COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON FISCAL STABILITY

AND INTERGOVERNMENTAL COOPERATION

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Room 696, City Hall
Philadelphia, Pennsylvania
Wednesday, March 31, 2004
10:00 a.m.

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RESOLUTION 040276 - Resolution providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal Years 2005 through 2009, and incorporating proposed changes with respect to Fiscal Year 2004...

PRESENT:

COUNCIL PRESIDENT ANNA C. VERNA
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN DARRELL CLARKE
COUNCILMAN FRANK DICICCO
COUNCILMAN W. WILSON GOODE
COUNCILMAN JACK KELLY
COUNCILMAN JAMES KENNEY
COUNCILMAN BRIAN O'NEILL
COUNCILMAN JUAN RAMOS
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I N D E X

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COUNCIL PRESIDENT VERNA: Good morning, everyone. Sorry for the delay. This is the public hearing of the Committee on Fiscal Stability and Intergovernmental Cooperation.

I would ask Mr. McPherson to please read the title of Resolution 040276.

THE CLERK: Resolution providing for the approval by the Council of the City of Philadelphia of a Revised Five Year Financial Plan for the City of Philadelphia covering Fiscal Years 2005 through 2009, and incorporating proposed changes with respect to Fiscal Year 2004, which is to be submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority.

COUNCIL PRESIDENT VERNA: Thank you.

Ms. Wilkerson.

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

MS. WILKERSON: Good morning. My name is Joyce Wilkerson. I'm Chief of Staff to Mayor John F. Street. With me this morning at the table is Rob Dubow, the City's Budget Director; and Janice Davis, the City's Finance Director.

I think my testimony has been distributed earlier.

COUNCIL PRESIDENT VERNA: We all have copies.

MS. WILKERSON: I'll not read the whole testimony, but will read selected portions of it.

Thank you for this opportunity to present testimony in support of the Administration's proposed FY 2005 through FY 2009 Five-Year Financial Plan. This is the 13th plan developed by the City.

The City of Philadelphia is facing its biggest fiscal challenge in a decade. While I'll discuss in more detail the reasons for the fiscal challenge, there are two numbers that quickly explain our problem. Based on figures provided by the City's actuary, the FY '05 budget includes an increase in the General Fund's pension contribution of over 40 percent. At the same time, taxes and other local revenues are projected to grow at less than 3 percent. Clearly, this kind of imbalance between revenue growth and one major area of expenditure growth forces the City to take dramatic action in order to balance the Five-Year Plan.

At the end of the unprecedented national economic expansion in FY '02 and the slow recovery have had significant impacts on the City's finances. Growth and per employee compensation costs exceeded the growth in tax revenues in FY '02 and '03 due to the effect of the 2001 recession and slow recovery. New and unanticipated homeland defense expenditures, continued increases in criminal justice costs, and the formation of the City's partnership with the Commonwealth to avert financial crisis at the School District also combined to produce consecutive declines in the City's fund balance during FY '02 and FY '03. In addition, during FY '02-FY '03 ordinances were passed that instituted fixed and potentially accelerating wage tax reductions.

While these tax reductions benefit long-term economic health of Philadelphia, they complicate the task of preparing a balanced budget and Five-Year Plan while maintaining services that are essential in these difficult economic times. The jobless economic recovery and continued weak stock market are compounding these negative financial effects further in FY '04 and throughout the life of this plan. Tax receipts are projected to grow slower than the rate of contractual salary increases for the third year in a row in FY '04. The City's required contributions to its pension fund are expected to increase by $437 million over the life of this plan when compared to last year's Five-Year Financial Plan.

Arbitration panels awarded substantial increases. The fire fighters arbitration panel awarded a 37 percent increase in the health and medical benefits to fire-fighting officers. By the end of the contract, the health benefits for each fire fighter will approximate $1,000 per month per employee. As a result of these and other factors, in preparing the FY '05-FY '09 plan, the Administration eventually faced a $227 million projected deficit in FY '05.

The City has taken a four-prong approach in crafting this Five-Year Financial Plan, and I'm not going to step through the details, but the plan turns essentially on a strategy of increasing revenues through changes in the tax structure.

The Administration also proposes approximately $27 million in additional revenues from other governments.

Throughout this plan are a host of fee increases. The City last adjusted its fees around 1991-1992. This plan proposes approximately $6 million in fee increases in order to permit the City to more adequately reflect its cost to providing services. And as you'll hear in the coming weeks, those fee increases range through virtually every department in the City. Some are to be paid directly by businesses and residents in

Philadelphia. Some, like the increase in the EMS fee, will be reimbursed through insurance.

After the Administration identified additional revenues, we were still left with a deficit of about $35 million that we propose addressing through cuts in expenses within the Administration. While we were putting together this Five-Year Plan, the administration strategy has had four basic components. The first is providing resources to stimulate economic growth in the City, and we do that through two different strategies. One is by making strategic investments in the City. And the Mayor has articulated in his budget message a $500 million pool in order to stimulate economic growth.

The second part of the Administration's strategy turns on initiating a number of tax reform provisions. And I'd like to turn to Page 5 of my testimony that begins to step through what we think are particularly critical components of the Five-Year Plan. Drawing on the work of the Tax Reform Commission, this Administration proposes to adopt a number of the initiatives.

The first is this Administration proposes establishing accurate land and structure values for all property parcels. This will provide more comprehensive and accurate data collection for the real estate tax assessment process. This plan includes $5 million in funding in FY '05 for the Board of Revision of Taxes to carry out this recommendation.

The Administration also proposes to eliminate fractional assessments. The BRT will attempt to value all properties at a hundred percent of market value. The administration BRT's proposal to implement this recommendation in FY '06 following a pilot establishment of more accurate land and structure values. This proposal would entail adjusting real estate tax millage in future years.

One of the more controversial proposals of the Tax Reform Commission is a land value tax. This Administration proposes to implement the land value tax over the

10-year period proposed by the Tax Reform Commission beginning in FY '06.

The Administration also proposes to adopt a single factor or apportionment instead of basing the net income portion of the business privilege tax on property, payroll and sales in Philadelphia, the tax would be amended to rely solely on sales in Philadelphia.

Although this change is projected to cost the City $13 million annually, it will eliminate the current penalty for businesses that operate and invest within Philadelphia. This change is proposed for FY '05 in conjunction with the proposed increase in the parking tax from 15 percent to 20 percent in order to, in part, offset the cost.

The final proposal from the Tax Reform Commission that the Administration proposes to adopt is a shift to January 1st implementation of changes in wage and earning tax rates. Changing the effective date of reductions in the wage and earning tax rates from July 1st to January 1st, beginning in

FY '05, would remove the compliance burden for businesses that are required to file annual earnings tax reconciliation forms.

In addition to modifying the City's tax structure, the Administration is committed to continuing its tax reduction program. And if the Commonwealth State-wide tax reform does not occur, it's proposing to reduce the wage tax to 4.3655 percent for Philadelphia residents and 3.8475 percent for non-residents beginning January FY '05. If, however, the State does implement the Governor's proposed State-wide tax reform, the City would accelerate its tax reduction program, and the resident rate would drop below 4 percent.

In FY '05 in addition to adopting the single factor apportionment for the net income portion of the BPT, the Administration is proposing to further reduce the gross receipts portion of the BPT from 2.1 mills to 1.9 mills. Since the beginning of this Administration, the tax reduction program has returned approximately $243 million to taxpayers. This plan calls for reducing the gross receipts portion of the BPT by 58 percent and reducing the wage tax by 15 percent from their FY '95 levels when the reduction program began.

These reductions will provide Philadelphia taxpayers with an additional $375 million in relief through FY '09, bringing the total reduction from the beginning of the Street Administration through FY '09 to over $600 million. If State-wide tax reform is implemented, the resident wage tax would be reduced by approximately 26 percent.

In addition to the tax reform, the Administration continues to support NTI. NTI continues to be a critical component of the City's strategy. This Five-Year Plan provides resources for cleaning vacant lots. It provides resources for better mobilization of City services in Code enforcement. It provides adequate resources to remove graffiti, litter, and take care of other blighting influences on the neighborhoods.

I want to skip down to Page 7.

In addition to providing the economic backdrop through tax reform and strategic investments, this Five-Year Plan supports what the Administration feels are core City services. Unlike past years, this Administration has spent inordinate time going over the City's finances. The Mayor has met directly with most City departments. The departments were challenged to identify with clarity what the core missions were for each department. This budget, we believe, provides adequate resources.

The Administration continues its support for Operation Safe Streets. There is no reduction in that initiative. Although there are, as you will hear when the Police Department testifies, any number of changes that are being made in the Police Department in order to cut its cost of overall operation, this plan could not have been developed without tackling some of what have become longstanding problems for this City. This Five-Year Plan proposes a number of restructuring and right-sizing initiatives that are essential if we're going to be able to survive into the future. This Five-Year Financial Plan proposes changes in the deployment in the Fire Department to reflect the changes in the demand for service. The Five-Year Financial Plan also calls upon the City to take a hard look at how we deliver services in the area of recreation in the City. And we'll be happy to answer additional questions.

This Five-Year Plan makes several strategic investments that are new for this year. The plan invests approximately $1 million in order to support initiatives to limit domestic violence. As a result of the work done by the 21st Century Forum, the plan also calls for increased investments to the Inspector General's Office. The City compared its support for the Inspector General with that in other cities and has increased the support for the Inspector General Office.

I won't go into anymore detail. The assumptions that support the Five-Year Plan are outlined on Page 9. And with that, I'll end my testimony.

COUNCIL PRESIDENT VERNA: Thank you.

Each Councilmember on the first go-around will be given 10 minutes for questioning and then we'll proceed on the second go-around.

Ms. Wilkerson, how is the Administration proposing to deal with the Act 46 issue with regard to eliminating fractional assessments?

MS. WILKERSON: We understand that there will need to be legislative changes. When we increase the assessment, we'll have to decrease the millage that requires that there be legislative changes in Harrisburg, and we'll be working closely with the Delegation in order to address that issue.

COUNCIL PRESIDENT VERNA: What is the Administration's position on making technical changes to the real estate transfer tax?

MS. WILKERSON: Let me ask Mr. Dubow to speak on that.

MR. DUBOW: We support the

recommendations that were made in the Tax Reform Commission for closing some of the loopholes in the transfer tax.

COUNCIL PRESIDENT VERNA: Well, I know you support it. Is there a reason why we haven't received legislation to close the loopholes?

MS. WILKERSON: The Administration is going to be transmitting additional legislation within the next several weeks. As you go through the Five-Year Plan, there are a number of revenue-generating initiatives and other items that are going to require City Council legislation. We hope to be transmitting that legislation within the next few weeks.

COUNCIL PRESIDENT VERNA: Thank you.

Can you tell us what the savings to the City of delaying the wage tax reduction until January 1st from June the 30th is?

MS. WILKERSON: I believe it's about between 5 and $6 million. Mr. Dubow is getting the exact number.

COUNCIL PRESIDENT VERNA: The

Administration is proposing to increase --

MS. WILKERSON: I'm sorry, it was 11 million.

COUNCIL PRESIDENT VERNA: The Administration is proposing to increase the Board of Revision of Taxes budget by $5 million for the reassessment of properties. Why aren't you taking this funding out of the productivity bank?

I think we have about $30 million, do we not, Mr. Dubow, in the productivity bank?

MR. DUBOW: Yes, we do. It's an interesting idea. We will explore that.

A portion of the funding goes towards salaries and that portion can't go through the bank, but there is also a portion that's for contracts and for equipment. So we will look at that. That's a good idea.

COUNCIL PRESIDENT VERNA: How much do you think -- I'm just trying to calculate as we go along.

MR. DUBOW: I think there's probably about four and a half million that would be productivity bank eligible.

COUNCIL PRESIDENT VERNA: All right.

Ms. Wilkerson, can you explain about the self-insurance on health and medical benefits? Explain what the Administration means by self-insurance.

MS. WILKERSON: Let me ask Ms. Davis to respond to that.

COUNCIL PRESIDENT VERNA: And I would appreciate it if she could tell us how the program would work, what employees would be included in it.

We're actually in the dark on this entire issue.

MS. DAVIS: Good morning. Self-insurance as we envision it -- and I would like to preface my comments by saying it's one of several options we're looking at for bringing down the cost of providing medical benefits to the employees.

Self-insurance as we envision it puts the City in the place of the insurance company in bearing the risk associated with providing the benefit. So instead of paying to the insurance company a risk factor, the City assumes that risk without the risk factor. The immediate savings are that risk factor that's calculated in. There would be additional savings related to any profit or reserves that the insurance company would be setting aside. The way it would work -- and there are several models that could be employed. Either the City becomes the full service administrator and insurer, in which case we handle all decisions related to the level of benefits, what benefits a person receives, and we establish those networks of doctors and hospitals.

There is an interim level where we would not handle administration but would, in fact, create the networks of doctors and hospitals.

And there's a third level where we would hire a third-party administrator such as Blue Cross and have access to their networks and they would provide administration. Your level of savings depends on the amount of work that's involved and a direct City participation. But those are still items that we're investigating.

MS. WILKERSON: And these are things that are subject to negotiation with both AFSCME and the other unions. As you know, we have unilateral control over exempt employees but have to bargain and so have already begun talking and will continue to do so in the coming months.

COUNCIL PRESIDENT VERNA: So would this be all employees or just the City-administered plan?

MS. DAVIS: It's anticipated that it would eventually be for all employees.

COUNCIL PRESIDENT VERNA: Who would make the determination if a medical procedure is covered or not?

MS. DAVIS: It, again, would depend on which level of participation in the administration the City chose. If we left administrative decisions to the third-party administrator in a case where it's Blue Cross, that third-party administrator makes those decisions. If we bring full administration in-house to the City, then the City's Office of Insurance would be responsible, using the same standards and guidelines that govern the insurance industry.

COUNCIL PRESIDENT VERNA: Would the City retirees be part of this plan?

MS. DAVIS: To the extent that we're providing insurance for retirees at this point, they would.

COUNCIL PRESIDENT VERNA: So we don't know who would actually administer the plan?

MS. DAVIS: That's a decision the City would make as we progress and determine what level of savings we're willing to go after.

COUNCIL PRESIDENT VERNA: You know, there are an awful lot of "ifs" in your response.

MS. DAVIS: That's why we put the minimum amount which makes an assumption that there would be a third-party administrator who would, in fact, have a network already in place. The level of savings does not go the full gamut.

COUNCIL PRESIDENT VERNA: Let me ask you a question. Did the City attempt to do this once before several years ago?

MS. DAVIS: It's my understanding that the City has never been self-insured.

COUNCIL PRESIDENT VERNA: I think it may have been and it was not at all successful.

MS. DAVIS: We got information from the labor relations guys, and they said we've never been self-insured.

COUNCIL PRESIDENT VERNA: Can we get back to you on that information that we have?

MS. DAVIS: Sure. Please.

COUNCIL PRESIDENT VERNA: Thank you. I don't want to dominate.

The Chair recognizes Councilwoman Tasco.

Before you ask your question, Ms. Wilkerson, time is not in our favor as you well know. So any legislation that we spoke about earlier should be sent to Council as promptly as possible so that we would have ample time to consider it.

MS. WILKERSON: All right.

COUNCILWOMAN TASCO: Have you done an analysis of all the possibilities for becoming self-insured Plan A, Plan B, Plan C, and what the cost savings would be for each of those plans?

MS. DAVIS: We've not gone into the most extreme cases. We have looked at the small we-go-to-Blue-Cross type of situation, and I think we've anticipated $5.6 million.

COUNCILWOMAN TASCO: Are there other models around the country that you have looked at? What other cities are self-insured?

MS. DAVIS: The City of Houston is self-insured, School District in New Orleans is self-insured. The self-insured model is a model that became very popular in the '80s and then again in the '90s and there are several large cities that -- Birmingham, Alabama, is self-insured. It's not a novel concept. And with the third-party administrators who are as sophisticated as they are now, it is almost a seamless transition from being insured to being self-insured, particularly when you use a third-party administrator such as a Blue Cross that has their own network.

There are other health delivery mechanisms that we are looking at and are discussing, one of which would be a health reimbursement arrangement that would not necessarily change anything about the benefits that are being received but just the manner of funding them.

So we are looking at many different ways to get to the same savings. The bottom line is, we have to find a way to maintain those healthcare costs and still provide a benefit that's worth having for our employees. The usual method is to reduce the benefits. We're attempting to find a model that would not reduce the benefits but would reduce the cost. And that's been our aim in looking at self-insurance. It's attempting to maintain benefits.

COUNCILWOMAN TASCO: Is that something that we would have to vote on, or is that once we pass the budget you all just go out and decide that you're going to implement this self-insurance program if we approve it in the budget process?

MS. DAVIS: A lot of it will depend on negotiations with the employees, and I don't know legislative requirements.

MS. WILKERSON: I'll ask the Law Department to do a memo on which aspects, if any, would have to be approved by City Council under the various scenarios that the Finance Director has described.

COUNCILWOMAN TASCO: But if we accept the Five-Year Plan and budget, we're in essence approving the concept?

MS. WILKERSON: I will ask the Law Department to put something in writing. I don't want to speculate on that.

COUNCILWOMAN TASCO: I'd certainly like to know that please before we get too far along with this, given the nature of health insurance and people's concern about who makes the decision or what service or procedure is approved and given problems in the past. I have some concerns about that.

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MS. WILKERSON: We can provide additional information on the implementation, what's involved in the implementation under the various strategies, as the Finance Director said, they vary dramatically. The health reimbursement would be almost indistinguishable from what we have presently. A self-insurance, depending on which strategy we use might have a larger impact. But we will provide a report that identifies what the differences in implementation will look like. And I'll also have the Law Department do a memo that would outline what control City Council would have on deciding which strategy the City adopts.

COUNCILWOMAN TASCO: I think it's important we get that prior to passing this budget because if it's not clear, if I'm voting on this when I vote on the Five-Year Plan and the budget that I approve this, then I'd like to know that before we come to a vote and in time for us to have a discussion about it.

MS. WILKERSON: This is one of the

most critical challenges that the City faces. The 37 percent increase in the fire fighters health coverage cost has imposed enormous strain on the budget, and we are not in a position to continue doing things as we have been doing. And I think that's the theme that's recurring throughout the Five-Year Plan. We're going to have to make some fundamental changes in how we provide the services or support that we've done over the years, and health benefits is one of those areas but it's only one of the areas where the Administration is proposing a fairly dramatic change.

COUNCILWOMAN TASCO: And I think I'm open to a discussion about that except that we have such a short window of time to pass this budget. If we're going to make drastic changes in how we provide access to healthcare to employees and even to myself, I'd like to know what that is and how it's going to work and all of that before you vote on this budget and Five-Year Plan. And given the short length of time we have, I think it's important for us to look at that.

I had one other question. In your assumptions, you assume -- you know, the last week or two we've been talking about PGW -- and you assume that you're going to 45 million and the 18 million. And given the financial condition of PGW, are you still going to make that assumption in your Five-Year Plan?

MS. WILKERSON: We're continuing to assume that in the Five-Year Plan. I think we all understand the challenges in front of the company. The Board of PFMC and the commission staff as well have been working with PGW to try to develop a more aggressive strategy for its collections. We're doing that on a number of fronts, and I think that's then brought out in the testimony on different matters over the last several days. But at this point, we're still maintaining an expectation that we'll get the $18 million next year and that the 45 will be repaid.

COUNCILWOMAN TASCO: And what happens if that -- what's the downside if that doesn't happen?

MS. WILKERSON: If that doesn't happen, then we would be in a position of probably having to amend the plan and, as with any of the other initiatives that don't materialize, we will be back here with additional cuts that will have to take place or additional strategies for generating revenue.

COUNCILWOMAN TASCO: Well, given the present scenario, what hope do you have for PGW that they will come out of their financial straights? I mean, the collection is one thing, and we've talked about that for years. What other strategies do you have in mind to figure out what to do for this company financially?

MS. WILKERSON: Well, the company is looking at not just collections, we're looking at trying to increase our share of the LIHEAP and Crisis money. The company is looking at trying to increase the diversification in its customer base. One of the biggest challenges has been the increasing reliance on residential customers as opposed to commercial and industrial customers. So the company is taking a hard look at its assets trying to figuring out are there better ways of using some of those assets in order to decrease the dependence on residential customers.

