 worry 96:22 138:3 worse 90:20 worth 14:8 82:24 140:15 142:22 worthy 30:24 wouldn't 130:9 writing 81:17 160:8 written 27:20 158:19 160:4,6 wrong 87:22 wrote 35:6 W-2 88:7,7 X X 87:14 Y Yeah 22:17 32:17 133:6 year 2:21 5:6,14 6:3 7:6 8:22 11:20 14:21 20:10 23:11,12 27:23 37:25 38:2 39:16,19 41:10,11 42:17 46:2,13 47:14 48:23 49:4,20 51:4 52:2,4,8,11 54:4,8 55:11 56:16,19 58:12 61:24 62:4 68:20 75:6 81:20 82:23 106:12 110:7 114:3 116:5,15 120:3,5 128:14 128:14 132:18 132:24 135:17 138:12 140:16 145:19 152:25	156:12 157:19 161:5 163:9 164:4 171:23 172:19 years 14:11 15:4 16:23 18:16,16 22:6 26:12 27:2 32:23 34:3,17 34:18 44:7 51:20 52:7 56:7 56:15 62:12,16 62:22 64:11 66:20 74:22 79:5,8 82:13,19 82:23,24 83:10 86:16 102:11,18 107:4,20,25 116:15 121:16 125:5,6 132:17 135:5 139:11,12 140:12 142:23 145:9 147:20 148:6 149:14,15 153:3,11 159:7 163:19 165:7 167:12 171:9 year's 51:20 yield 63:5 65:19 yielded 17:3 York 20:22 58:23 young 65:13 106:13 Z Zaslow 118:18,22 118:25 144:13 zip 89:15 97:25 zone 140:8 Zuritsky 118:19 134:6,7,10 Zwolak 28:9 \$ \$100,000 30:17 \$13 61:23 \$132 14:16 \$14 15:2 \$153 3:17 115:19	\$17 30:3 \$18.8 40:7 \$2.3 7:10 \$2.9 7:24 \$20,000 159:17 \$200,000 15:13 \$29 131:18,19 \$3 17:3 122:5,14 \$30,000 159:17 \$40,000 30:17 \$5 14:21 \$5,000 125:12 \$50 14:19 78:24 160:14 \$500 37:8 74:25 \$500,000 35:7 \$514 39:20 \$515 59:20 60:7 \$533 39:23 40:3 \$6.3 7:10 \$6.5 7:9 \$65 62:4 \$7 7:11 \$70 14:17 135:18 \$73 135:7 \$74 135:7 \$76 135:15,17 \$800 3:4 \$90 22:6 1 1 54:5 1st 67:3 1,065 8:14 1,500 126:20,25 1:05 180:2 10 53:12 58:25 140:12 142:23 167:12,13 10:10 1:7 100 23:2 30:14 132:9,14 136:9 102,000 122:21 103,000 59:18 60:4 122:24 1099 88:6,8 11 8:13 58:11
---	---	--	--	--

111th 67:4	103:1 104:1	165 137:5,9	23,000 45:23	113:1 114:1
12 6:14 8:13 12:5	105:1 106:1	17 66:20	24 1:7	115:1 116:1
39:23 84:8	107:1 108:1	18 12:5 76:21	245 6:6 132:6,9	117:1 118:1
132:8 135:25	109:1 110:1	19 136:2	25 21:9 135:5	119:1 120:1
136:2 151:2	111:1 112:1	191 89:15	250 68:4 123:15	121:1 122:1
120 150:24 162:21	113:1 114:1	1923 56:14 124:16	26 170:12	123:1 124:1
13 8:14 39:22	115:1 116:1	1990s 71:6		125:1 126:1
136:3	117:1 118:1	1992 78:23	3	127:1 128:1
13,000 15:5	119:1 120:1	1996 68:18	3/24/14 3:1 4:1	129:1 130:1
132 6:5	121:1 122:1	1997 108:3 112:13	5:1 6:1 7:1 8:1	131:1 132:1
14 8:15 68:5	123:1 124:1	1998 78:23 82:14	9:1 10:1 11:1	133:1 134:1
14,000 149:2	125:1 126:1	1999 104:23	12:1 13:1 14:1	135:1 136:1
140071 1:13 2:6	127:1 128:1		15:1 16:1 17:1	137:1 138:1
2:11 3:1 4:1,25	129:1 130:1	2	18:1 19:1 20:1	139:1 140:1
5:1 6:1 7:1 8:1	131:1 132:1	2 54:5	21:1 22:1 23:1	141:1 142:1
9:1 10:1 11:1	133:1 134:1	2,500 134:18	24:1 25:1 26:1	143:1 144:1