We're also looking at the lines of business in the company. PGW provides services that are not provided by other utilities, things like equipment repair, appliance repair, and some of those other services and are taking a look at whether we can continue to afford those lines of operation in the future. So in addition to --

COUNCILWOMAN TASCO: And that's been on the table for a long time. I think that what happens with PGW, the decision to act on a lot of those measures take so much time because of the bureaucracy involved.

What can the Administration do to give the management at PGW the wherewithal to make those recommendations so they can look at them now and make those recommendations?

I mean, yesterday during the course of the hearings there was a discussion about some aspects of the company that probably don't need to exist. And if they look at that, given the scenarios that were raised yesterday, maybe they ought to just be eliminated. And so I don't know if the management feels that they have the authority to move in the direction -- and this is not from any conversation I've had with anybody, but it just takes so long to move from A to B, and I don't know what the problem is. I think some assurance or some push from the Administration to say it's okay to do these things might make them move a little faster in cutting some of the expenses that they need to cut.

MS. WILKERSON: Janice Davis, I sit on the Board, the Law Department attends Board meetings and we are working with PGW to try to focus better. Over the last several years, I think there have been a number of initiatives that have pulled PGW in a lot of different directions. I think that in the coming weeks you're going to see the company focused on some very specific initiatives that will support increasing the revenues in the company, but also cutting expenses. We are going to be making a decision about the appliance repair and some other lines of business. We're going to be taking a hard look at some of the neighborhood offices and how it is that we provide services with an eye towards shrinking the cost for the company.

COUNCILWOMAN TASCO: Thank you.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Ms. Wilkerson, and thank you for your testimony.

The Five-Year Financial Plan is required by PICA. It's also a good tool for fiscal management. But it also represents actually a blueprint for economic growth or a lack of a blueprint for economic growth. And in the Mayor's budget address and in the Five-Year Financial Plan document, it seems that the Administration asserts that the $227-million deficit proposed for next year is the result of flat revenue growth and that flat revenue growth is a result of bad economic times nationally.

To what extent is that flat revenue growth a result of the Administration just turning its public policy focus to economic development the second term rather than the first term?

MS. WILKERSON: I'm sorry, the last part of your -- to what extent is the --

COUNCILMAN GOODE: Flat revenue growth a result of the fact that the Administration is just turning its public policy focus to economic development?

MS. WILKERSON: I think that the projected deficit is composed of a number of things, it's not just what's going on in the national or local economy. Probably the bigger stresser over the last several years has been what's happened with the stock market. That more than anything has really rattled the City's finances. I think that this Administration has been making strategic investments in order to grow the economy in a number of different areas. What we hope to do during this administration, though, is become clearer about that. The Mayor has proposed an economic summit as a way of beginning to develop a clear strategy for growing the economy. We've got to do better. We have, I think, done a good job, a very good job retaining companies in Philadelphia, but we haven't seen the growth that we want to. So with the economic summit with the tax initiatives that we've adopted from the Tax Reform Commission, with those combined strategies, we would hope to see --

COUNCILMAN GOODE: Clearly business retention is not going to do the same thing as business and job creation. And I notice that in your testimony part of what you chose to delete is discussion of that $500 million economic development investment fund.

Can you describe, when you talk about an economic development investment fund, what you mean by economic development?

MS. WILKERSON: What we mean by the fund is --

COUNCILMAN GOODE: What you mean by economic development?

MS. WILKERSON: What the Administration means by economic development is growing businesses and jobs within the City.

COUNCILMAN GOODE: And how do you plan on doing that?

MS. WILKERSON: What we plan to do is have -- we plan to do it in a couple of ways. One, we have proposed the tax reform changes in order to --

COUNCILMAN GOODE: I'm speaking specifically to the economic development investment fund with that half billion dollars that we basically would be mortgaging our future for, what do you mean by economic development and how we accomplish it with that half billion dollars?

MS. WILKERSON: That half billion dollars would be focussed on capital investments. The first $125 million, we propose generating that from using the reserves currently in the Water Revenue. We would --

COUNCILMAN GOODE: My question is, how do you achieve business creation from that half billion dollars?

MS. DAVIS: The initial focus will be in laying infrastructure to provide support for development. It's a strategy of not "build it and they will come," but "they need this in order to build it."

We're looking first at water and sewer-related infrastructure in those areas that the Mayor has identified as creating the new river City, the 15 miles of waterfront.

COUNCILMAN GOODE: I understand the description of it. I yet cannot understand how it's going to create one business or one job.

Similarly, in discussions this week I asked a question regarding neighborhood transformation initiative and whether that actually has led to the construction of even one new unit yet.

If I made the statement that the Neighborhood Transformation Initiative has not led to one new residential unit, would that be a fair statement?

MS. WILKERSON: No, I don't think that's a fair statement.

COUNCILMAN GOODE: Where are the units that have been developed as a direct result of the Neighborhood Transformation Initiative?

MS. WILKERSON: I think one of the clearest -- what neighborhood transformation, if nothing else, has allowed the City to do is to acquire land. Having control over land is essential for development. And if you look at what has slowed the growth of development of units in the City of Philadelphia, it's been the City's inability to fund --

COUNCILMAN GOODE: Ms. Wilkerson, the reason I use that as the context for this discussion or this questioning is that if we spent tens of millions of dollars, if not hundreds of millions of dollars, on preparing land for neighborhood transformation and it has not led to necessarily one new unit yet and it definitely has not lead toward an improved economy within the City and new businesses and jobs, to what extent should we be trying to invest a half billion dollars again in preparing land and infrastructure improvements in the same, "Clear it and they will come" type strategy. And what do you have planned for the half billion dollars that's going to directly lead to business and job creation? Because that's why I believe we have flat revenue growth beyond the fact that we have bad economic times nationally.

MS. WILKERSON: I don't think it's accurate to say that NTI is not going to result in any --

COUNCILMAN GOODE: I said it has not.

MS. WILKERSON: And some of that is simply because of the timeline associated with acquisition and development. That is a multi-year process, and the Administration didn't get authority to issue bonds and couldn't begin the land acquisition process until the last one or two years. And so to say that the NTI dollars expended has not resulted in any --

COUNCILMAN GOODE: Direct benefit.

MS. WILKERSON: -- I think is inaccurate. I think that but for the NTI dollars there are tens of millions of dollars in housing development that could not happen. The City did not have the resources to acquire the land; and without the land, the development cannot happen. That we haven't cut ribbons has more to do to the fact that it takes --

COUNCILMAN GOODE: It would not happen privately?

MS. WILKERSON: No, it has not happened historically in this City in these kinds of neighborhoods.

COUNCILMAN GOODE: We've been producing affordable housing for decades.

MS. WILKERSON: With substantial City subsidy.

COUNCILMAN GOOD: Well, I'll ask the question I asked the other day, too.

Since NTI, has housing production increased, decreased or stayed the same, particularly since you're using the same type of strategy for the economic development investment fund? "Clear it and they will come." And after spending what would be probably close to $800 billion, you still have not shown me at least directly how you will produce housing units, businesses, and jobs.

MS. WILKERSON: We'll get you that information.

COUNCILMAN GOODE: That's not satisfactory.

MS. WILKERSON: I don't know how to answer the question. What we intend to do with the money is, for example, at the naval yard the development there is slowed, in part, because they've not the resources to make the infrastructure investments. And I can have the people from the Commerce Department, or they can do it in connection with their testimony, talk to you about what the plans are for the naval yard and how those dollars link to economic development.

COUNCILMAN GOODE: The question for me is whether it is a direct link or indirect link?

And what I'm seeing is the spending of hundreds of millions of dollars without a direct link to housing production and without the direct link to the creation of businesses and jobs. And that's what contributes to flat revenue growth.

I'll ask you another question.

In testimony before the Commerce and Economic Development Committee last week, the National Community Reinvestment Coalition cited a study that said that Philadelphia was dead last among the 100 largest metropolitan areas in terms of small business lending to economically distressed areas. Can you explain why that would be?

MS. WILKERSON: No.

COUNCILMAN GOODE: So you have really no answers regarding economic development this morning?

MS. WILKERSON: That's right.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman DiCicco.

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COUNCILMAN DICICCO: Good morning.

In your testimony, Ms. Wilkerson, you speak about the proposed plan for a scholarship program where the City will be putting in $4 million, the School District will be putting in $6 million, which I think is a very admirable plan. My concern is, though, we're asking Community College -- I think you're cutting their budget by $750,000?

MS. WILKERSON: Yes.

COUNCILMAN DICICCO: I find that to be somewhat contradictory to what you're doing here. If you're saying that you want to provide opportunities for people to go to college, why would you be cutting our contribution to the City Community College at the same time?

Doesn't that mean that in a sense that the students who will be going to Community College by way of tuition more or less will be helping fund that program?

It's kind of like borrowing from Peter to pay Paul, isn't it?

MS. WILKERSON: I think it's

important to go back over time. The Administration over time has increased its commitment. This does reflect a retrenchment in the dollars invested. We have had to make a number of difficult decisions, have decided that our proposing that the last dollar scholarship is a more effective strategy for increasing college opportunities for young people in the City. But this is only one of the very difficult decisions that we had to propose in trying to craft this budget.

COUNCILMAN DICICCO: Councilwoman Tasco just was whispering in my ear, didn't we have a responsibility to maintain and fund Community College?

MS. WILKERSON: There is a mix, a statutory mix.

You want to talk about what the formula is?

COUNCILMAN DICICCO: I think there's a State mandate or something that we --

MR. DUBOW: There's a formula of State, City, and tuition contributions which really has not been adhered to by any of the parties in years. I think it's a third, a third, a third.

COUNCILMAN DICICCO: Could you explain that. You said no one has adhered to that?

MR. DUBOW: I think the balance has not been a third, a third, and third in quite sometime in part because Community College had a fund balance that related to the amount that we contributed. So the fund balance was part of what we viewed as our contribution.

COUNCILMAN DICICCO: Fund balance meaning a surplus?

MR. DUBOW: Yes.

COUNCILMAN DICICCO: So we were not even putting our third in because there was a surplus?

MR. DUBOW: Correct. Since this Administration's come in even after the change this year, we've increased our annual contribution by over $2 million a year.

COUNCILMAN DICICCO: Is there a state law requirement?

MS. WILKERSON: I can get back to

you on that. I don't know that it's --

COUNCILMAN DICICCO: That third of the City's contribution from time to time, I assume, was not going to the Community College; did that money stay in the General Fund? I mean, where does that money come from? Where would that third --

MR. DUBOW: It's a General Fund appropriation, that's right.

COUNCILMAN DICICCO: Do you know what the value of that third would be in a typical year?

MR. DUBOW: It depends on what their -- I'd have to look at their budget.

COUNCILMAN DICICCO: Ballpark number.

MR. DUBOW: No, I don't want to guess. We'll get you that.

COUNCILMAN DICICCO: More than a million dollars a year?

MR. DUBOW: I'm not going to guess.

COUNCILMAN DICICCO: Who would be eligible for this scholarship program? Would it be eligible just for public school students or would it be eligible to even non-public school students.

MS. WILKERSON: I'd like to have Debra Kahn come up. She's Secretary for Education and she's been dealing with the public school/private school issue.

COUNCILMAN DICICCO: I fully support education. I think that's one of the areas where we need to always put more resources into. I think that when people are more educated, we have less problems. So I'm not condemning this program, I'm just trying to figure out how the money's being moved around and the cut in Community College at the same time we're offering scholarships. I'm a little bit concerned about that.

Identify yourself for the record.

MS. KAHN: Deborah Kahn, Secretary of Education. I believe you asked, Councilman, who would be eligible for the program. As it's currently structured, it would be all students who graduate from any of our public and charter high schools.

COUNCILMAN DICICCO: So non-public

school students presently would not be eligible?

MS. KAHN: At the present time, they are not included in eligibility the way the program was originally designed.

COUNCILMAN DICICCO: Is there a legal reason for that or is that just a policy?

MS. KAHN: There's no legal reason. Let me give you some of the background for how the program came to be. It was really originally an idea that had been proposed by Congressman Chaka Fattah for what I understand to be for several years now. And the real rationale and the driving force for the program was really to increase the college going rates among our population. And I think this really ties in, I would say, to the economic development issues here because in my mind education and economic development really need to be linked. And Philadelphia's college going rate has traditionally or the percentage of the population that holds a college degree has historically been low. I think it's around 17 percent now, and that's much lower than a lot of our competitor cities. And among public school students, that rate is particularly low, although I will say I don't know that we have the best data available, but we think it's somewhere in the 30 percent range just going. So the real driver here -- I know a lot of reasons for why students don't go on to college, but economics is certainly one of them. And the other is about expectations. And this program is very much about increasing expectations for public school students so that they can go to college.

So we wanted to be really the first City in the country to put into place for our public school students really a universal program for all graduates as both an incentive and a reward and an enabler for public school students to be able to go onto college and to get additional funds which will really help them succeed in that critical first year.

COUNCILMAN DICICCO: Thank you. I don't want to get into the separation of church and state, but there are probably just as many -- I'm going to use the parochial schools as an example. There are probably just as many non-practicing Roman Catholics who attend parochial schools in this City of Philadelphia as there are practicing Roman Catholics. By that, what I mean is -- and you've probably seen when you drive by many of the parochial schools, there are signs on them saying we have saved the taxpayers $60,000 annually, a million dollars annually, which in fact they are doing. I know in my district, but for the fact that there are -- were it not for the non-Catholic students, many of those parochial schools would be closed which would be an additional burden on the Philadelphia Public School system. These are children whose parents I would believe are taxpayers in the City of Philadelphia. So they're basically, if this program moves forward and excludes non-public school students, those students and their parents are basically cut out of the opportunity to even qualify for a scholarship. And I don't know how I as a

District Councilperson or any other Councilperson I think in the City can go around explaining to the taxpayers that because they choose -- and I understand choose a key word here -- to send their children to a non-public school that their tax dollars which will be funding the scholarship programs will not be available to them.

I think that's a very slippery slope we're going down. I think it's going to create a lot of concern. Many of the people who leave this City of Philadelphia leave because of the quality of education. And we can debate whether South Jersey has a better system than Philadelphia. I don't think it really does, but there's that perception. I think this just encourages people, gives them another reason to leave. And I think that if we were to open this program, assuming it goes forward, to all Philadelphia students, I think we can keep a lot of those families from leaving.

So I think when you talk about economic development and how the school system and educational system goes hand in hand with economic development and neighborhood revitalization, it's clear that many of our neighborhoods because of the loss in population had a lot to do with the public school system or the perception that it wasn't good. And here it is again, that we're just going to fire another shot across their bow and say, you know, "You're out of it. You don't qualify."

And again, I know my district, and I think it's probably across the City. I would venture to say that 50 percent or close to 50 percent of the students who attend the parochial schools in my district are non-practicing Roman Catholics. They go there because parents believe they're going to get a better education. Again, that's debatable. But if those schools and every time that parochial school closes up, it's an additional burden on the taxpayers of the City of Philadelphia because we now wind up increasing our population with the same basically amount of money, or less in some cases, to provide a decent education.

I do have other questions, but my time is up at the moment so I just wanted that on the record. I think we need to talk about that going forward. Thank you.

COUNCIL PRESIDENT VERNA: And, Councilman, I certainly want to echo your sentiments on this issue.

With the scholarship, is that for one year?

MS. KAHN: Right now it would just be for freshman year, yes.

COUNCIL PRESIDENT VERNA: I think this is an issue that we're certainly going to talk about.

MS. KAHN: And we're prepared to do that.

COUNCIL PRESIDENT VERNA: Because many of us are not really in favor of this.

MS. KAHN: We understand.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman O'Neill.

COUNCILMAN O'NEILL: Let me ask just a general question. And I hope I didn't miss something before I got here, and I apologize.

The PICA staff that has to get involved with the Five-Year Plan, have they signed off on it? Has there been discussions with them? That there have been differences that you're working out?

I just want to get an idea where you are with the PICA staff, because I think this is the most serious year by far since the PICA was put in place by the State.

MS. WILKERSON: I'll ask Mr. Dubow to respond in detail.

We meet on a weekly basis with Mr. Vignola and members of his staff throughout the course of the year reviewing the City's finances. There have been a number of conversations with them about the Five-Year Plan. They've raised concerns about the gas company. They've raised concerns about revenue projections.

And, Rob, you can respond to some of the details.

MR. DUBOW: Yes. We have been meeting with PICA. We've briefed them on the plan. They have copies of the plan. They sent a letter to the Mayor and to Members of Council expressing three specific areas of concern. One we've talked about this morning already is the PGW payment. We have it out in '04, the $18 million payment, then coming back in '05 and for the rest of the year is in the plan and we assume that we receive the $45 million loan repayment. They --

COUNCILMAN O'NEILL: That's the definition of an optimist, I think.

MR. DUBOW: They classify that in the legislator that they sent us, "unlikely revenues." They also put into category some of the new legislation that the plan assumes from the State, specifically on reimbursements for Department of Human Services and the prison system and police. They also thought that our property tax assumptions were overly aggressive. In all, they said that they saw about $300 million in either aggressive or unlikely revenues.

COUNCILMAN O'NEILL: I didn't realize the morning newspaper had already done a story. I picked it up when I left the house and haven't had a chance to read it. So I'll look at that. I just wanted to know what the give and take was at this point with the agency.

I just have a couple of questions on the first round. And one involves the highway patrol reimbursement from the State and the other involves defined contribution plan on the pension.

So with the reimbursement of 5.6 billion from the State, is that in the Governor's budget, the reimbursement for highway patrol?

MS. WILKERSON: No. I don't believe it's in the Governor's budget.

COUNCILMAN O'NEILL: At some point, do we keep it in the budget if it doesn't make it in the Governor's budget? I believe his budget is a few months old now.

MR. DUBOW: That is one of the items that they include in their unlikely revenues. Unfortunately, the way the process works, their budget gets concluded after our budget does, so we won't know by the time our budget is done whether these items wind up in the Governor's budget.

One of the things that we've told PICA is that we will share with them and share with Council too a list of cuts that we would have to implement if these unlikely revenue items don't come through.

COUNCILMAN O'NEILL: The State usually gets worried about those, from times past. I'm kidding. But we will have a judgment a month earlier as to whether we collectively think there's a good chance, let alone any chance, of these monies getting in in the following month of June. It makes it a lot more difficult with nothing at this point positive coming from the State. I've heard these monies mentioned now -- it's my seventh term, and it's come up at least once, if not more, in each of those terms and we've never gotten a dime. It was actually even before Councilman Rizzo was elected, if anybody can believe that.

The other is, shifting from the

defined benefit pension plan which we all are in now and it has always been the history of the City to have a defined contribution plan which would be more like a 401K in the private sector, 457 in the public sector.

First, could you tell me as part of the general description of it whether, even if it were implemented, whether it affects current employees?

MS. DAVIS: It would not impact current employees. They're already vested in a plan, and we would not be taking a benefit from them.

COUNCILMAN O'NEILL: So could you just define for the record what it involves if you were able to do it?

MS. DAVIS: What it involves is instead of guaranteeing employees a benefit at retirement, we would guarantee that employee that we will make a distribution of a certain amount every year. This is a shift that is occurring across all funds, not just public funds but also private funds, as the cost of providing defined benefit plans continues to escalate. It's favored among younger employees because they have the flexibility of directing their investments and they're portable under most circumstances; whereas, your defined benefit isn't portable.

COUNCILMAN O'NEILL: And what savings do you anticipate in the Five-Year Plan if you're able to do this?

MS. DAVIS: We are not anticipating any savings in the Five-Year Plan.

COUNCILMAN O'NEILL: Okay, I'll pass. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Clarke? Is he here?

Since he's not here, the Chair recognizes Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam Chair. I made a commitment when I came to the City Council that I would not learn how to be a representative of the people of Philadelphia passively but that I would learn actively. And I want to say that concerning the scholarships that were referred to just a few minutes ago and the concerns of some of my colleagues here that it was very well documented in our City's papers a few weeks ago that I used my not learning passively but to learn actively got involved in trying to find a way that we can settle the disbursement of the scholarship money that would include non-public school students. And to that goal, I convened a meeting of a prominent business leader, the Archdiocese, Congressman Fattah, Deborah Kahn and myself. And at that meeting we agreed that we would work very hard to make these scholarship dollars available to all the high school children of this City.

Since then, I have been involved in a series of meetings with the Archdiocese and the people that were involved at that meeting. And as of today, I would say that we're very close to reaching an agreement where all the students, all high school students of the City of Philadelphia will be able to participate. And I am today waiting on a call from Congressman Fattah because I have floated already at least three proposals, and there has been some very -- and I believe that Secretary Kahn can testify that we, in fact, have put in significant hours into this. Because at the end of the day, unless all the children are involved, I would have a very hard time voting in favor of that allotment of money.

COUNCIL PRESIDENT VERNA: I did not read the article that you referred to. Where would the money come from?

COUNCILMAN RAMOS: It would come from the same pool that is being presented by the City and the School District.

COUNCIL PRESIDENT VERNA: So how much would the amount have to be increased by? I mean, we're talking about $4 million.

COUNCILMAN RAMOS: I prefer not to get into the particulars until I hear from Congressman Fattah, hopefully today. It would be within the same numbers that the Administration has proposed, which is around $10 million, 6 from the School District -- correct me if I'm wrong -- and 4 from the City of Philadelphia.

COUNCILWOMAN TASCO: (Inaudible.)

COUNCILMAN RAMOS: I believe there are some federal dollars, right, Deborah?

MS. KAHN: A portion of the School District's contribution to this program would, in fact, originate as federal dollars.

COUNCILMAN RAMOS: Madam Chair, my point is to let you know that I am involved, I took an active approach to this and that I have been meeting back and forth with the Archdiocese, and there's very good will to make this happen within the framework of the money that the Administration is talking about, not anything additional and not anything less.

COUNCIL PRESIDENT VERNA: Well, I applaud you for that. But the question is, are we going to have to put in more money or do you think that the 4 million -- can you explain where this money is actually coming from?

MS. KAHN: I also am not prepared right now to go into all the details, and I will say that we do appreciate Councilman

Ramos' involvement in convening the meeting and speaking with all the parties.

The way that this program is currently structured and how it was designed was that it would be a cost-sharing arrangement between the City of Philadelphia and the provider, in this case the public school system, and that there would be a cost-sharing arrangement.

All the issues that were raised by the Councilmembers are comments and positions that we appreciate. And there was never an interest in discrimination and the issue of religion was really not the reason for this. But there were cost considerations and we wanted to see how this could be handled. And we also felt strongly and continue to support the position that this cost-sharing arrangement is the model that we would like to pursue. So we have among the different approaches that Councilman Ramos referred to, we have really said that we would be interested in having other schools and students participate in this if we can maintain this same model that we have established here for public school students. So that's one of the issues that we're looking at as we continue to discuss the options with the Councilman and the Archdiocese.

COUNCIL PRESIDENT VERNA: I'm sorry. I think we're at a total loss up here with your response.

Are you then saying if the parochial school children would be eligible that the Archdiocese then would have to appropriate X amount of dollars along with what the City is appropriating?

MS. KAHN: I am saying that the way the program is structured now, the City would be paying a portion of the scholarships for public school students and the School District would also be.

COUNCIL PRESIDENT VERNA: How much would the School District be paying?

MS. KAHN: They have made a commitment for up to $6 million a year for each of four years. The City has in its plan up to $4 million a year for each of four years. So that's what I referred to as the cost-sharing arrangement. I'm saying that's the model that we have in place now. And so certainly, an option that we have proposed to the Archdiocese, because that's who we've had a conversation with now, is if they could have a similar matching arrangement, that is an approach that we could see pursuing.

COUNCILMAN RAMOS: I'm very disappointed with the last comment made by the Secretary because she very well knows that in the last proposal that I presented that was discussed on both sides clearly says that the Archdiocese will not, because of their fiscal situation, contribute. Within the realm of those $10 million that we're talking about there is a very good proposal -- and I'll be glad to get back to this Body and report to you as soon as I hear maybe as early as today particularly from Congressman Fattah.

COUNCIL PRESIDENT VERNA: Could I ask where the source of the $6 million is from? You said the Archdiocese. I thought that was the federal government.

MS. KAHN: No, I said the School District.

COUNCIL PRESIDENT VERNA: The School District, I'm sorry. You said from the School District. I don't understand. I mean, I thought it was the federal government.

MS. KAHN: Again, the School District gets a variety of grants. And as I understand it -- and I think the School District will really have to speak to its own budget. But a portion of the 6 million that it has allotted, I believe, originated as part of the Year Up Program which is a federally funded program aimed at increasing college attendance for public school children. But it's money that is in the School District's budget.

COUNCILMAN O'NEILL: The whole thing could be federal?

MS. KAHN: I don't want to speak to that. I would have to get back to the School District on that.

COUNCIL PRESIDENT VERNA: How soon can we get this information?

MS. KAHN: Today, I would think.

COUNCIL PRESIDENT VERNA: Could you make a phone call and find out before the end of the hearing? I think many of us are eager to know what the response would be.

MS. KAHN: Sure.

COUNCIL PRESIDENT VERNA: Thank you.

I'm sorry, Councilman Ramos.

COUNCILMAN RAMOS: I still have some other questions on other issues.

COUNCIL PRESIDENT VERNA: Please proceed. I think we're so embroiled in this one issue.

COUNCILMAN RAMOS: I yield to Councilwoman Tasco.

COUNCILWOMAN TASCO: Back to the Administration. If we have an obligation -- first let me ask you the question.

Can these students, are they limited to what colleges they attend?

MS. KAHN: Yes.

COUNCILWOMAN TASCO: What colleges? Only in Philadelphia?

MS. KAHN: No. They are either

Community College of Philadelphia, any of the 14 universities within the state system of the Pennsylvania State System of Higher Education or any of the four State-related colleges which would be Temple, Penn State, Pitt and I believe it's Lincoln.

COUNCILWOMAN TASCO: I really support giving young people an opportunity to go to college, but we have a fiduciary responsibility to Community College, and what puzzles me is why do we take money from the Community College to give money to other colleges, when we have a responsibility to fund Community College?

MS. KAHN: Well, again, I actually think that a number of the -- maybe the majority or a substantial portion of the students who might choose to benefit from the core scholarship program might, in fact, end up attending Community College also.

COUNCILWOMAN TASCO: But that's a might and that's not a definite and you don't know that, but we're still taking away $750,000 from Community to give into scholarships for kids who may go any place across the State of Pennsylvania and leaves the this college absent $750,000. Thank you.

COUNCIL PRESIDENT VERNA: What's the State law, do we know, regarding the City's funding requirement to the Community College? And is the City meeting its obligation?

MS. WILKERSON: We'll get back to you on that. We were unclear whether it's a State law or something else that requires the one-third/one-third/one-third match, but we'll get that source of obligation information for you and also exactly where we are in reference to an absolute one-third/one-third/one-third funding formula.

COUNCIL PRESIDENT VERNA: Thank you.

I'm sorry, Councilman Ramos.

COUNCILMAN RAMOS: I'll yield to the veteran Councilman.

COUNCILMAN DICICCO: I guess it's more or less a statement in the same area with the scholarships and I think it's worth repeating. I said this at the onset, and I believe I know all of us in Council support higher education opportunities. But we talk about -- and I support a program that will provide financial assistance. We talk about the brain drain. We spend thousands and thousands of dollars and tens of thousands of dollars to figure out a way in which we can keep students who attend local colleges in Philadelphia from leaving. Now we're going to provide them with a tool, as Councilwoman Tasco said, to take that money and maybe go elsewhere. I mean, it's counter to the brain drain program that we've all been talking about for the last decade. So I think you need some refining in this program, look at the possibilities of maybe limiting the colleges to within the City of Philadelphia's boundaries if that's possible. We do have enough universities and colleges, and I certainly would say, yes, Community College first, but at the very least limit it within our borders. It's a statement more or less as opposed to a follow-up question. Thank you.

COUNCIL PRESIDENT VERNA: Thank you for being so patient. I just want you to know because of your patience, you now have 10 minutes.

COUNCILMAN RAMOS: I want to try not to take up all of 10 minutes.

Concerning self-insurance -- this is not a question for Secretary Kahn. It is very clear that the Administration is set on moving from how healthcare is provided, which is also part of the collective bargaining agreement with our two municipal unions, to go into this area of self-insurance. And I am concerned about the tone of this, not that it's a mean-spirited tone, I'm not implying that whatsoever. But it seems as though the Administration is taking the position that it's either self-insurance or nothing. And they make a very good argument for self-insurance. But I know that if you don't negotiate this with our municipal unions that this could lead to a crippling strike in this City of basic City services, and none of us in this City want to face any strikes or a strike of that nature that will cripple basic services.

Does the Administration have another backup plan in the event that this doesn't go?

And also, part of my consternation about this is that we now have heard a couple times the use of the word "layoff." It kind of sounds like if we don't do self-insurance and if the unions don't agree to it and if we don't come around to it, there's going to have to be layoffs. And my basic question is, is there a backup plan to your self-insurance plan in the event that it's not in our agreement or probably more importantly in the agreement of your obligations with the two municipal unions?

MS. WILKERSON: The Administration is not wedded to self-insurance per se. Ms. Davis outlined a number of different alternatives that we were taking a look at. What we do have to accomplish is a more efficient way of delivering health benefits for union members. Our understanding is the current formula isn't working for anybody right now, that the unions -- we give a per capita rate to the unions. They've then got to go out and try to buy the benefits. And it's presenting a challenge for them as well. We're not whetted to self-insurance. We're willing to take a look at the health reimbursement initiative that Janice talked about.

With respect to layoffs, the Mayor's position is that we will avoid layoffs at all cost. Our goal is to try to balance the City's finances without having to resort to layoffs, so we're doing things like clustering in order to save on administrative costs and then taking employees that are no longer needed to support the administrative side of department work and giving them first option at jobs that are becoming available as the result of the DROP Program. We're trying to deliver government in a more efficient way, doing everything possible to avoid layoffs. We've got proposals on the table that would cut overtime in various departments in the City. We're trying a lot of different strategies for operating this government and achieving the savings that we need to achieve without having to resort to layoffs. We do not want to have to resort to layoffs. The Mayor makes the point time and time again that layoffs have a devastating impact on people who are put out of a job and we will do everything possible to avoid that. We can only accomplish that, though, if we're willing to operate the City in a different way. We've got to make some of these changes that aren't going to be easy, that are going to force us to do things in a dramatically different way, but we think that's the only way we're going to be able to achieve the various things we have to achieve: Quality services, growing the economy through tax cuts, and strategic investments.

COUNCILMAN RAMOS: These are proposals, especially in this area of alternative insurance coverage, they're very different than the way that we have been doing things for many years around here.

Are talks going on with the unions? I mean, this is big, and contracts expire soon. What kind of progress has the

Administration made with talks? I don't even know if you've started formal negotiations with them, but I would suggest that if they have not started, we need to step on the pedal and get this going in a very serious way with our two municipal unions.

MS. WILKERSON: The collective bargaining process has begun.

COUNCILMAN RAMOS: How far? Recently begun? Are you tackling this issue of self-insurance now or is this coming up in a couple weeks.

MS. WILKERSON: We're negotiating with -- it's begun with the AFSCME unions, and the FOP positions have been exchanged. The process began formally probably in November for some of the unions.

COUNCILMAN RAMOS: I was referring to our two -- District Council 33 and 47, have we started talking to them?

MS. WILKERSON: The process has begun, yes.

COUNCILMAN RAMOS: With them as well?

MS. WILKERSON: With both of them, right?

MS. DAVIS: Yes.

COUNCILMAN RAMOS: Just one final question.

You stated in your address to us of a $500 million economic development fund and I've heard this proposed and I've read it in the Mayor's address to us, and it stays that $125 million will go to this new River City concept that I think is a very good concept and very interested and excited about the idea of our riverfront being developed.

Can you tell me where this $125 million came from?

MS. DAVIS: It's anticipated that it will come from the restructuring of the debt service reserve fund for the water fund. This first 125 million would be directed towards water-related infrastructure; and for that reason, those reserve funds would -- 125 million of the reserve funds would be utilized in -- a surety policy would be substituted in their place.

COUNCILMAN RAMOS: Madam Davis, anticipated means that there's a chance that we might not be able to get it for this project? Is there any way we do not get that besides whatever we decide here?

MS. DAVIS: We've looked at it, we've talked to the rating agencies, we've had preliminary discussions with surety providers, and at this point there's nothing that would lead us to think that we wouldn't get it.

COUNCILMAN RAMOS: Where are we going to get the rest of the balance of that $375 million?

MS. DAVIS: The plot thickens. That's yet to be determined. We would anticipate that it would be a borrowing of some type supported perhaps by the City being freed of its obligation at the Convention Center and then utilizing those dollars in combination with some other dollars. Right now we're providing a subsidy to the Convention Center of about $17 million. So we'd use that 17 with perhaps some additional proceeds from gambling or some other source to fund the debt service on the $375 million deal.

COUNCILMAN RAMOS: If none of that happens, which I hope it does, are you thinking of floating another bond?

MS. DAVIS: Well, it will be another bond, but we have to find the source to fund the debt service first. So that's our mission, if those things don't materialize to find some substitute pool of revenue.

COUNCILMAN RAMOS: Can you talk very briefly on what -- do you have any projects already earmarked of how you would spend the $375 million?

MS. WILKERSON: I've asked representatives Peter Longstreth to come over to talk more specifically about the plan for the naval yard so that he can comment directly on how those funds would be used.

COUNCILMAN RAMOS: So one place would be the navy yard.

MS. WILKERSON: Yes.

COUNCILMAN RAMOS: There are other places where --

MS. WILKERSON: The Mayor has identified a number of different areas for the capital investment. As you know, the City has a 15-mile stretch along the North Delaware that is largely underutilized.

COUNCILMAN RAMOS: We know what you're going to do with the 125. It's a magnificent proposal, but what about the other -- you said the naval yard. Anywhere else?

MS. WILKERSON: The naval yard, the North Delaware, and the Schuylkill. The Commerce Department has been working on Schuylkill River initiatives, and the Mayor also would propose spending some on select NTI communities and those have not been identified yet.

COUNCILMAN RAMOS: I have some follow-up questions about that last answer, but I'll yield my time before that alarm clock goes off.

Thank you, Madam Chair.

COUNCILWOMAN VERNA: You're welcome.

The Chair recognizes Councilman O'Neill.

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COUNCILMAN O'NEILL: I just have a quick question, and I think everyone up here is feeling the same way. This is such a tough budget and we're trying to do things more efficiently, it's stated, and we're trying to downsize government. And we're looking at about 60 or 70 of our best and brightest out here. They've been here for a couple hours now. And this isn't the first time, it's a tradition. But it might be a good time to break with that tradition in terms of if we need them, they all have either cell phones, beepers or both, or they're across the street or around the corner and we'll be here and you'll be here and we can either get them by phone or have them come in. To the extent that we could. I think we'd all feel better if we weren't staring at this unproductive group of high achievers, and I mean it very seriously. If we could take advantage of our technology and know that we're as lean and mean here at this hearing as we can be, I think it would send the right message. And we're going to be breaking for lunch and hopefully you'll get some lunch during that time and they can get an early lunch if they are hungry if we get them out of here.

MS. WILKERSON: The Administration brings -- if we can agree to limit the scope of what's going to be asked, we'll gladly send people back.

COUNCILMAN O'NEILL: I think we'd be willing to have them called or called back, just not be sitting here with the 1 in 70 chance that they may be called for five minutes or 10 minutes. I think we can just break with that tradition. At one point, someone may have demanded that all these people be here at the ready in case they were needed, but I think we're at a point in time now where we can break from that. Thank you.

COUNCIL PRESIDENT VERNA: Ms. Wilkerson.

MS. WILKERSON: Before everybody leaves, we ask people to come to be prepared to respond to questions by City Council Members.

COUNCIL PRESIDENT VERNA: There are

going to be a number of questions on economic development so whoever can respond to those questions should remain.

MS. WILKERSON: If anybody else -- otherwise, if you don't want to receive testimony from them, they can, of course, leave.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Clarke.

(Pause.)

COUNCIL PRESIDENT VERNA: Can we have everyone's attention please? Anyone having conversation, please do so in the corridor. Thank you.

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President. Madam President, I think I saw a couple of people leave that I wish to come back and respond to some questions I have -- I'm just kidding.

(Laughter.)

Good morning.

Real quickly before I ask my

questions, in follow-up to earlier discussion about the --

COUNCIL PRESIDENT VERNA: Councilman, just a moment.

Please, can we have silence? If you're having conversation, do so in the corridor.

COUNCILMAN CLARKE: Thank you, Madam President.

A follow-up on an earlier question with respect to the funding from the School District for the scholarship program and a question was asked about limiting the scope of the applicants to City of Philadelphia schools, and my question is, is a part of the arrangement to have the School District's contribution, the $6 million that I'm assuming has something to do something with the State was a part of that agreement that all state universities had to be involved or state-related universities had to be involved as a result of the $6 million School District funding?

Actually, Madam President, if I can

since I have a number of questions and I want to sneak them in in my 10 minutes, can I ask questions and get responses?

COUNCIL PRESIDENT VERNA: That's what we're hear for.

COUNCILMAN CLARKE: I learned how to do this last year.

With respect to one of the issues on the 100 percent valuation assessments on real estate, in the testimony you indicated that there would be a pilot program and subsequently an adjustment in millage, and I was assuming that would be to ensure that people didn't get a drastic increase based on this 100 percent valuation. I'd like to get a sense of the timeline of that adjustment and millage because it's not clear in the testimony. Would this be a year out, would this be two years out? My concern is that property owners would get a potentially drastic increase based on analysis that I saw some time ago when we go from 71 to a hundred percent. That could have a significant impact. I'm concerned that the adjustment and the millage wouldn't happen until out years and for a couple years there could be a problem.

MS. WILKERSON: The 100 percent assessment and the adjustment in millage would happen in FY '06.

COUNCILMAN CLARKE: All in the same fiscal?

MS. WILKERSON: That's right. And so when we come next year this time, we will have a proposal for adjusting the millage.

COUNCILMAN CLARKE: On the economic development fund, understanding that the first $125 million is targeted for the aforementioned initiatives, one, the waterfront and the navy yard, and based on the type of funding I understand that it has to be for improvements. To some degree you answered that question. What I wanted to know, in that discussion, were you looking at targeted commercial corridors in neighborhoods in the initial $125 million investment or --

MS. WILKERSON: We have not developed the program for that yet. It's something that will have to come back to City Council for approval, and we hope to have a defined program where those investments would be able to define more clearly the nature of the investments.

MS. DAVIS: And in that initial $125,000 (sic) it would be related to water or sewer.

COUNCILMAN CLARKE: Period.

MS. DAVIS: Period. Wherever they are, they'd have to be related to water and sewer.

COUNCILMAN CLARKE: My understanding is that a part of this initial investment was going to be for access roads to the navy yard.

MS. DAVIS: Only if we were removing roads to put down water and sewer infrastructure. Because of the source of the funding, it has to be related to water and sewer infrastructure. So if there is some damage to roads because of the work being done to lay water and sewer, then that would be a permitted use, but because it's water and sewer generated, it would have to be --

COUNCILMAN CLARKE: So there's no plan in place for the initial 125 to go towards the construction of an access road to the naval yard, which is what I thought I heard the Mayor talk about on numerous occasions?

MS. WILKERSON: We don't have the details. Those are the kinds of elements that we want to fund. And frequently what you'll find -- I can talk about the Mill Creek development as an example. And a lot of these large developments, there's so many different elements and so many different pots of money that it's a case where you might shift the source of funding for an activity. So in Mill Creek we were basically rebuilding a public housing development. Some of that development happened with Water Department funding because there were enough water infrastructure issues that we had to address.

We don't have the program details exactly how the various elements of the naval yard would be funded. Having water infrastructure funding available will free up other dollars that might more appropriately be spent for roads. But we will be developing that level of detail when we come back to City Council for approval of that initiative.

COUNCILMAN CLARKE: Okay. Police deployment.

MS. WILKERSON: Do you want Deborah to answer your question?

COUNCILMAN CLARKE: I've got to get my questions in first, because that bell is going to go off.