12:1 13:1,16	135:1 136:1	20 54:9 79:5	27:1 28:1 29:1	145:1 146:1
14:1 15:1 16:1	137:1 138:1	106:18 121:16	30:1 31:1 32:1	147:1 148:1
17:1 18:1 19:1	139:1 140:1	134:23 147:11	33:1 34:1 35:1	149:1 150:1
20:1 21:1 22:1	141:1 142:1	147:13 151:25	36:1 37:1 38:1	151:1 152:1
23:1 24:1 25:1	143:1 144:1	20,000 163:17	39:1 40:1 41:1	153:1 154:1
26:1 27:1 28:1	145:1 146:1	200 132:8 134:17	42:1 43:1 44:1	155:1 156:1
29:1 30:1 31:1	147:1 148:1	137:8	45:1 46:1 47:1	157:1 158:1
32:1 33:1 34:1	149:1 150:1	200-some 132:5	48:1 49:1 50:1	159:1 160:1
35:1 36:1 37:1	151:1 152:1	2000 104:20,23	51:1 52:1 53:1	161:1 162:1
38:1 39:1 40:1	153:1 154:1	2001 156:12	54:1 55:1 56:1	163:1 164:1
41:1 42:1 43:1	155:1 156:1	2004 156:13 164:2	57:1 58:1 59:1	165:1 166:1
44:1 45:1 46:1	157:1 158:1	165:10	60:1 61:1 62:1	167:1 168:1
47:1 48:1 49:1	159:1 160:1	2006 14:6	63:1 64:1 65:1	169:1 170:1
50:1 51:1 52:1	161:1 162:1	2008 134:25	66:1 67:1 68:1	171:1 172:1
53:1 54:1 55:1	163:1 164:1	135:13 156:13	69:1 70:1 71:1	173:1 174:1
56:1 57:1 58:1	165:1 166:1	2009 15:4	72:1 73:1 74:1	175:1 176:1
59:1 60:1 61:1	167:1 168:1	2010 16:22 135:24	75:1 76:1 77:1	177:1 178:1
62:1 63:1 64:1	169:1 170:1	137:4	78:1 79:1 80:1	179:1 180:1
65:1 66:1 67:1	171:1 172:1	2011 27:5 49:21	81:1 82:1 83:1	30 49:15 51:18
68:1 69:1 70:1	173:1 174:1	52:19 54:12	84:1 85:1 86:1	55:3 58:18
71:1 72:1 73:1	175:1 176:1	135:24	87:1 88:1 89:1	60:15 92:18
74:1 75:1 76:1	177:1 178:1	2012 10:19 15:4	90:1 91:1 92:1	95:21 114:16,18
77:1 78:1 79:1	179:1 180:1	40:3 58:10,20	93:1 94:1 95:1	139:10 158:12
80:1 81:1 82:1	148 7:24 122:15	59:18 115:24	96:1 97:1 98:1	30,000 69:7 113:7
83:1 84:1 85:1	122:23	147:14	99:1 100:1	31 149:15 151:6
86:1 87:1 88:1	15 55:3,18 58:7,25	2013 120:3	101:1 102:1	33 6:10 134:25
89:1 90:1 91:1	95:2 140:12	2014 1:7 150:4	103:1 104:1	135:15
92:1 93:1 94:1	142:23 167:13	155:2	105:1 106:1	35 137:18 145:9
95:1 96:1 97:1	153 39:11	214 6:9	107:1 108:1	153:3
98:1 99:1 100:1	155 51:21	215,000 147:16	109:1 110:1	354 8:13
101:1 102:1	16 136:2	22 6:7 58:24	111:1 112:1	36 52:13

4	98 110:2,3,5			
4 52:12,21				
40 7:2 53:15				
58:18 137:22				
40,000 163:11,17				
400 1:6				
41 149:15				
45 58:22 137:18				
5				
50 97:24 125:4,6				
132:17				
50-mile 77:22				
500 65:9				
55 136:6				
6				
6 52:20				
60 68:6 92:11,11				
145:6 147:12				
164:5 167:20				
69 151:9				
7				
70 16:23 92:12				
114:19,21				
162:23				
70,000 139:12				
72 149:14				
74 67:22				
8				
8,000 145:18				
80 136:4				
83 15:12				
86-year-old				
134:11				
9				
9 7:5 52:11,21				
54:11				
9/11 67:6				
90 22:8 28:7				
90s 149:17				
93 24:23,24				
94 38:2				
96 110:2				
97 110:2				