COUNCIL PRESIDENT VERNA: I think you should try to answer the Councilman's question.

What was your first question for Deborah Kahn? We're going to forget what your questions were.

MS. KAHN: Something about the inclusion of the colleges in the state system. And I would say we chose those schools as eligible schools because those are the schools that the majority of our public school students choose right now. It does, in fact, give them some choice because not all educational programs are offered at every school and they are the most affordable options first.

COUNCILMAN CLARKE: So it had nothing to do with an arrangement for School District funding, i.e., state funding that there will be a --

MS. KAHN: No, although it's been great to get the cooperation of the Chancellor of the state system in administering the program.

COUNCILMAN CLARKE: All right.

MS. KAHN: But it also makes sense, of course, because these are state institutions and of course --

COUNCILMAN CLARKE: No, I thought it was linked to the funding from the School District, that's all.

MS. KAHN: It's not a direct link.

COUNCILMAN CLARKE: Sometimes arrangements are made pursuant to certain understandings in terms of where the funding comes from and people have an interest in other institutions and they get funded as a result of that. But you said that wasn't the case, so the point is moot.

MS. KAHN: Not that I'm aware of.

COUNCILMAN CLARKE: On police deployment, you talk about uniformed officers that are currently not on the street being deployed on the street and the shift will provide an additional $10 million of on-street resources.

First, can you explain that? And second, I'd like to get a sense of how this redeployment will impact on the rising homicide numbers and violent crimes as it relates to weapons? Or were we essentially just focused on shutting down drug corners?

MS. WILKERSON: I'd rather have the Police Commissioner respond to the deployment issues. And that can either be addressed when the Police Department testifies or I can bring him back after his lunch break to talk about that now.

COUNCILMAN CLARKE: What about the $10 million? Does this mean that there will be $10 million in savings?

MS. WILKERSON: The next savings out of the Police Department are derived from the proposed elimination of the mounted police. We propose a $2 million savings as a result of cuts in court overtime, and there's a $5 million grant that's been identified that will be additional revenue to the department.

Rob, if you could talk about the $10 million issue.

And if you'd like, I can ask the Police Commissioner to return to talk about deployment issues or it can be addressed when the Department speaks. However you want to handle it.

COUNCILMAN CLARKE: I'm fine. I can wait until the Police Department speaks because that's an issue that we'd probably want to discuss in some level of detail. But speak to the money issue, Mr. Dubow.

MR. DUBOW: What the money issue meant was that by increasing the percent of officers who are on the street from -- I think it's about 87 percent now to 92 percent, you would have the equivalent of $10 million more in police presence. It's not an actual reduction in their budget of $10 million; it's just a more efficient deployment. So in other words, you have -- I forget the number -- but you have several hundred more police on the streets and it was a calculation of the value of those police.

COUNCILMAN CLARKE: What are those police officers doing currently?

I know I'm over my time.

COUNCIL PRESIDENT VERNA: That's fine.

MR. DUBOW: I think that's probably a Police Department question, how they're deployed now. But they're not on the street.

COUNCILMAN CLARKE: Because this suggests that the work that they're currently doing is not something that's a cost to the City of Philadelphia. And by redeploying them, you add an additional $10 million. My question is, what are they doing now?

MR. DUBOW: I understand. We need the police to go through what they're doing now and why this is an actual benefit.

COUNCILMAN CLARKE: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Was your question answered?

COUNCILMAN CLARKE: No.

COUNCIL PRESIDENT VERNA: I don't think so.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam President.

This is not a part of my questioning, but I would be remiss not to acknowledge the very legitimate questions that have been posed around the Core Philly Scholarship Program. And I will take some responsibility in not getting back to Councilmembers to give you more detailed information, a fact sheet on the Philly Core Scholarship Program that I have in front of me that I will make sure you get now.

Secondly, I wanted to offer a friendly reminder that when I approach my colleagues about the Core Scholarship Program, I actually acknowledge in that letter a couple things, and I quote, one of them was that this program was intended to provide start-up costs, brand-new, and I was asking for your support to be supportive or in favor of start-up costs for this program. That's item Number 1. Item Number 2, I acknowledged in that letter of October 2nd a couple of things; and they were that you work with us to discover ways to assist students who are not in the public school system. I acknowledged in the letter that there are many Philadelphia students in the parochial and private schools that are also in need of dollars to close the gap and that I was willing to sit with my colleagues to carefully work through and walk through how we move towards ensuring that all deserving students get access to the scholarship. But the initial conceptual idea around this was to offer start-up costs for public schools only.

As Councilman Juan Ramos has indicated, he's been in serious lengthy discussions with the Congressman and Deborah

Kahn and the Archdiocese to figure out how we can include young people who do not attend the public schools. So I needed to put that on record because it was discussed at length in in October wherein I was able to secure the support of the colleagues. And now other legitimate questions have been raised that we will indeed tackle with. So my staff will circulate the fact sheet on the Core Philly Scholarship Program.

With regard to MBEC, it's mentioned in the Five-Year Plan that there will be a restructuring of MBEC. Please let us know where you are in the process and help me understand at least what restructuring means and provide for me some detail on how these $700,000 will be spent with regards to improving MBEC's technology.

MS. DAVIS: I'll answer your last question first. The majority of the $700,000 will be used to provide technology support for MBEC. The department suffers from a lack of an efficient way to track participation and to track the business being awarded in the City.

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So the majority of it, probably 600,000 is focused on technology. The remaining money will be used for consultant support in the actual redevelopment of a plan.

When we talk about restructuring MBEC, we talk about looking at its focus and direction. Right now, the majority of MBEC's time is spent in the certification process. That is perhaps not the area that is of greatest need.

The area that requires greater assistance if minority businesses, minority, women, and disabled businesses are to become a part of the economic development engine in the City it's technical assistance and outreach to those businesses. And so our refocussing of efforts will be in technical assistance, support of that nature, and also an outreach putting together the primes and minority businesses and monitoring that the businesses are, in fact, getting the work that has been promised in the awards.

What we do now is report on awards. What we intend to do is report on actuals.

The disparity between an award and the actual is sometimes so great that you wouldn't recognize the actual based on the award. So our whole refocus is to make this an organization that does what it is supposed to do, and that is to develop small economically disabled, disadvantaged minority and women businesses to become a part of the mainstream of Philadelphia, not to become permanent subs on City of Philadelphia work, but to become viable engines in the economy of Philadelphia. And that's where our refocussing and restructuring is going to take place.

COUNCILWOMAN BROWN: How do you weigh that or stack that against the Administration's now focused to work smarter and part of working smarter is decreasing the number of staff to make sure that the same functions are achieved?

MS. DAVIS: We have more people identified for MBEC, but to the extent that our efforts at restructuring don't mandate that we use all of the positions, we won't -- we're not going to fill positions gratuitously. I personally believe there may be a way to achieve our certifications in one body outside of City government that's supported by multiple organizations. It's a method that I've seen done in other places where individual agencies fund collectively a certification process, in which case the City would not be doing certifications. And if I didn't need certifiers then I'm not going to hire people just to hire people. But we have those positions available because we don't feel that we've been servicing the minority, women, and economically disadvantaged entrepreneurs of this City adequately and those positions are there to ensure that we have the resources to provide the level of support that's required.

COUNCILWOMAN BROWN: And finally on this issue, in terms of time frame or deadline at the end of this restructuring, when do you see this new configuration of MBEC?

MS. DAVIS: Once we get a new leader of MBEC in place, I anticipate that we're looking at no more than 90 days before we unveil the new MBEC. But it's something we'd want to do in conjunction with your Executive Director and his top person.

COUNCILWOMAN BROWN: Sure.

Now, moving to the rec centers. The Rec Commissioner is no longer with us, so how do we propose we approach this?

MS. WILKERSON: If you have general questions, the Managing Director can answer. If you have more detailed questions, we'll need to --

COUNCILWOMAN BROWN: I think this falls under the general category. I know when I came here there were 100,000 young people that had no place to go after school. And now I know that figure has dropped to about 65,000 who we're still trying to find the dollars to make sure they're in safe, structured, secure, stimulating after school programs. And I've heard rec advocates speak to the notion that there has been, I quote, a zero out of the dollars for after school programs and rec centers.

How do you weigh that against the

text on Page 181 that says you're actually going to hire an additional 60 after school staff for the new arts and cultural programs you want to put in place?

Just discuss with me, is that true, is it not, what are the facts with regard to saving? Because even if we have to move towards the difficult decision of closing down rec centers, those programs can be moved to someplace else. So walk that through with me.

MR. GOLDSMITH: Phil Goldsmith Managing Director.

As we're going about looking at the rec centers and going about our conversations, one of the things that we are looking at is all the activities that are taking place in individual rec centers and making sure that if a particular rec center was going to be closed down that we would have other available places for those activities to take place. There may be a school across the street. There may be some other rec center not too far away and so forth. So we would not see the closing of a center, hopefully, doing away with after school programs that are there. We think that they're absolutely essential to what the Administration is trying to do. So that's all part of the planning process that we're going through.

COUNCILWOMAN BROWN: And are you at liberty to share, at least at this juncture -- you say the planning process -- how far along you are with regards to those decision?

MR. GOLDSMITH: We've done our own internal planning which has been driven by the Recreation Department and has involved others in the Administration. Based on certain criteria, we are now engaging Councilmembers in those discussions. We have started with District Councilmembers and we will with at-Large Councilpeople. But we have started those conversations I think yesterday sharing with them our information, basically saying we obviously want to get their input and hopefully we can come to a solution that meets everyone's objectives. I think the first several meetings we've had have been very productive.

COUNCILWOMAN BROWN: That's all for now on the recreation centers. Thank you.

COUNCIL PRESIDENT VERNA: Second go around.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you.

My question, I'm not sure who would be the right person to answer it. It does has to do with the Police Department, but it has to do with a question that has been going around as to what, if anything, is the City doing in the area of collecting overtime dollars that are due to us from third parties? I mean, it's going around for a long time. We're talking about collections with PGW and, here again, we're talking $2 million more or less. Where are we with that?

MR. GOLDSMITH: I think we're in a good place here. Several months ago, we worked with the Police Department expanding their program to make sure that all the charges that the City was incurring for those types of overtime were, in fact, included in our fees. So at that point in time, the only charges that we were being asked to be reimbursed for was the cost of the officer or officers that were on the detail. We have since gone back and looked at what we would consider a more complete cost structure, including the cost of the automobile, including the fleet, including insurance, depreciation and so forth. We looked at a number of cities to see how they went about it. So we, number one, revised what our cost factor would be. We've also issued a new directive that the Police Commissioner issued that basically says that any variance or exceptions to those charges have to be approved by the Police Commissioner and the Managing Director. And we are also monitoring from the Managing Director's Office, with the help of the Police Department, monthly reports that tell us what the past dues are, whether it's 30, 60, 90 days past due. And I believe, I'm not certain, anyone that's 60 days past due can no longer get services. So I think, one, we have a much better cost factor for what we're doing; we have a better monitoring process in place; and thirdly, a better exception policy. What remains to be done is to ultimately remove the collections from the Police Department to the Finance Department, and we're just waiting for some software ability to do that.

COUNCILMAN DICICCO: I'm not sure if I'm clear on this. It sounds as though you're talking about looking at recapturing some of the costs as it relates to the scope of the services. My concern is if an entity requests police presence on their premises and we charge them, the City of Philadelphia, the Police Department charges for that basic service, notwithstanding the other areas that you're looking at, fuel for the car, wear and tear on the car, that's done by contract?

I own a bar restaurant on Delaware Avenue, I own a club, and I'm looking to hire some police personnel to work at my facility, at my club. There's a certain fee that, obviously, I have to pay. Is that done by contract?

MR. GOLDSMITH: I believe it's contract. And that contract has been revised to reflect our new policy and what the charges are.

COUNCILMAN DICICCO: Now, again, notwithstanding those other charges that we may want to incorporate into it. Is there not money owed to the City, to the Police Department, to the City of Philadelphia on the basic fees that were being charged? Isn't there a balance out there?

I mean, the City Controller mentioned something about $2 million that is due to the City by a third party. So if I'm paying, just by way of example, $15 an hour for that police officer, are there places, entities, that have not paid the basic rate, again, notwithstanding the broader scope of what we may look to recapture going forward?

MR. GOLDSMITH: There probably is some dollar amount still due. I don't know what that is. I can find out the number. But if it's over a certain period of time, that organization should no longer be getting services and we should be trying our best to collect that money.

COUNCILMAN DICICCO: Agree. And that's, I guess, where I started my questioning. What have we done to collect that money?

And not providing a service is one thing, but shouldn't we be looking at since there's a balance due to the City, it's almost like a tax, shouldn't we handle it the way we would do any other business who fails to pay the appropriate taxes to the City of Philadelphia; and that is not renew the license until the bill is paid? Because if you don't do it that way, people will continue to operate and we're stuck for the money.

What I'm getting at is we need to be more aggressive. If you contract with us and we provide the service, we're certainly entitled to reimbursement. And to not to provide the service is one thing, but if we just let them go because they didn't do it, who's to stop the next person. It kind goes like PGW, you know, one person doesn't pay and they find out the gas didn't get cut off; the next door neighbor finds out and then, before you know it, we've got a hundred thousand people or more who are not paying their gas bills.

And I know a little bit about this, Mr. Goldsmith, because Delaware Avenue, as an example, is in my district and I know when I first came in Council back in the middle '90s we had a patrol down there. And many of the club owners were delinquent in paying for that service. They're still operating or they remained operating. The only reason they're not all operating today is because the business wasn't there or they closed down. But we really haven't done a good enough job. And I think it's something we should be doing.

MR. GOLDSMITH: I think we've become more aggressive, and I think the new directives that are out there, I will take a look at how much money from the old policy is still left over. And I agree, if people haven't paid, particularly businesses, we should be going after them.

COUNCILMAN DICICCO: We should not renew their business privilege.

MR. GOLDSMITH: I'm not sure if we have the legal right to do that or not. But if we have a legal right, I would tend to agree with that.

COUNCILMAN DICICCO: Again, I'm not a lawyer. I don't know what the contract reads, but if it's a contract and it's reimbursable to the City of Philadelphia, there is a delinquent payment.

MR. GOLDSMITH: I think we've become more aggressive and we will continue to do so.

COUNCILMAN DICICCO: The other question I had would be for Ms. Wilkerson or whoever.

In the proposed budget, we're talking about increasing the parking tax at parking lots from 15 to 20 percent.

MS. WILKERSON: Yes.

COUNCILMAN DICICCO: Do you happen to know what that would mean to the average hourly rate for a customer, that increase?

MS. WILKERSON: I don't have that.

I'll get you that figure rather than speculate.

COUNCILMAN DICICCO: I have a concern. Again, I understand this is about raising revenues and all but, you know, here we go again; we're encouraging people to come into the City of Philadelphia, we want people to come to our restaurants and cultural venues, and they're paying exorbitant amounts. And I hear that all the time about the cost of what it takes to park. You go to dinner, it's going to cost you an extra 25 bucks minimum to have dinner in the City of Philadelphia if you do the right thing and park your car at a lot, notwithstanding if you do a valet it's an extra 10, $15. You know, I don't think this is a good way of inviting people into our City, to start increasing the cost of coming into the City. I just don't think it's good business.

It's a statement and a question at the same time. I have a tendency to do that. But I think it's important that I let my feelings be known. "Welcome to Philadelphia.

Come and enjoy our venues. Experience the great opportunities we have. Come to our restaurants. And bang, you're going to pay an extra 10 bucks for the privilege of coming in and dining at one of our fine restaurants."

MR. DUBOW: I think the way the math works, if the base rate is $20, a 5 percent increase is a dollar.

COUNCILMAN DICICCO: Well, a dollar here, a dollar there --

MR. DUBOW: I understand, but you asked what --

COUNCILMAN DICICCO: In a City that, I believe, based on the medium income or however you do it, has probably one of the highest parking taxes already. We're getting very close to New York when it comes to charging.

MS. WILKERSON: What the Administration was attempting to do with all the tax reform initiatives is really look at them as a package. The Administration was trying to accomplish the single factor apportionment, was trying to generate --

COUNCILMAN DICICCO: Music to my ears. After two years, I'm happy.

MS. WILKERSON: But in challenging financial times like these, it wasn't easy coming up with a package of tax reform that was going to generate sufficient revenue to cause the reform. When you look at what the Tax Reform Commission suggested, this was something they had put on the table. They talked about increases in property tax. We rejected the increase in the property tax but thought it was sufficiently important to have the reform in the BPT that we decided to propose the change in the parking tax. We talked about it a lot because it does have the impact of making it expensive for people to come into town. On the other side, we do have a very robust public transportation system. A lot of other cities don't have that.

And that's the simple answer. But it all goes into being part of what we considered when we decided to propose the single factor apportionment and balance against that the parking tax change.

COUNCILMAN DICICCO: And I agree about the transportation system. It's unfortunate, it's a cultural thing. Society in America, people drive two blocks to go pick up a pizza rather than walk two blocks. And I know that from people in my neighborhood will drive two blocks. Years ago they would walk six blocks to go shopping. Now, if they don't have a place of park, they'll drive to New York to shop because they've got a place to park as opposed to walk.

MS. WILKERSON: And our rationale was in part that, also that it was important enough to take away the disincentive to bring jobs and businesses into the City that we went with the increase.

COUNCILMAN DICICCO: Well, if it's possible, maybe if the increase becomes a reality if there's a way in which a portion of that dollar or those dollars could be used to put a plan in place for a mass transportation initiative plan on how to move people around more efficiently and effectively within the City of Philadelphia. I attempted to do that about five years ago with the eastern part of what I call the Center City quadrant which I represent when the Simon project was still on the table about how we move people around the Constitution Center, Center City, both for commuters and tourists. SEPTA at the time was willing to put in $5 million to put a trolley system in, an authentic trolley, the one that runs on a rail as opposed rubber tires, as a sexy way, if you will, of moving people around. And I would support something that may have some sort of an increase providing some of those dollars went into creating a better, more friendly transportation system within Center City. So that when those tourist may come and visitors come from New Jersey, as an example, they would park their car on the Jersey side, if the tram ever gets built -- or another way, if they came into the City, park their car at a certain location and then get on a public transportation system that will move them around and feel part of the fabric of the City as they're moving around as opposed to just getting on a bus.

MS. WILKERSON: Maxine Griffith, the City Planner, is not here right now. She's been taking a look at some of those issues, the parking issues and how transportation moves around Center City.

COUNCILMAN DICICCO: She and I did have conversations early on, but I haven't heard from her for a while.

MS. WILKERSON: I think those dollars have been put in place for that study to move forward. It is a huge problem. We're rapidly reaching the point of gridlock in Center City during a large part of the day, and she's working on thinking through those issues and she'll be here and able to respond later.

COUNCILMAN DICICCO: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Talking about the parking tax for just a minute, I'd like to piggyback on that. I think nothing infuriates me more than to go to a restaurant in Center City and have a sign, "Valet Parking, $17." You pay your $17, you go in to have your dinner. You walk out of the restaurant and low and behold your car is parked right across the street.

How much money are we losing as a result of that?

I thought we passed legislation several years ago -- I think it was Councilman DiCicco's bill -- that very clearly spelled out what the requirements were for valet parking. Whose responsibility is it to enforce that legislation?

MR. GOLDSMITH: We share a pet peeve. The Parking Authority is responsible for that and L&I is responsible to ensure that there's proper insurance.

We recently had the two agencies working together to go to the valet owners and wanted to make sure that their insurance is in check. Sometimes they get insurance for a day and that's it. In some cases, they've been taking more spots on Walnut Street. It's been terrible. They've taken five or six spots. I think we've put an end to that. If you see any spots, let me know.

I've gotten a lot of complaints from people, they're charging the money, as you say, and then taking spots that people coming in can't park at.

So it's something that we've tried to get both the Parking Authority and L&I engaged in. And if there's legislation that's needed to tighten that, I, for one, would certainly be supportive of it.

COUNCIL PRESIDENT VERNA: You will let us know if that's a requirement? Because, as I said, I find that very infuriating, I really do.

Thank you.

COUNCILMAN DICICCO: Just a follow-up. We did legislation three, four years ago, maybe five years ago. Certain requirements on insurance and the operators, the people who were valeting cars would have to properly be licensed, valid licenses, et cetera. There's a lot of things that continue to fall through the cracks. And I can't fault the Park Authority or L&I. It's just a massive problem. You have the drivers, the valet people, who will literally park their cars on the street so that they can then jockey the car out and put a car that someone paid for a valet and pocket the money. To add insult to injury, in many, many cases, a customer who will pay for valet whose car ultimately gets left on the street, the car will get a ticket. The customer doesn't know about the ticket until 10 days later when they get a notice from the Parking Authority that their car was parked illegal. And if you want to talk convincing people never to come back to the City of Philadelphia, they paid the valet, now they get whacked with a $25 ticket, thinking that their car was parked in a secure place. They're not coming back. And I know restauranteurs who literally have stacks of tickets that are sent to them by the customer who came to their establishment to dine, complaining about it, and those restauranteurs in many cases are paying for the ticket so not to lose a customer.

COUNCIL PRESIDENT VERNA: But if the restauranteur has a sign outside of his establishment saying --

COUNCILMAN DICICCO: The restauranteur contracts with the valet service. I own a restaurant, I contract with a valet service. The valet service then is supposed to perform the service of parking that car in a lot off the street. The restauranteur is getting banged in every direction because they don't know. They're paying for that service and then the customer is getting a ticket.

It is a serious problem. I'm happy you brought that up, Madam Chair. And I know in Old City in particular, it's out of control.

MR. GOLDSMITH: This is one of the issues when we talk about the Parking Authority being a separate agency where I think it hurts legitimate coordinated enforcement. Now, we try to work together on this, but it's a serious issue. In some cases where they're required to get insurance to get whatever license, we just see it for that day and there's been instances where it's a one-day insurance policy.

While we're on topic, they've got too many valet signs out there. We're trying to work with them to reduce the number of valet signs. But I think it's a big problem and it goes to the point, you were saying, people come into town to park and they're sort of getting ripped off.

COUNCIL PRESIDENT VERNA: Yes, they certainly do.

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: Mr. Goldsmith, you might as well stay there.

I have a question for Ms. Wilkerson. Earlier in her testimony she mentions something about the City workforce. I think everyone knows that we have a heck of a deficit facing us, over $200 million.

Now, personnel costs account for more than almost 58 percent of our budget. And you mentioned earlier that you certainly are not anticipating any layoffs whatsoever. I just want to know if you plan on cutting back the size of the workforce which almost comes to 25,000 people through attrition or through outsourcing or any other means?

MS. WILKERSON: The Administration will continue to be very aggressive in taking full -- in making good opportunity out of the DROP Program. Currently, we have about 800 fewer employees on payroll than we had in 2001 when we started our freeze. We've accomplished a lot of that by our DROP policy. We replace, at best, 50 percent of the non-uniform employees who leave through DROP. Every position, even within the 50 percent that's filled, is filled after review by the Managing Director and the Budget Director. So we've made good use of the DROP opportunity. The same is true of positions that are vacated through attrition.

We have on the books a couple of initiatives for outsourcing. One has to do with providing janitorial services, so we're taking a look a that. Have not made a final decision about moving forward with that. But the largest part of our strategy comes from taking advantage of the DROP opportunities that are created.

COUNCILMAN KELLY: What do you anticipate for the forthcoming year at least?

MS. WILKERSON: Rob, could you give the number for this coming year?

MR. DUBOW: Since the hiring freeze began, we're down about 850 positions. And we project that next year we'll be about 23,800 is where we'll be in terms of the number of positions.

COUNCILMAN KELLY: And that projected cost savings on that?

MR. DUBOW: We haven't looked at it that way. We've looked at it kind of initiative by initiative. So we can get back to you with the dollar savings from the reduction in workforce.

COUNCILMAN KELLY: It seems to me that -- I know what the Administration is attempting here by closing a recreation center here and there and raising some fees and raising parking fees and a lot of other things. I just wonder if this is a Band-Aid approach to a hemorrhage, more or less. Because I think that it seems to me with a deficit we're facing, we may have to do a 10 percent reduction in the workforce to get by.

MS. WILKERSON: I think one of the challenges is if you look where -- there's certain departments that have been absorbing a lot of the cuts, and at the same time there are departments where we've been experiencing growth in the workforce. Those tend to be the departments that fulfill the county functions. And so it tends to be in the prisons, DHS. In the departments where we have complete control, they are down to bear bones in a lot of instances. If we're going to cut further, we're going to be seeing serious erosions in service. The library, for example, is so tightly staffed that any additional cuts will mean cutting back on the hours. We'll start seeing Sunday hours go, Saturday hours go. We already have spot times when we can't keep a branch staffed adequately to have Saturday and Sunday hours. That's how close to the margin they're operating.

So we're trying to take advantage of opportunities. Saying that we're going to do another across-the-line cut in personnel is something we're not contemplating right now.

MR. DUBOW: To add onto that, to look at where the biggest reductions have been is in kind of back office departments like Public Property, and like Fleet. I mean, eventually, if you cut too far, that winds up having an impact on service because they don't provide the support they did. But that's what we've really looked to do, to reduce positions in the agencies that the public doesn't see.

COUNCILMAN KELLY: And as far as the Administration, I believe, is not going to affect the Police or Fire Departments, is that correct, as far as reduction in personnel?

MS. WILKERSON: We are looking at deployment changes in the Fire Department.

MR. GOLDSMITH: I would say in both those areas that the commitment is to do nothing that would jeopardize public safety. So in some cases, for example, in the Police Department, I think the Police Commissioner --

and this gets a little bit to Councilman Clarke's question earlier -- is looking to reduce the administrative ranks and having deputy commissioners and fewer captains and so forth and really use those positions to get people out on the street. Now, there could be a dollar savings, but we think at the end of the day, it's going to enhance public safety, not distract from it.

The same thing in the Fire Department, no fire stations closed. There have been a reduction in structural fires over the past four years and fire deaths. We think we're really have to increase our EMS service, particularly in light of some of the things at MCP and some of the emergency diverts and so forth. We are looking at a way to reconfigure EMS support, the EMS system. So again, at the end of the day, we think we're going to be providing better public service, but we will not be laying anyone off.

MS. WILKERSON: But there may not be as many. In order to send out an EMS vehicle, you have fewer staff than you do if you're going to send a ladder company to do the same EMS-type run.

COUNCILMAN KELLY: I understand that. This goes back quite a few years, I think, in trying to get clerical people to replace police officers and Fire Department personnel who were highly trained, and the cost of that training is substantial.

I wish you luck. I wish the Commissioner luck in trying to do that because I know I've heard that for at least 12 or 15 years and nothing has ever been accomplished, as far as I know.

MR. GOLDSMITH: We also have the same issue to a lesser extent in the prisons where we have correctional officers doing non-correctional-officer work.

COUNCILMAN KELLY: And that's another question that I have about, of course, the prison overtime. There's another area that we have to look at very, very closely. I think that maybe we don't have a sufficient amount of people working on a daily basis and we're trying to offset that by having a lot of people work overtime.

MR. GOLDSMITH: I think the overtime, I think the City spends $117 million in overtime. It's pretty much territory to a couple departments, and I'll lump those departments in the public safety arena. What we have done is issued a directive to each Commissioner to ask them that they are personally responsible for overtime approval, that if they're delegating it, they've got to tell me who they're delegating it to. What the approval process is, for emergency overtime, they've got to define what an emergency is and have report on a biweekly basis how much emergency overtime is being run up. In some cases like the prisons, that could be a combination of a shortage of not having the right number of people or the right type of people. And in some cases, I think the one that sort of becomes somewhat infamous, you had someone that kept on volunteering for overtime. But we've also asked the Prison Commissioner and others to look at, is it the type of work that's got to be done at all and does it have to done on an overtime basis. So there's a whole re-looking at what we're doing in overtime.

COUNCILMAN KELLY: Thank you.

COUNCILWOMAN TASCO: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam Chair.

Ms. Wilkerson, do you have economic development officials you wish to bring forward?

MS. WILKERSON: Yes. You had asked a question about how the Administration would spend the half billion dollar infrastructure fund and I talked about the naval yard. I wasn't able to answer your follow-up questions satisfactorily, and I appreciate that and asked Mr. Longstreth to come and also Stephanie Naidoff the City Rep and Commerce Director to talk through in more detail what we propose.

COUNCILMAN GOODE: If they both could approach the witness table.

Actually, I have some preliminary

questions before we get back to what you specifically have planned.

Good afternoon, Mr. Longstreth.

MR. LONGSTRETH: Good afternoon.

COUNCILMAN GOODE: Would you agree with the statement that you can't transform neighborhoods just by dealing with housing needs?

MR. LONGSTRETH: I'm sorry, could you repeat that?

COUNCILMAN GOODE: Would you agree with the statement that you can't transform neighborhoods by just dealing with housing needs?

MR. LONGSTRETH: Yes. I think it has to be a more comprehensive approach. I agree.

COUNCILMAN GOODE: Well, how is PIDC involved in the Neighborhood Transformation Initiative?

MR. LONGSTRETH: On a somewhat limited basis because I think where that particular program is right now is in planning, site assemblage, demolition and the development that will follow and include a commercial and industrial piece which hasn't really materialized yet, but we anticipate it will.

COUNCILMAN GOODE: Is there any strategic planning that is accomplished so far in terms of economic development?

MR. LONGSTRETH: I'm sorry. Are we talking about as it relates to NTI?

COUNCILMAN GOODE: NTI.

MR. LONGSTRETH: Not of any substantive nature. It's been conversations in anticipation of reaching that phase. And I defer to Joyce or anyone else who knows more about that than I do.

COUNCILMAN GOODE: Actually, I was speaking specifically about PIDC's involvement.

MR. LONGSTRETH: It's been limited to date for the reasons I tried to describe.

COUNCILMAN GOODE: My second question then is -- I'll move on to the economic development investment fund. How many businesses and permanent jobs can you create with half a billion dollars?

MR. LONGSTRETH: I don't know. It gets back to the sort of rules of thumb that we were discussing a little bit yesterday. If you use a 20 or $30,000 number which might be an industry standard and divide it into 500 million, you get a lot of jobs.

COUNCILMAN GOODE: I'm not even asking that we present a formula. If I were to present a formula, I would say that hundreds of millions of dollars should give us a net gain of tens of thousands of jobs or close to that. I'm just more so asking in terms of -- I'm assuming you are involved in the planning of economic development investment fund, and I'm asking do you have any job goals or projections or do you have any goals in terms of business creation that are hard numbers so far in terms of a half billion dollar public investment?

MR. LONGSTRETH: I think -- and once again, I'm speaking a little bit on behalf of the Administration but, as you know, we're somewhat of a separate entity. My impression is -- or I'll give you my impressions and then obviously stand corrected if the Administration sees it differently.

My sense is that this goal to raise $500 million, that there's an economic development summit which will occur in the next several months that will provide the kind of structure and specificity to how that might be, one, where it would come from; and two, how it would be used. Since that hasn't occurred yet, it's still very conceptual.

COUNCILMAN GOODE: So there are no specific goals yet in terms of number of businesses or jobs to be created?

MR. LONGSTRETH: Not that I'm aware of.

COUNCILMAN GOODE: Is any portion of the $500 million spoken for in terms of concrete strategy?

MS. NAIDOFF: No. This is Stephanie Naidoff, I'm the Commerce Director.

This is all very preliminary, Councilman. The $500 million has been approached very conceptionally by the 21st

Century Policy Forum and the Regional Cooperation Committee headed by Nick DeBenedictis actually took a look at it and made some recommendations to the Mayor, but that is all very preliminary. And what we propose to do is, as Mr. Longstreth said, have an economic development summit where we get the broadest possible perspectives from the stakeholders in the community and develop a plan to deal with the allocation of the $500 million investment fund.

COUNCILMAN GOODE: So none of the money is spoken for?

MS. NAIDOFF: None of the money is specifically allocated, right.

COUNCILMAN GOODE: Could you respond to a study by the National Community Reinvestment Coalition that said that Philadelphia ranked dead last of the top 100 metropolitan areas in terms of lending to lower income and minority census tracts, small business lending in particular?

MS. NAIDOFF: No, I can't. I don't know about it, but I'll look into it and I'll try to get back to you on that.

COUNCILMAN GOODE: Does that sound like it would be accurate, that Philadelphia would rank dead last in the top 100 metropolitan areas in terms of small business lending to economically distressed areas?

MS. NAIDOFF: I have hard time believing that, but I'm very new to all of this and I'll try to look into it.

COUNCILMAN GOODE: Why would you have a hard time believing that?

MS. NAIDOFF: It just doesn't sound like the result that I would expect in terms of what is going on in Philadelphia.

COUNCILMAN GOODE: If that is the case, how would you remedy that?

MS. NAIDOFF: I don't know. That's what we're looking at.

COUNCILMAN GOODE: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

Do we have any other questions of these witnesses?

COUNCILWOMAN TASCO: I have some,

but I think we're going break and I'll have them later.

COUNCIL PRESIDENT VERNA: The Committee will stand in recess until 1:30.

(Recess taken from 12:30 p.m. to 1:30 p.m.)

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COUNCIL PRESIDENT VERNA: The Committee on Fiscal Stability and Intergovernmental Cooperation is now back in session.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you.

I'd like to go back to the $125 million stimulus fund. Could you tell us again what is the funding source of these funds?

MS. WILKERSON: The funding source are the reserves that support the water bonds. And the proposal that Janice can talk about in more specificity is to replace the cash reserves with a surety bond.

Ms. Davis is going to be here

momentarily. I'm sure she can go into it in more detail.

COUNCILWOMAN TASCO: Well, I can ask you some other questions.

MS. WILKERSON: Okay.

COUNCILWOMAN TASCO: I want to talk to you along that line of the stimulus dollars. What would the rest of the money be used for?

MS. WILKERSON: As I tried to indicate earlier, the detail programing for the money hasn't been complete. We hope that will come out of the economic stimulus. I can talk to you about the vision and the need that we see that is currently unmet.

We have over 20 miles of waterfront in the City. Back in the first term, the Administration completed a strategic plan for North Delaware. We had international competition for planners. They came up with a strategic plan for the more than 10 miles that we have from the Ben Franklin Bridge. It's land that was historically industrial and now just sits there largely unused or underutilized. A lot of the parcels have environment problems. There's really no infrastructure there.

But when you look across the river, when you look elsewhere in the United States, you see other jurisdictions that are making use of this kind of riverfront, both for residential, recreational, and retail and commercial development. And so the vision is to be able to mobilize sufficient resources to re-tool these unused assets in the City.

If you look at the naval yard, it's the same thing. The federal government abandoned it. It's some of the largest acreage that the City has. It has problems. It does not have the infrastructure, it doesn't have the roads, it doesn't have the water system to support residential or even commercial development.

If the City is ever going to be able to take advantage of these assets out there, we're going to have to be able to provide some kind of infrastructure. Values in the City are not sufficiently high that the private sector is going to support all of it. And we have a need for roads --

COUNCIL PRESIDENT VERNA: Excuse me. Councilman Goode has a point of information, please.

MS. WILKERSON: Okay.

COUNCILMAN GOODE: How different is that than the industrial park strategy that didn't work?

MS. WILKERSON: I think that one of the things that these assets have that other areas of the City haven't had is the waterfront exposure. I think that what we're seeing across the City is more developer interest in the City than we've seen historically. This is something that we see out of NTI. We put a request for proposals for developers for development opportunities in the middle of North Philadelphia and have seen people come to the table who historically have not come to the City at all.

COUNCILMAN GOODE: Can Mr. Deegan speak more specifically to how that compares with the industrial park strategy and how successful the industrial park strategy was?

MS. WILKERSON: All right.

MR. DEEGAN: Good afternoon. Paul Deegan representing PIDC and PAID. Good afternoon, Councilman, Members of the Committee.

COUNCILMAN GOODE: The question really is, when was the industrial park strategy developed? How much money was pumped into preparing land within industrial parks and how much of the industrial parks are still vacant?

MR. DEEGAN: I don't have the exact numbers of how much money has gone into the industrial parks. It's been --

COUNCILMAN GOODE: First question was, when was the industrial park strategy created?

MR. DEEGAN: I think originally we started off in 1960s around Northeast Philadelphia Airport and moved on to Byberry. We sold over 1300 acres in 20 years. But I'm not sure what the exact cost would be.

COUNCILMAN GOODE: Is a majority of

the industrial park space still vacant?

MR. DEEGAN: No. We only have about 300 acres left.

COUNCILMAN GOODE: I'm not talking about in the Northeast, I'm talking about City-wide in terms of American Street --

MR. DEEGAN: Yes, Eastwick, West Parkside and American Street.

COUNCILMAN GOODE: How long did it take to fill the majority of the space?

MR. DEEGAN: Well, it took us around -- I guess you'd have to say we sold about 1300 acres in 30 years, so that pretty much tells you what the absorption rate is.

COUNCILMAN GOODE: Sorry Councilwoman.

COUNCILWOMAN TASCO: That's okay.

In terms of the waterfront where you have received proposals for development, were there City funds invested in preparing that area for development?

MR. DEEGAN: I'm not sure which area specifically --

COUNCILWOMAN TASCO: The parcel down

on the waterfront where the proposals have been submitted by the various developers to develop.

We had someone from -- Councilman DiCicco brought someone in to do a big development down there, and that didn't come though. Now we have Bart Blattstein and other people putting in proposals to develop the waterfront. Did we have infrastructure money going into projects?

MR. DEEGAN: I can't say I'm familiar with those projects. I'm more familiar with the navy yard. We haven't been, I don't think, as active in the central Delaware riverfront or the South Philadelphia riverfront.

COUNCILWOMAN TASCO: Ms. Wilkerson, can you answer that question?

MS. WILKERSON: You're talking about the Ikea parcel, in that area?

COUNCIL PRESIDENT VERNA: Penns Landing?

COUNCILWOMAN TASCO: Penns Landing.

MS. WILKERSON: I can get you the

exact dollars that have gone into Penns Landing. We've made 108 dollars and UDAC (ph) dollars possible there. The City has annual subsidy dollars it gives to Penns Landing directly. I think we've had capital expenditures that we've made along Penns Landing. I know that we periodically have to do infrastructure support to support the riverside, but I can get you a breakdown of the dollars that have gone into Penns Landing over time.

COUNCILWOMAN TASCO: And we still haven't really developed too much down there yet, have we?

MS. WILKERSON: No. The City has spent decades trying to come up with a proposal for the limited area of Penns Landing. What the City has tried to do is focus on retail development almost exclusively and are now, as you know, looking at proposals that require mixed development, in part because of some of the challenges.

COUNCILWOMAN TASCO: Does the City have a plan for the development of Penns

Landing, or we just have the land and tell people to come and present what they think it ought to be?

MS. WILKERSON: The City has controls that it put out for Penns Landing. The City to the north of Penns Landing specifically has a fairly comprehensive plan that sets out a mixture of recreational, residential, and commercial use.

COUNCILWOMAN TASCO: Well, is there development north of Penns Landing? Are any plans for development north of Penns Landing?

MS. WILKERSON: There are proposals for residential housing that I think some of them should be announced. Some of them have City involvement, some we're not involved with at all. I think that I can bring the Housing or the Community Development people who can give you more detail on the kind of development that's planned for North Delaware who are also working on creating a River Road.

Part of the issue with North Delaware is access, and Maxine Griffith and some of the planning people can talk to you in more detail about the kind of infrastructure they've been working on.

The City's been working with the military. There's a military installation that the federal government is looking to get rid of. We've got $10 million in support that Congressman Hoeffel helped us get to enable the government to demolish the federal installation, and that's a project that will be put out for development.

In connection with that, the Administration has been working with the District Councilpeople on rezoning the area so that as the development interest increases, it happens in a way that is consistent with the strategic plan.

What I'd like to do is have the opportunity to have the development people and planning people come and talk about the entire vision, what the strategic plan is, what kind of steps have been taken and what the challenges are moving forward. We can also have members of the development community come and talk to you about what it is they see as opportunity in Philadelphia.

COUNCILWOMAN TASCO: Well, would the ratepayers be paying for the improvements that are historically paid for by the developer?

MS. WILKERSON: The water ratepayers?

COUNCILWOMAN TASCO: Yes.

MS. WILKERSON: No.

COUNCILWOMAN TASCO: The money's coming from the bonds from the Water Department?

MS. WILKERSON: It's coming out of the reserves.

Janice is supposed to be on the way over. She can talk about how the financing works and how that --

COUNCILWOMAN TASCO: We'll come back to that.

I think Stephanie Naidoff talked about an economic summit to figure out how to spend the rest of money. Wouldn't it seem a better idea to have had the summit to determine what the needs are and then determine what the budget would be rather than --

MS. WILKERSON: I don't think we propose spending the money until after the summit is over. One of the challenges -- and the summit is actually a lot broader. Its mission is a lot broader than simply talking about River City. One of the problems that we've heard both through the 21st Century Forum and that you hear in the City over time is nobody knows what the City's economic development strategy is. Councilman Goode asks that all the time, you know, what's the strategy for neighborhoods? Where are we going with all of this? We commit to TIFs and KOZs, you know, is that better than an abatement strategy?

This City really doesn't have a comprehensive, agreed-upon economic development strategy. And so we want to have the summit in order to try to develop something that's clear that, hopefully, will build consensus so that every time a project comes along we're not throwing money at it, but we're doing things that are calculated to grow the jobs and businesses.

What we do know is that we have wonderful opportunities and that some of these opportunities are going to take additional resources. The private sector is not going build a road, so there are additional resources that are going to be needed. What this Administration has tried to do is identify resources. And it's hard because our financial situation is what it is. But we have identified what we believe is a viable first installment. We don't have detailed plans on how to invest it. We hope that would come out of the planning in a summit and future --

COUNCILWOMAN TASCO: Well, it seems to me that once we do the summit and have the plan, that's the point when you should ask for the money. It may not be 500 million; it may be something higher in that. So in the meantime you get the 500 million, what happens to it? It just sits someplace?

MS. WILKERSON: We have not transmitted legislation that would be required in order to make the money happen. What we want to do is have an economic summit -- one of the other challenges that the City faces is once you have a strategic plan, how are you going to implement it?

These are the kinds of operational questions -- some of them operational, some of them strategic -- that we hope would come out of the summit. This is not a proposal, the first 125 million does not have a financial impact on the General Fund and the Operating Budget. We have it in our Five-Year Plan because it is part of the Administration's strategy to capture the value of the assets that we have scattered around the City. It is not unlike some of the NTI. We had enough vacant land and abandoned land in Philadelphia that if you aggregated it, it would have been the size of Center City, but for decades it just simply sat in neighborhoods and we really didn't have a way of taking control of it.

The riverfront land in some ways is analogous to that. People look at it, they say it's along the river, they see what's happening in New Jersey; and if we don't do something, it's just going to sit there.

COUNCILWOMAN TASCO: Well, what is your strategy then for the neighborhoods?

For a District Councilperson like myself, which probably didn't get too much in terms of NTI given the nature of our district and what our needs are, now we look at floating money for the waterfront, and still in my neighborhood we have needs to support plans that we have put together for the development and improvement along our commercial corridors, and it's just very hard to even access a street light or a banner from the City. So it's kind of hard to say I can do this because I don't see any resources channeling into the community for any economic development.

MS. WILKERSON: And what I would offer are two things: One, that the Mayor would envision that some of the $500 million would also go into neighborhoods; but secondly, that this strategy is not envisioned as one that pits neighborhoods against the riverfront. What we have to do is grow the overall economy. And if we don't grow the overall economic, we will forever be working with the same shrinking pot of dollars trying to tackle mounting challenges in our neighborhoods.

COUNCILWOMAN TASCO: I think if you have the economic summit and you generated a program and a plan that has input by people that you could sell, then you could grow the economy. But because you don't have an economic strategy, you don't know what you're doing and everything is piecemeal. And at that point I think it drives the interest of developers that want to come into the City if they see an economic incentive. But right now when they can't see that the Penns Landing is being developed, it's been 10 or 15 years that that's been trying to be developed, I mean, I don't know if they see just putting in some infrastructure is going to help motivate or generate any economy on the northern end either.

MS. WILKERSON: What I'd like to do,

hopefully, during the course of these hearings is to bring the economic development group in to talk about the plans. There's been a lot of work that's been done over the last several years with respect to the naval yard, with respect to North Delaware, and have people make a presentation and also talk with you about what's envisioned to come out of the summit and how that syncs with the proposal to put additional capital resources on the table.

I think you're right. I think that before we start spending dollars, we need to have a strategy for spending them. And in putting this in the Five-Year Plan, I think it's -- what we don't intend to say is that come July 1st we're going to start writing checks; that's not the intention at all. We intend to have the summit. Hopefully, there will be a final product shortly after the end of the summer that would have the kind of consensus that would guide the spending of dollars and the future development.

COUNCILWOMAN TASCO: Thank you.

COUNCIL PRESIDENT VERNA: When is

the summit to take place?

MS. WILKERSON: I don't have the exact dates. We're trying to schedule it so that we don't preclude a lot of participation because it's over the summer months.

COUNCIL PRESIDENT VERNA: Is Janice Davis on her way?

MS. WILKERSON: I'll have to find out where she is or have somebody else come over who can explain that.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Ms. Wilkerson, getting back to the effectiveness of your investment strategies but moving away from NTI and economic development but talking about how the stock market has hit the pension system and the need to replace those dollars, how does your investment performance compare with the other cities among the top 10?

MS. WILKERSON: I can get you a report on that. Rob can provide an answer at a high level.

What we do normally is track the City's investment against benchmarks for each different type of investment.

MR. DUBOW: And our earnings have been better than that benchmark.

But your question is what do we look like against other cities, and I haven't seen that analysis, so we'll get you that.

COUNCILMAN GOODE: My question is, everyone has been hit hard by the stock market, but that still doesn't excuse whether Philadelphia is performing worse than other large cities. And I don't know that it is or it isn't. So my question just is how is it performing in comparison to comparable cities.

MR. DUBOW: Right. And we'll get back to you. I know this is a big issue for governments across the country. But we'll get the detailed information for you.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Ms. Wilkerson, if the City is planning on closing facilities, cutting the arts and cultural facilities and the Community College, why would you propose at the same time that you're doing these cuts to move forward with the central library expansion?

MS. WILKERSON: The central library expansion is a project that is probably years away still. What we have done is identify a strategy for --

COUNCIL PRESIDENT VERNA: Isn't it in our budget?

MS. WILKERSON: That's right.

COUNCIL PRESIDENT VERNA: Over what year?

MS. WILKERSON: We have in our budget resources in support of the library. When you talk -- and Stephanie Naidoff or some of the library people can talk to you in more detail about what their development timeline is. The actual construction will await the development of funds for the library. There's a lot of private sector fund-raising that has to go on.

COUNCIL PRESIDENT VERNA: What do we have in the five-year budget for the central library?

MR. DUBOW: We have debt service beginning in FY '06 for the central library. We don't have anything in '05.

COUNCIL PRESIDENT VERNA: On how much borrowing, Mr. Dubow?

MR. DUBOW: We have -- I think it's still the 60 million. I'd have to get back to you. We have 3 million in debt service, we have 3 million a year in debt service in '06 going on now.

COUNCIL PRESIDENT VERNA: Is this the same type of proposal that was presented to Council last year?

MS. WILKERSON: No. I believe this is a debt service that would support a tax exempt financing.

COUNCILMAN O'NEILL: My recollection is pretty good on the numbers from this one last year. There was a $60 million lease purchase, whatever. But only 30 of it was for the library. And I'm wondering also is the borrowing -- are we going to now borrow 60 million for the library? Are we still committing 30?

MR. DUBOW: We're still committing 30 to the library. I think during the process last year we committed to find other funding sources for after school so that would come out of the issue which would make the issue smaller. And then I guess we would work with the School District on their funding piece.

COUNCILMAN O'NEILL: So it won't be a $60 million issue?

MR. DUBOW: It will not be a $60 million issue.

COUNCILMAN O'NEILL: Thank you.

COUNCIL PRESIDENT VERNA: Would you detail the cuts to the arts and cultural institutions that you have included in the plan and your rationale?

MS. WILKERSON: The Administration has, I believe, a $2.5 million cut for the Art Museum.

Rob, you want to walk down the balance of the --

MR. DUBOW: We have two and a quarter million dollar cut to the Art Museum which eliminates its subsidy, a $292,000 cut to Atwater Kent which also eliminates its subsidy. We propose taking the Cultural Fund down from 2.4 million to 1 million; Historic Philadelphia from 386,000 to 320,000.

COUNCIL PRESIDENT VERNA: I'm sorry, what was that last one, please?

MR. DUBOW: Historic Philadelphia from 386,000 to 320,000; the African American Museum from 301,000 to 270,900; the Mummers Museum from 62,000 to 55,000; Robin Hood Dell East from 389 to 350; and the Avenue of the Arts from the 96.5 to 80,000. And that comes to 4 million in total.

And then we also eliminate the Arts and Culture Office in the Commerce Department, and that's about $140,000.

COUNCIL PRESIDENT VERNA: Well, what impact do you think these reductions will have on the cultural institutions as well as the local economy to the extent that they will be forced to cut back on many of their exhibitions?

MS. WILKERSON: We are mindful of

the fact that these are going to be painful cuts to the organizations. We are working to try to elicit corporate and foundation support to supplant some of the City's withdrawal of financial support.

COUNCIL PRESIDENT VERNA: Since the Administration --

MS. WILKERSON: Excuse me. I'm sorry. And in eliminating the arts component of the Commerce Department, one of the things that we've tolerated over the years is an overlap. The Redevelopment Authority, for example, also has a public arts component to it. What we're looking at is trying to make more strategic use of the dollars that we're investing. We don't need to have the work done in a number of different places within the City. And so with respect to the cuts in the City staffing or the City's programming, we think that there probably wouldn't be any real substantial change in our ability to address those issues.

COUNCIL PRESIDENT VERNA: However, since the Administration is curtailing its support for the arts and culture, does that mean that the City no longer wants the Barnse Museum to move into the City?

MS. WILKERSON: No, that doesn't mean that.

COUNCIL PRESIDENT VERNA: With would encourage them?

With the Art Museum, haven't we in the past contributed 2.5 million? And are we actually cutting them off totally from our contribution?

MS. WILKERSON: We are cutting operating support for the Art Museum. We'll continue capital support and paying their utility cost.

COUNCIL PRESIDENT VERNA: What does that amount to?

MR. DUBOW: The utility costs are about $2 million a year and the FY '05 capital budget is 2.2 million for the Art Museum.

COUNCIL PRESIDENT VERNA: So the 2.5 would actually be covering --

MR. DUBOW: It was 2.25.

COUNCIL PRESIDENT VERNA: So

actually, what we're cutting would actually be providing for what, security, maintenance?

MR. DUBOW: That's correct.

COUNCIL PRESIDENT VERNA: What else?

MR. DUBOW: That was the -- the original contract was that it was for security and maintenance. I think it really goes into their General Fund much the way revenue goes into our General Fund and they probably use it for a variety of things.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman O'Neill.

COUNCILMAN O'NEILL: Mr. Dubow, is that the same security and maintenance that the Rendell Administration privatized and the Art Museum agreed to that? They were City employees before?

MR. DUBOW: Yes.

COUNCILMAN O'NEILL: And had great savings in the privatization and reduced what we were really paying through the privatization?

MR. DUBOW: That's right.

COUNCILMAN O'NEILL: So these are

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basically the in-place-of City employees that are no longer even in place of City employees in terms of the City end of it?

MR. DUBOW: That's correct.

COUNCILMAN O'NEILL: Have they pretty much said to you that that's what they'll do, they will get rid of their security and maintenance force? So we're leaving the Art Museum without security and maintenance? I don't understand.

MR. DUBOW: I have not said that. We've had a couple of conversations with them. They haven't been real specific about what they're going to do in response to the cut.

COUNCIL PRESIDENT VERNA: But that is our building; we're supposed to maintain it.

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: Well, with those cuts in security and whatnot, would that have a direct impact on the hours of operation?

In other words, a lot of these exhibitions, for instance, would have to closing a day earlier or whatever?

MR. DUBOW: I don't think the museum's made any decisions on those kinds of issues.

COUNCILMAN KELLY: Well, I want to follow-up on the President's line of questioning, and that's the impact on tax revenue that's produced by these cultural intuitions. I mean, your savings of $4 million is one thing, but perhaps you have to realize that those cultural intuitions bring in tax revenue probably somewhere around $12 million. Whereas, our sports stadiums and whatnot bring in around $4 million.

So I think you have to look at the impact on, of course, our hospitality industry and whatnot. This is going to impact them greatly, I think. It's going to have a very, very negative effect because I think what we're doing is we're cutting down on certain things, but I think in the end it's going to hurt us because it's going to hurt us drastically in the hospitality end. They're going to have to be closing down; at least they're not going to have the same types of exhibitions that we presently have. And I think this is going to be a step in the wrong direction.

MS. WILKERSON: The City is making a substantial -- continues to make a substantial investment in the hospitality industry. We have our ongoing obligation and support the Convention Center. That's an obligation that's increasing on an ongoing basis.

What the City needs is for other players to step up to the table. We appreciate and value the role of art and culture in the City.

COUNCILMAN KELLY: Well, that's what brings people into the City. I mean, these people are staying for one, two, three nights in our hotels and they're spending at restaurants, they're doing a lot of things.

MS. WILKERSON: That's right. And some of what we're saying is that we need to have a different strategy for doing this. When you look at what other jurisdictions are doing, they have dedicated revenue for the arts, they have substantial philanthropic and corporate support of the arts. And while we have some, what we're going to have to do in the coming years if we want to be in a position to cut taxes and to maintain core services is bring other players to the table. The City no longer has the capacity to absorb these costs on its own.

COUNCILMAN KELLY: Comparing to Philadelphia, you have a lot of cities, smaller cities, that do much more for their cultural institutions than we do for Philadelphia. And presently, the attendance in Greater Philadelphia's 25 tourist attractions is somewhere around 11 million. So I think that what you have to do here is you have to really study the effects that this $4 million tax cut is going to have on really bringing in tax revenue to the City. Seems like we're going in the wrong direction.

COUNCIL PRESIDENT VERNA: And I recall very vividly when Cezzane was here, people came from over all to see the exhibition. I know people that came in from

California and certainly stayed for at least three nights.

COUNCILMAN KELLY: I believe Picasso is coming in here.

COUNCIL PRESIDENT VERNA: They have some very interesting programs that will be coming in.

Ms. Wilkerson, the Art Museum really is a City-owned building, and when we ask people to contribute, they're not going to contribute to the operating expenses.

MS. WILKERSON: We will get back to you with more detail on -- we'll continue to work with the Art Museum. The Administration values the significance of it and will continue to work with the museum and the other organizations that are facing cuts.

COUNCILMAN KELLY: I just have a follow-up question on that. It's more or less a statement to knowing that there's over 11 million people come in for our cultural institutions when you have to look at the sports teams that we have, I'm talking about the 76ers, Phillies, the Flyers, the Eagles, their grand total is 3 million people. And that doesn't produce not even a third of the revenue that our cultural institutions bring in here. So I think we really have to take a real hard look at that, if I may.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognize Councilwoman Tasco.

COUNCILWOMAN TASCO: Do you have a strategy for going out to raise dollars from corporations and other foundations to fund these? Are you putting it on the institutions to do?

MS. WILKERSON: When the Commerce Department comes, I'd like to have them address it more directly.

Stephanie has begun conversations with some of the partners that we would be looking to, but I'd like to have her address it more directly when the Commerce Department gives its testimony.

COUNCILWOMAN TASCO: I think I agree with the rest of the Councilmembers. The cultural part of our City is what keeps us going. It's the vibrancy of Philadelphia.

Since the Administration is curtailing its support for the arts and culture, does it mean that the City no longer wants to Barnes Museum to move into the City?

COUNCIL PRESIDENT VERNA: I asked that question.

COUNCILWOMAN TASCO: Oh, someone asked that question?

MS. WILKERSON: The Barnes has never anticipated operating support from the City. And I think part of what the Administration has been doing for the last several months is going through and re-screening the budget trying to identify where it is that we were going to propose cuts. None of these cuts is easy. But this is a City that for more than a decade has been closing things, saving money, and we really are down to bone now. This year is bad. It's going to be bad again next year. After we get the results of the labor negotiations, there's going to be more pain to parse out.

None of these proposals the Administration has developed come easily. If we decide to put money into the arts, something else is going to have to get cut.

COUNCILWOMAN TASCO: But where has been the planning all these 10 years in trying to figure out how we generate more income from the assets and the value that this City has?

Every year we have to start the strategy, but when does the strategy begin and how do you develop the strategy and who's included in the discussion about the strategy; and have we gotten any answers yet?

I mean, what is the Commerce Department doing? Just what is the planning for the ongoing sale of Philadelphia in terms of the wonderful values that we have here?

Who is out there creating a market to say we have all these wonderful assets that bring people into the City and that we ought to capitalize on them and start from that base and generate dollars from that base that you could use to generate some other kind of development. We're just like all over the place.

MS. WILKERSON: And I think your last characterization is correct. There's a lot that's going on in the City, but it's not knit together in a coherent strategy.

COUNCILWOMAN TASCO: But we talked about that over and over and over again. When is the strategy going to begin? When are you going to develop the strategy?

MS. WILKERSON: And that's what the economic development summit is about. What you will hear during the course of these hearings is a lot of the pieces that are already in the works. And what is missing is really the clear strategy that hasn't been in place for decades now. And other people from outside the City, inside the City -- I mean, when the Mayor made his Chamber of Commerce speech and talked an economic development summit, there's actually been a very rewarding response from people interested in neighborhood economic development, from corporate players large in this City saying, this is something whose time has long since been due, that this is something that the City desperately needs. We all have a sense that we have wonderful assets, but nobody can talk about them in a coherent way. And that is what we hope to accomplish out of the economic development summit.

COUNCILWOMAN TASCO: It would have been nice to talk about all of that when we were talking about the NTI because it all ties in together in terms of the neighborhood initiative and the economic development. To talk about them in separate terms or program them out into two separate entities just doesn't seem to be worthwhile. We're just throwing good money after bad. And that would have been a nice discussion to have during the course of the discussion with the NTI whole thought or idea. I'm not sure that we're going to go anywhere with this either.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman O'Neill.

COUNCILMAN O'NEILL: I think I know the answer to this question. The Art Museum, I know, has questions both with economic development, maybe legal responsibility as owners, but there's one that's sort of a civic embarrassment if what I believe to be true is the case. Isn't the Atwater Kent Museum the City's museum? Didn't they agree during the Rendell Administration to go from a hundred percent City funding to one-third over a period of time and make up the other two-thirds by actively going out for private funds?

And now after they've taken the Historical Society's collection that was going to leave the City, we're cutting them out completely?

That, to me, is more civic embarrassment than -- I mean, you can tell me there's other cities that have their museums that they don't fund, but I don't know if there is one. It is this City's museum.

Have there been in discussions with them?

If I was with that group, I'd walk. I wouldn't -- they're not the high profile, everybody wants to get on the board, as the

Art Museum where they have a lot of importance. It's a very important museum but it doesn't have the profile or the economic development aspect of the Art Museum. But, to me, it's vitally important to the City to have a museum that is the City's museum.

Have there been discussions with them about this?

There's nothing left there in terms of our funding.

MR. DUBOW: That's right.

COUNCILMAN O'NEILL: A third of the budget, roughly, right?

MR. DUBOW: Yes, I think that's right. It's another place where I guess we pay their utilities.

COUNCILMAN O'NEILL: So we don't care if they shut down, this City's museum?

MS. WILKERSON: We care about all of these. We're going to be working with them to develop strategies.

COUNCILMAN O'NEILL: Did you have any discussion prior to this, say, "what's the impact of this? Can you absorb it in a period of time?"

It's just the demoralizing factor. It's worth having the conversation up front.

MR. DUBOW: We did have a couple of discussions with them as we were developing the budget.

COUNCILMAN O'NEILL: You told them that there was a likelihood that they wouldn't get any money?

MR. DUBOW: Yes.

COUNCIL PRESIDENT VERNA: And what was their response?

MR. DUBOW: Obviously, they weren't happy and they said they were going to go back and look at their options.

COUNCILMAN O'NEILL: Have they gotten back to you on their options?

MR. DUBOW: No.

COUNCILMAN O'NEILL: They haven't responded? Nothing?

They'll be in at some point and we're going to ask them.

MR. DUBOW: The follow-up was a letter describing the benefits they provide but not necessarily what they would do in response.

COUNCILMAN O'NEILL: Not necessarily whether they can stay open without 33 and a third percent of their funding?

MR. DUBOW: Right.

COUNCILMAN O'NEILL: Thank you.

COUNCIL PRESIDENT VERNA: On this same line of questioning, I believe Councilman Goode has a question or statement.

COUNCILMAN GOODE: Aside from the benefits that arts and culture bring to the economy, do the museums give you any damage estimate in terms of what they may lose in terms of collections?

For example, does the Art Museum have any collections that might be lost if they can't maintain their operations?

MR. DUBOW: We didn't get anything like that and they didn't mention that in the discussions as even a possibility.

COUNCILMAN GOODE: I was told of a Johnson art collection that may be lost to New York.

MR. DUBOW: I did not hear that.

COUNCILMAN GOODE: Did you ask them for damage assessments?

MR. DUBOW: Of their collections, no.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Ms. Wilkerson, I think we had recessed our hearing until 1:30. I think we're waiting for Janice Davis and someone from Commerce.

MS. WILKERSON: I've asked for Ray Zies, her deputy, to come over to explain the water revenue transaction.

We had someone from Commerce come before the break. If you need for them to return, if there's an additional line of questioning --

COUNCIL PRESIDENT VERNA: Yes.

MS. WILKERSON: All right.

MR ZIES: Ray Zies, Deputy Director of Finance. And I believe there was a question on where the $125 million came from for the economic development fund?

COUNCIL PRESIDENT VERNA: Yes.

MR. ZIES: When the City issues revenue bonds, they are required to either put up a reserve which covers the highest debt service for all of the bond issues or to buy a surety policy which guarantees that they will pay the debt service.

The City in the past has used the reserve fund and those monies either come from the bond issue or from the Water Fund.

What Ms. Davis is proposing is to purchase a surety policy that would be a one-time cost in the neighborhood of 3 to $4 million, leave some of the reserve fund in there, and take out 125 million to use for water or sewer-related projects.

COUNCILWOMAN TASCO: Have those projects been identified?

MR. ZIES: No, ma'am.

COUNCILWOMAN TASCO: What's the motivation for this?

Someone had to think of some need to have this money.

MS. WILKERSON: When the Commerce and PIDC people come back over, they can talk to you in more detail about what's envisioned, the kind of needs they're seeing in projects like the naval yard, like along North Delaware.

COUNCILWOMAN TASCO: Okay.

COUNCILMAN O'NEILL: Is the $4 million paid for by the Water Fund or by the General Fund?

MR. ZIES: It would be paid for by the Water Fund.

COUNCILMAN KELLY: And this will spur economic development?

MS. WILKERSON: The Commerce and the PIDC people can talk about that.

COUNCIL PRESIDENT VERNA: Let me ask a question if I may, Councilwoman.

Is there a bond or some financial statement that will have to be secured in order for you to take these funds?

MR. ZIES: We would have to purchase the surety policy first.

COUNCIL PRESIDENT VERNA: And you're saying that would cost 3 to $4 million?

MR. ZIES: Yes, ma'am.

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COUNCIL PRESIDENT VERNA: What's the impact of the Water Department losing these funds on their current rate structure?

MR. ZIES: It wouldn't impact that.

COUNCIL PRESIDENT VERNA: So we, the taxpayers, would not be seeing an additional amount of money added to our water bills for this?

MR. ZIES: No, ma'am.

COUNCILWOMAN TASCO: What does the impact of the rate increase -- -is there a relationship between the water rate increase and this whole --

MR. ZIES: No, ma'am. That money is just sitting in an account earning interest.

COUNCILWOMAN TASCO: Who's going to control the funds? Who will control the $125 million? Who will control the expenditures?

MS. WILKERSON: We have not developed the program to that extent.

COUNCILWOMAN TASCO: Is that something the Commerce Department can answer?

MS. WILKERSON: You can ask them.

My understand is it's not been developed to that extent at this point.

COUNCILWOMAN TASCO: How do they know they need $125 million?

MS. WILKERSON: They can talk to you about what the needs are that they've identified. They can talk to you about the kind of opportunity they expect to leverage. I didn't know you wanted that level of detail or I would have kept them over. I thought --

COUNCILWOMAN TASCO: And so who keeps us informed how the money is being spent? How do we know it's being spent for what you have appropriated it for?

MS. WILKERSON: I don't have an answer on the controls. The Administration has not developed the details of it to that extent, and we will get back to you.

COUNCILWOMAN TASCO: So you all just decided you might need some money and just said, "Well, why don't we just do $125 million," without a strategy for spending it?

MS. WILKERSON: No. What the

Administration has is an understanding that if we're going to better use these resources out there, we have to put -- if we're going to use the assets, we have to put resources on the table. And what we have advanced as a strategy before you actually get to the point of actually spending dollars. There are a lot of conversations that have to happen. There needs to be a budget developed. There needs to be controls in place. And the planning has not happened to that level of detail yet.

COUNCILWOMAN TASCO: What are the legal requirements as they relate to this transaction? And do you have bond attorneys signed off?

MS. WILKERSON: I will get you a memo on that.

As the concept has been developed, the Finance Department has been in consultation with bond people. I can provide you with a memo that will outline the transaction, what the constraints are, what the controls are.

COUNCIL PRESIDENT VERNA: Excuse me.

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Is there any reason why you cannot wait until such time as you know exactly how this money is going to be used, where it would be used, why it would be used?

MS. WILKERSON: I would like to have the Commerce and PIDC people talk about that.

COUNCIL PRESIDENT VERNA: When?

MS. WILKERSON: They're coming back. Well, I had all of the Administration here that was prepared to stay here to be responsive to your questions.

COUNCIL PRESIDENT VERNA: But you knew that we were coming back on this one issue. We said that we wanted to come back on the $125 million bond issue, the stimulus fund.

MS. WILKERSON: I have those people coming back over.

COUNCIL PRESIDENT VERNA: I'm sorry, Councilwoman.

But is there any reason why we couldn't wait until such time as we know exactly how this money was going to be spent?

MS. WILKERSON: I would rather have

the people who are planning the program talk to you about that.

COUNCILWOMAN TASCO: The plan includes $500 million for stimulus. Where will the additional 375 million come from?

MS. WILKERSON: The proposal is to use debt financing in order to generate the balance. That's not in this Five-Year Plan at this point.

COUNCILWOMAN TASCO: So you don't have the debt service in the plan?

MS. WILKERSON: That's correct.

COUNCILWOMAN TASCO: How do you propose to pay for it?

So we're to vote again on a concept or some dollars and we don't know how you plan to pay for it?

MS. WILKERSON: There are no dollars in this plan for the balance of the $500,000.

Rob, you want to talk about -- I guess Janice responded earlier.

MR. DUBOW: I think what Ms. Davis said earlier is that there are a variety of potential sources, including if we're relieved of our responsibility for funding the Convention Center. That money then could be used to secure the debt service on this in this fund.

COUNCILWOMAN TASCO: So when we vote for this budget, we are in essence giving you the authority to borrow $375 million?

MR. DUBOW: No. You're not giving us the authority to do anything because that's not included -- there's no debt service included for that issue here. And before we issue debt, we'd have to come to Council. So you're not giving us the authority to do that by approving this.

COUNCILWOMAN TASCO: But then you say we voted for it in the Five-Year Plan. Why put it in the Five-Year Plan?

MS. WILKERSON: That doesn't give us the authority to issue debt.

COUNCILWOMAN TASCO: So why put it in the Five-Year Plan?

MS. WILKERSON: Because this is part of a strategy. The Five-Year Plan is a document that the City has done historically that provides information on the City's fiscal health --

COUNCIL PRESIDENT VERNA: Excuse me, please. Councilman Goode has a point of information.

COUNCILMAN GOODE: It's a simple point of information. So is there going to be a plan for first $125 million and a separate plan for the other 375, or is there a comprehensive plan for the 500 million?

MS. WILKERSON: There's going to be a plan, a comprehensive plan. What we have is a strategy for funding the first $125,000.

COUNCILMAN GOODE: I'm not talking about for funding it. I'm talking about in terms of an economic development strategy. Is there a separate economic development strategy for the first 25 percent that is separate from the other 75 percent?

MS. WILKERSON: We do not have a finished economic strategy for the $500 million, either the first piece of it or --

COUNCILMAN GOODE: The question I

believe Councilwoman Tasco asked is, if you don't know what you want to do with the whole $500 million, then how you possibly know what you want to do for the first 25 percent? Because the first 25 percent does not fit into what is a better strategy for the remaining 75 percent.

COUNCILWOMAN TASCO: Is the sale lease back of the Central Library in the proposed Five-Year Plan; and if so, which year does it start and where are the projected amounts?

MR. DUBOW: The sale lease back is in the plan beginning in Fiscal Year '06 at $3 million a year.

COUNCILWOMAN TASCO: So if we're planning to close facilities and cut back on arts and culture and the Community College, why would you propose at the same time you're doing the cuts doing the Central Library expansion?

MS. WILKERSON: Some of what the Administration is proposing in cuts and changes need to happen anyway. For example, when the Fire Department comes and testifies, what you're going to hear is that the demand for Fire Department services has changed dramatically over the last decade. What we have now are fire trucks that we send on EMS runs. We don't begin to have enough EMS vehicles. We don't have the same number of structure fires or vehicle fires that the City has had historically. This is a department that, whether or not we had a financial problem, needs to take a firm look at how it is that it uses its resources.

The same thing is true in the Rec Department. This is a City that has a recreation infrastructure that was sized for a time when we had a much larger population. What we have are a string of resources, some within three blocks of each other. A lot of resources we have are poorly maintained.

A lot of what the City is talking about doing in this Five-Year Plan are efficiencies that need to happen anyway. We're talking about changing how we provide administrative resources to the departments.

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These are the kinds of things that we should be talking about whether we have financial challenges or not. And when this Administration put together the Five-Year Plan, we did it with a number of things in mind, that we have to free up resources to enable the City to invest and so we've tried to make room in this Five-Year Plan for tax reform. We've tried to make room in this Five-Year Plan to allow us to invest to capture opportunities. We've tried to focus on core services and where we're delivering those services in an inefficient way. We have proposed changes to make that better. We've tried to get a handle on some of those costs that are mushrooming out of control for the City like sick leave, like the health coverage for our employees.

And so the only thing that drives this plan that drives some of the changes and cuts we propose are not simply the fact that we have tight financial times; a lot of what we're proposing are things that are difficult for us but need to happen anyway.

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COUNCIL PRESIDENT VERNA: I'm sorry.

Sir, what did you say your name was, Mr. --

MR. ZIES: Zies.

COUNCIL PRESIDENT VERNA: Zies?

MR. ZIES: Yes, ma'am.

COUNCIL PRESIDENT VERNA: You have a very pleasant face, you really do. And I asked you a question and I think you were trying to be very honest with me in your response. However, I find difficulty believing that when we go out for this $125 million stimulus fund from the Water Department, we're paying interest and penalty on that, are we not, on that bond? Or whatever --

MR. ZIES: No, ma'am.

COUNCIL PRESIDENT VERNA: You have not convinced me that the water customer is not going to be paying for economic development that was historically paid for by developers.

Didn't I ask you if we went out for this that you indicated that we would have to have either a bond or some other financial instrument to be secured in order to do these funds?

MR. ZIES: Yes, ma'am. We would have to purchase a surety policy.

COUNCIL PRESIDENT VERNA: Don't we pay interest?

MR. ZIES: That's a one-time for 3 to $4 million charge.

COUNCIL PRESIDENT VERNA: Well, who pays the 3 or $4 million?

MR. ZIES: The Water Fund would.

COUNCIL PRESIDENT VERNA: The Water Fund.

MR. ZIES: Yes, ma'am

COUNCILMAN GOODE: How does it affect the original water bonds once you've removed the reserves?

MR. ZIES: It doesn't. The surety policy --

COUNCILMAN GOODE: I'm not asking how the surety policy is affected. I'm asking more so what impact is there on the actual original bond?

MR. ZIES: There is none. The surety policy is --

COUNCILMAN GOODE: There is no affect whatsoever in how the original bond is repaid once you remove the reserves or once you borrow against the reserves?

MR. ZIES: You're not borrowing against the reserves, you're buying a surety policy.

COUNCILMAN GOODE: Once you take the 3 or 4 million out to by the surety policy, taken the 3 or 4 million out that comes from the proceeds from the original bond, it does not affect the repayment of the bond at all?

MR. ZIES: No, sir.

COUNCILMAN GOODE: Who repays that bond?

MR. ZIES: The bond is repaid just like it would be anyway through the water --

COUNCILMAN GOODE: Water ratepayers.

MR. ZIES: Right.

COUNCILMAN GOODE: But you're taking 3 or $4 million out of that. The ratepayers continue to pay that money.

MR. ZIES: Out of the reserve fund, not out of their operating fund.

COUNCILMAN GOODE: I understand that.

COUNCIL PRESIDENT VERNA: Mr. Zies, just stay there, please.

I would like Mr. McPherson -- I would like your interpretation of this, please. Will the water customer in effect have to pay more money?

MR. MCPHERSON: They're already currently paying. The Sinking Fund reserves were portions of borrowings that the Water Department has already gone out with. The current interest in principal on those borrowings are paid for out of the base rates that the water customers pay. So it's not like the Water Department is going go out and issue a new bond for this, it's just that they're going to be taking the Sinking Fund reserves that were borrowed out of various bond issues that's embedded in the current rate structure that the Water Department has. So in essence, the base rate, the water rate customers will be supporting this economic development because the $125 million reserve, when that was borrowed, is currently embedded in their rates.

And I think that Finance would have to agree with that.

MR. ZIES: Okay. Yes.

COUNCIL PRESIDENT VERNA: Well, did we go around and around on that one.

COUNCILMAN KELLY: So the ratepayers do pay.

COUNCILWOMAN TASCO: In the end.

MR. ZIES: The debt service isn't going to change.

MR. MCPHERSON: I didn't say the debt service was going change. I was just saying the cost of the borrowing that has already incurred of the $125 million that you're taking out of the reserves is an expenditure to the Water Fund and is, therefore, paid out of project revenues that is generated within the Water Fund, and project revenue predominately comes from the base rates that the customer pay.

MR. DUBOW: We were already paying it out of the Water Fund.

MR. MCPHERSON: Correct. I think that is the confusion. No one is saying they're doing more, but what you're asking for is that this economic development tool, stimulus funds, the pot of money is being paid for out of the water base rates, the interest and principal on the original borrowing.

MR. ZIES: Just like it is right now.

MR. MCPHERSON: Correct.

COUNCIL PRESIDENT VERNA: Do you know what the legal requirements are as they relate to this type of transaction?

MS. WILKERSON: What we will do is -- I offered before to have bond counsel write a memo outlining both the transaction of what the controls and constraints are on the use of funds.

COUNCIL PRESIDENT VERNA: Councilman Kenney.

COUNCILMAN KENNEY: I'm just curious. The capital repairs that are needed and projected to be dealt with, would they normally be dealt with out of the Water Fund? Isn't that Sinking Fund for capital projects?

MR. ZIES: No, that's a reserve fund, that's not the capital project fund.

COUNCILMAN KENNEY: But our ability to borrow to do capital projects is secured by the Water Fund, correct? That's kind of our credit account to make sure that bonds are paid? So as I understand it, the Sinking Fund is segregated that ensures the bondholders and the lenders that in fact the bonds that are issued will be paid, it's kind of an insurance fund for that?

MR. ZIES: That's correct.

COUNCILMAN KENNEY: So if any entity needed to go out and do capital borrowing, they would borrow and then they would assure the lenders that the money is being repaid?

MR. ZIES: That's correct.

COUNCILMAN KENNEY: So I think where I get confused, and maybe where the public is going to be confused, is that despite the good intention of the economic development fund where it seems to be that we're kind of raiding the Sinking Fund, albeit with a surety bond that we won't default, but raiding the Water Fund to do this economic development while at the same time raising rates 43 percent to cover the capital needs. When it would seem to me that you don't do the economic development fund, you do the capital repairs the normal way you always do it and the ratepayer wouldn't have to get hit with a 43 percent rate increase.

MS. WILKERSON: When the Water Department seriously talk about the rate increase, some of that is to provide the lateral insurance program that came out of Council hearings. So a substantial part of the rate increase is to deal with laterals that have been a longstanding problem in the City that I think everybody was trying to find a solution for. It happens to be reflected in the rate increase that could have simply been a charge. The proceeds that are generated by putting the surety bond are going to still be used for water-related projects, capital water-related projects. So we're not trying to take the money to subsidize --

COUNCILMAN KENNEY: I accept your explanation but, as you can see from one step to the next how someone could deduct that in fact the Water Sinking Fund is being used for economic development and that the rate increase is going to cover what would be covered by the reserves in Water Fund.

MS. WILKERSON: That's inaccurate. We'll try to do a better job explaining that.

COUNCILMAN KENNEY: It seems to be strange timing that, one, this innovative and unprecedented use of Water Revenue Sinking Fund coinciding with a rate increase of that substantial nature. Seems to be a cause and effect. And you can explain that it's not and we'll listen to the explanation, but the timing of it is really tough.

Madam President, I know I'm not on the Committee and I appreciate your indulgence. Are you going to back to the commerce people? Can I ask one question on overtime?

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COUNCIL PRESIDENT VERNA: Yes.

COUNCILMAN KENNEY: It's been reported in the press -- I've seen a number as high as $134 million in overtime for the Police Department primarily, but for other departments also. I've got to assume that the 227 million, that's a pretty big chunk of our problem is overtime. What's the plan to get a handle on overtime in every department?

And wouldn't attacking overtime and fixing that problem really take away lot of the hole that we're facing with the 227.

MS. WILKERSON: When we talked about overtime earlier, the Managing Director identified a number of things that are being done to tackle overtime. The Police Department has initiatives to deal specifically with court overtime. The Commissioner can explain when he gives his department testimony there is now a group that sits with the members of the District Attorney's Office in order to better regulate who it is that's needed to come to court and testify. A lot of the court overtime, we feel, comes because more officers than are required are called to court at the last minute on a daily basis in order to give testimony. So now there's a mechanism in place that reviews every request for police officers going in.

COUNCILMAN KENNEY: Excuse me. Who's responsible for monitoring the overtime on an ongoing basis, like over the last year, two years? Is there someone or a group of people that say, "Wait a minute, we're really going haywire here with this overtime. What do we do to get it in control before we face this fiscal crisis?"

MS. WILKERSON: The Managing Director has put a system in place, recently put a system in place that will tighten the controls to make every Commissioner responsible, directly responsible, for the overtime in their department so that there will be specific guidelines for using overtime. There will be a very specific procedure for who it is that can approve overtime.

COUNCILMAN KENNEY: But that wasn't done up until recently?

MS. WILKERSON: It was not done in a consistent way across government.

Some of the overtime also results from sick leave problems that the City has. The City has a very generous sick leave policy, and one of the things we've seen is that when the sick leave is there and available, all too frequently people use the sick leave. When we've tried to cut back on sick leave in labor negotiations, what we've heard is that people need the sick leave in case something catastrophic happens. And so what you'll see in this Five-Year Plan is a proposal to reduce the number of sick leave days and replace it with a short-term disability policy as a way of getting a handle on the amount of sick leave, because when people are unavailable on an unpredictable basis, we end up having to backfill using overtime. So we expect to have a savings in our overtime cost as a result of our sick leave initiative as well.

COUNCILMAN KENNEY: I'm not going to belabor this any further. And I appreciate everybody's indulgence. But I would think that from a management standpoint over a four-year period, somebody's got to see that number and say, "Wait a minute," rather than waiting so we're sitting here and bludgeoning you over a $227 million deficit. Somebody's got to be responsible for saying -- either the Managing Director or the Budget Office or someone look at these numbers on a monthly basis and project out that we can't continue to afford to spend this money, because of the $227 million, 134 million of it is overtime. I mean, it seems like somebody should have been watching it before now.

MR. DUBOW: We do monitor overtime on a pay-period basis, so every pay period we know overtime by department. We report on it publicly every quarter, so we make it available. We talk to our departments on a regular basis. There are some things that drive the overtime that are harder to get at, like the difficulty in attracting and maintaining prison guards. So you'll see one of the places where overtime is really high is out in prisons. Another big driver Joyce talked about is the court overtime. And obviously, we've been trying for years to get at it. And we know the problem and we've known it's a problem and we've been trying to get --

COUNCILMAN KENNEY: Let me tell you a good overtime story. Over the weekend, the Philadelphia Recreation Department hosted the National Wheelchair Junior Varsity Wheelchair Basketball Tournament, the national title. There are a hundred employees of the City of Philadelphia Department of Recreation who worked Friday, Saturday, and Sunday to host wheelchair basketball teams from San Francisco and Texas and Michigan and all over the country. They worked for free, all 100 of them worked for free. And that's the department that's going to probably take the biggest kick in the pants of all the departments in the City. That group of hundred or so Recreation employees worked that weekend for no overtime. And I want you to just consider that when looking at that department and what's going to happen to it in the next couple weeks.

MR. DUBOW: They actually also are one of the best at managing their overtime, and they break it out by type of event, what caused their overtime, so they're an example --

COUNCILMAN KENNEY: The better department, the more well it's run, the more it gets hurt. Like the gas ratepayers.

Thank you, Madam President. I appreciate your indulgence.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you.

My question, I think, is directed to the Chief of Staff. Many months ago, I pointed out to the Administration that there was a flaw in the accounting in the Police Department. I am very disappointed that after all these months, there's been no communication with me.

And for the record, the Police Department allows police officers to work on their days off. The police officers are paid by the City and then either the contractor, customer, client, whatever word you want to use, either never got billed or refused to pay the bill.

I'm planning to re-introduce the resolution to ask for hearings on this. These are the kinds of things that I think drive Councilmembers up the wall, when you know that there's millions of dollars on the street not getting collected by the City of Philadelphia and we still have a program that's broken. It took me to threaten the Administration with a hearing to even get them to pay attention to me on this issue. So I think it's a disgrace. You know you've got a situation here where there's people that aren't paying their bill to the City for the police service. And from what I understand, you are still providing services to people that haven't paid their bill for years. It's a disgrace. You may have something that you're working on, but all

I keep hearing -- and I talk to people in Police Department, high-ranging people, I ask the inspector of the traffic division has he noticed any change in the way the program at least in traffic division is being administered, and he said not one bit.

So, you know, these are the kinds of things -- you want to cut this, cut that. Why don't you try getting some program or stop the program, why don't you try to get the program fixed before you talk about closing swimming pools and getting rid of police horses and all of these neat things that you want to do, because I take it personal when I come up with an idea that you agreed needs to be fixed and it doesn't get fixed.

MS. WILKERSON: The Managing Director is coming back over. When he was here earlier, he did talk about this very issue. And rather than trying to paraphrase what he said, he should be here momentarily and he can respond directly to you.

COUNCILMAN RIZZO: Well, I apologize not knowing that he spoke on this. But from what I see, no one in the operating end of the government sees beyond the person that I mentioned tell me that they have seen any improvement at all in this program after months and months and months and months and months.

MS. WILKERSON: I'd like to have Mr. Goldsmith, he's on his way back over. He will be able to address you directly.

COUNCILMAN RIZZO: Thank you.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: I just wanted to follow-up on Councilman's request of information on this police overtime.

Do you have any idea of what the percentage is for the police that have to go into the Justice Center, for instance, on a day off and whatnot, versus the percentage of policemen who are on Operation Safe Streets?

MR. DUBOW: The court overtime is roughly $20 million a year, and total police overtime for this year, I think, is in the mid-50s. So court overtime is almost 40 percent of the overtime.

COUNCILMAN KELLY: It's about 40 percent, in other words?

MR. DUBOW: Yes, about. A little less, but close to 40 percent.

COUNCILMAN KELLY: Have you been working with the President Judge of Common Pleas or Municipal Court in developing some strategy or some changes as far as -- at least it will help us cut down on this police overtime.

MS. WILKERSON: The DA and Police Department have a project they're working on. The Administration also has a criminal justice coordinating committee that meets on a monthly basis. The overtime is simply one component of a huge problem involving the criminal justice system.

Another big driver in our budget is prison population. It is something that the City doesn't control. We don't control the front end. The courts control the front end. The courts control the back end of that. So we have a criminal justice coordinating committee that has the courts, the police department, prisons, the DA, the PD that meet monthly. We're working on developing a strategic plan to deal more effectively with the whole recidivism issue. So we have a group that meets regularly and it is dealing with not just overtime but all the other places along that continuum where you tend to lose a lot of money.

COUNCILMAN KELLY: Isn't this a continuing problem as far as -- you know, this goes on for many, many years, as far as I know. This same problem comes up every year, and it seems to me there doesn't seem to be an answer as to how we're going to cut down on this overtime, whether it be prison guards or whether it be police officers or whatever, but it's driving up the cost of running this City tremendously.

MS. WILKERSON: We're making some progress on the court-related overtime. We've projected actually saving $2 million in this Five-Year Plan. We think we can probably do better than that. But the whole criminal justice system is one that is problematic. And it's hard because we don't control a lot of the components, and they all have an impact on each other. But when the Prison Commissioner comes here, he has strategies he's working on. We're taking a look at using electronic monitors in a different way. We're trying to put systems in so we have a better day-to-day understanding of who's in prison, making sure that we don't have traffic scofflaws in prison, making sure that the people who are in prison are people who actually need to be there and not other people. We have a lot of people who are in our prison simply because they can't even make modest bail, and so we're trying to figure out strategies of perhaps addressing the bail situation. In some cases, it would be cheaper for us to pay the bail than to pay the cost of keeping somebody for months at a time. So we're trying to be creative about the approach, but this is one area where we've got to do a better job. We can't continue to see those escalating costs.

We have almost 46 million just on hospital costs for prisoners. And one of the initiatives you see in this Five-Year Plan is trying to get Medicaid reimbursement for some of the those people.

So we're trying to leave no stone unturned. We understand that this is a problem.

COUNCILMAN KELLY: Well, in the prisons, there's been some outsourcing of services, I believe, over the last few years.

MS. WILKERSON: The healthcare is outsourced. We have prisoners that we house in Delaware County. We're taking a look at doing a much better job using electronic monitors. That's a cheaper alternative for us. And then ultimately the answer is going to be trying to break the recidivism cycle. A lot of people who are released end up back in there. There's no kind of discharge plan. Discharge planning hasn't happened in an effective way, and so we're trying to put together systems that work much better to try to assure that people don't continually cycle in and out.

COUNCILMAN KELLY: I have one other question that goes back to what Councilwoman Tasco referred to. It has to do with the recreation centers. In the plan, there seems to be some effort to close some facilities. Do you know if these facilities -- I'm sure underutilized and whatnot, but do they have any personnel assigned to these facilities?

MS. WILKERSON: Some of the facilities have personnel assign to them. Some are year-round employees, some are seasonal employees. As we go around and talk with the District Councilpeople, we're sharing the information on how they're staffed, what kind of programming there is. Our commitment is to preserve the programming, and we're talking with various community organizations that might in some cases step in.

COUNCILMAN KELLY: What type of savings are you looking for?

MS. WILKERSON: Out of the Recreation Department overall the closings is a $4 million savings.

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COUNCILMAN KELLY: Thank you.

MS. WILKERSON: It also has a huge impact on the Capital Budget. The City spends a lot of money not doing a very good job maintaining a lot of these facilities so we're taking a look at that.

I think we have the commerce people here.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Ms. Wilkerson, my first question is for you and then for the economic development officials as well.

I believe you made a statement not too long ago, the City has lacked an economic development strategy for decades.

MS. WILKERSON: That's right. I think the City has lacked a clear, integrated economic development strategy.

COUNCILMAN GOODE: Are you familiar with the City's economic development strategy over the last few decades?

MS. WILKERSON: No, I haven't done a review over decades.

COUNCILMAN GOODE: Are you aware that between 1984 and 1986 the unemployment rate in Philadelphia dropped from 9.3 percent to 6.2 percent?

MS. WILKERSON: No.

COUNCILMAN GOODE: Well, would you attribute that to national economy, or do you think there also had to be a sound economic development strategy?

MS. WILKERSON: I think it's probably both.

COUNCILMAN GOODE: To Mr. Longstreth and Ms. Naidoff, the same question. If between 1984 and 1986 there was a drop in the unemployment rate from 9.3 percent to 6.2 percent, why didn't we experience the same type of drop in unemployment in the mid- to late-'90s when we had a great economy, if not the greatest economy in the history of the United States, and an economic stimulus program?

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MS. NAIDOFF: I can't answer that, Councilman.

COUNCILMAN GOODE: Can you answer the question whether if we invested a half billion dollars whether we can get the unemployment rate to 6.2 percent?

MS. NAIDOFF: I don't know the answer to that, but I do know that the plan that we're talking about has many parts. The economic development investment fund is just one part of it. We're also looking at a very strong and aggressive business attraction and retention effort. We're partnering with the Philadelphia Chamber of Commerce and their Select Philadelphia Campaign to do that. We have plans for an economic development summit where we're hoping to get broad participation from within the community to give us ideas about the strategies to make a growth occur.

COUNCILMAN GOODE: Is there a specific target in terms of lowering the unemployment rate?

MS. NAIDOFF: No, there is not.

COUNCILMAN GOODE: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam Chair.

My question is on pensions. Maybe Joyce Wilkerson can help me understand this.

As your Five-Year Plan points out, the City has been paying the minimal municipal obligation required by state law. Is this the budgeted amount going forward also, the minimum?

MS. WILKERSON: Yes.

MR. DUBOW: Yes. The amount that's in the plan for each year is the minimum municipal obligation.

COUNCILMAN RAMOS: I once paid the minimum on my credit card for a long time, and I realized that I was not paying it down. And for some reason that I didn't understand back then, I think I understand it a little better today after going to that experience, that I owed a whole lot more than where I had started a couple years before then.

If your answer is yes, how much longer can we do this without causing a crisis, especially baby boomers that are in government getting ready to retire? If we're only paying the minimum, you might not be able to pick up your obligations to retirees.

MR. DUBOW: It won't cause a crisis, but it means that it will take us longer to amortize the portion of our pension obligation that's unfunded. So we pay that off over a number of years, and that will just be out there longer.

If we kept to our old funding policy, we would have paid that down earlier, but we'd also be paying $250 million over the life of this plan than what we have in there now. So that would have a really devastating impact on us.

COUNCILMAN RAMOS: You're an expert in this field; I'm not. You're saying that there's no potential of a crisis if we only paid the minimum obligation, per state law?

MR. DUBOW: Right. I think if we paid less than the minimal obligation or we skipped a year in making a payment, that's something that could lead to crisis. I think this just makes the problem stay around longer than it would have.

COUNCILMAN RAMOS: How long have we been doing this.

MR. DUBOW: We switched to the minimum obligation in last year's budget.

COUNCILMAN RAMOS: So you feel comfortable -- the Administration feels comfortable that this -- and why did you go minimum last year?

I was not here, so please bear with me.

MR. DUBOW: We went to minimum because if we hadn't, our pension contribution would have been about $250 million higher over the life of our plan.

COUNCILMAN RAMOS: Okay. I'll bring that up at another time. I'll pursue this at another time.

Can you describe how the plan change

to the pension system will affect the fund balance?

MR. DUBOW: The change going to minimum obligation?

COUNCILMAN RAMOS: Yes.

MR. DUBOW: Either way, we would have had to have a plan balanced. But if we had not gone to the MMO, we would have had to have found $250 million more of either expenditure cuts or revenue increases so it would have made it a much uglier plan.

I'll put it a different way. When we started doing the plan this year, we faced a $670 million problem. If we had not gone to minimum obligation, that problem would have over $900 million.

COUNCILMAN RAMOS: Just because of that answer you gave me, I would suspect that you will at some point and it is a potential for a crisis at some point. You went to minimum because you couldn't afford to pay more.

MR. DUBOW: That's right. What it does essentially means that instead of being done paying off our liability in 2019, we're done paying in some year further out. So it means that there will be people in 2023 who wouldn't have been paying who now will.

COUNCILMAN RAMOS: I will address this again. Because of the experience I went through, it didn't seem like until I went away from minimum that I then was able that catch up. And although it might not have been a crisis for me, that is the only experience that I've had that came up as I read that part of your plan. So I still have some very serious concerns about this.

MR. DUBOW: I understand what you're saying, and there is a definite trade-off. We can show numbers.

COUNCILMAN RAMOS: Can you please do that?

MR. DUBOW: Yes.

COUNCILMAN RAMOS: Thank you.

MS. WILKERSON: There were questions for the Managing Director with respect to the police.

COUNCIL PRESIDENT VERNA: Yes.

Councilman Rizzo.

COUNCILMAN RIZZO: Good afternoon, Mr. Goldsmith.

MR. GOLDSMITH: Councilman, how are you?

COUNCILMAN RIZZO: Good.

I asked a question and also expressed some disappointment that a commitment that was made to me to fix a broken problem, a broken process in the Police Department as far as the Police Department or commanders in the Department that I've talked to indicate that they see no improvement in the process than what they did before I brought to the attention of the Administration the fact that police officers are working overtime on their days off, the officer being paid, and the City not being reimbursed or the client never getting a bill. And there's several million dollars on the street that haven't been collected.

Could you please bring us up to speed on exactly what is going on? Because I had to threaten a resolution, and I have no better word, because nobody was paying attention at all until a resolution was going to be presented to ask for a public hearing. And in trying to be at least somewhat agreeable or trying to at least work with the Police Department and Finance and others, I agreed to back off. I think that the attention to the issue was to avoid a public hearing, and I don't really see much occurring because I had real casual hallway conversation with the Finance Director and the Finance Director basically -- and I'm paraphrasing, "We're doing the best we can do."

Well, that isn't good when we're talking about a couple million bucks here and there, maybe more, on the street or a process that's continuing to run problematically. Because if we're still allowing people that owe us money to get the police service and they're still not paying that bill, I can understand why we're in the financial condition. That's only one thing we can see. So if there's other problems like this throughout the government and it's not being addressed, shame on all of us.

MR. GOLDSMITH: Thank you, Councilman. Thank you for raising this attention as you did last November or last December. You and I have had several conversations about this. I was disappointed to hear that you said that I have not told you what we were doing, because I have here a memo, dated March 15, 2004, from my assistant Fran Burns to you and your chief of staff which put together -- because you told me you had not received anything, and I immediately went back to my office and said, "Please make sure Councilman Rizzo gets everything that we have." And she sent over to you, and I have all the information here, dated March 15th a memo from me to the Police Commissioner outlining the monthly reporting requirements that we've insisted it, Directive 62 of the Philadelphia Police Department regarding procedures and policies for police reimbursement overtime program, the aging report as of January 31, 2004, for police reimbursable overtime program, and an internal memo from myself to the Police Commissioner dated December 29th illustrating the steps taken to implement necessary controls in the police reimbursable overtime program.

So if this was not delivered in your hands, for that, I apologize. But certainly, we did everything we did to let you know what we were doing because, one, you have a right to know; and secondly, I think you were very much responsible for us getting off our backsides to do what we should be doing.

Since then, I think even more has occurred that the Police Finance Unit is now handling the collections rather than the captains. We've increased the administrative fee from 4 percent to 10 percent. The vehicle costs are now being capture. So I disagree that nothing has happened, it's same old system. Although I will readily acknowledge it's probably still not as good it can be. But we have made, through your prodding, significant improvements to the system and we have done our best to keep you abreast of these changes and we will continue to do so.

I think the last thing that has to be done is for the Revenue Department to take over the collections. We're hoping for that to take place in May 2004. I cannot right now -- and I will get you what the outstandings are on the street. I do not believe there are $2 million. I'd be surprised if it were that amount, but I will find out what they are. And it would be a violation of our policies if we are still providing services to people that owe us money. Our new directive states very emphatically that there can be no exceptions without the explicit approval of the Managing Director and the Police Commissioner.

So, again, thanks to you, I think this Administration has started to rachet down a program that I don't think was being properly maintained. And I'd be glad to make copies of what we have sent you, but I'm not sure whether I have more copies in our office because I ran over quickly and I wanted to set the record straight.

COUNCILMAN RIZZO: Thank you.

Why wouldn't the high-ranking member

of the Police Department that's heavily involved in this program have seen any significant change?

MR. GOLDSMITH: I don't know. But I think we all know that the Police Department has different view points and so forth. But I don't know. But it's also relatively new. Two or three months is not particularly old. But I will check with the Police Commissioner, but there should be changes.

COUNCILMAN RIZZO: So this is a memo that was dated March 15th or a packet of information?

MR. GOLDSMITH: This is a package delivered March 15th from my assistant to you, a copy to Stuart Graham who on here is listed as your chief of staff with a bunch internal memos as well as the aging report, the January aging report. I've not yet seen the February report.

COUNCILMAN RIZZO: So the commitment that the Finance Department would take over this as a revenue collection like we collect other revenue is still not completed?

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MR. GOLDSMITH: No. As I indicated earlier this morning, I think there's some software programs that have to be done or something like that. I think the target date for that is May.

COUNCILMAN RIZZO: Good. I'll look for that communication.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Mr. Goldsmith, before you had arrived, I had asked this kind of general overtime question of Ms. Wilkerson and Mr. Dubow. I'm sure that there are people, including yourself, in the government that monitor the monthly numbers regarding overtime. And then when I look at the $227 million hole that we're looking at this year and if I take the press accounts numbers as accurate -- I don't know if they are or not -- they indicate about $134 million of an overtime problem overall, not just the Police Department, but overall, a pretty big chunk of that 227. Last year or the year before, was someone saying to the Mayor or to someone else, "By the way, this overtime thing is getting a little much. What do we? Do we start cutting back on some of this overtime now?"

I understand that, according to Ms. Wilkerson, you put in place recently some process to control it, a committee to look at and sign off on, commissioners need to justify, all those kind of things. And she also mentioned issues relative to, in her opinion, generous sick time issues that cause understaffing problems that wound then require overtime. But at some point in time during the course of all last year or the year before, was somebody saying, "With these monthly numbers, we're going to choke if we don't start cutting back now." And why wasn't it cut back when it was apparent that it was going to be a problem?

MR. GOLDSMITH: Well, I can't speak to the year before last because I came about a year ago. But I think overtime has been an issue that the City has looked at for a while.

It's a tough bear for us to get our arms around, but we have to do it. The number I work off is $117 million of overtime -- is that the number we're using?

MR. DUBOW: 134 was the FY '03 number. Our estimate for this year is 117.

MR. GOLDSMITH: So if that's case, we have --

COUNCILMAN KENNEY: But that is a significant portion of the 227.

MR. GOLDSMITH: It's a significant portion. But when you analyze the overtime, as I think we've started to do, and you look at it by different departments, the overtime is probably comprised of -- probably 80 percent of it is probably three departments. And then you have issues that we can't really -- and some of that is stuff we have to reduce. And others are issues -- for example last year we had terrible snow. And we probably had 3, $4 million of overtime in snow. Fortunately, we got some recovery because there was a disaster called for. So there's some overtime issues you can't do without, and I think we all understand that.

COUNCILMAN KENNEY: But were there discussions, though?

I guess the cabinet meets every week?

MR. GOLDSMITH: We've had discussions. In fact, the Mayor likes to tell a story he was having some work done I think by Public Property in his office and his secretary said they would be here on a Saturday, and he said okay. Then he thought about, he says, "Well, why are they coming in on a Saturday? That's going to cost us overtime." And he had them come in on Wednesday and he went and worked in another room. I think there's an enormous amount of sensitivity in this Administration about overtime.

COUNCILMAN KENNEY: Thank God. If there wasn't, I don't know what the number would be.

MR. GOLDSMITH: There's a great deal of sensitivity, but there's also some of it that, you know, court overtime is one which is perplexing because it requires the cooperation of three different agencies; it's police, DA and the court system. Unfortunately, you see it all tabulated in Police Department, but a lot of that is driven by the DA's Office and court system. And that's not to affix blame on them; it's just saying that the more agencies you have, sometimes the more difficult it is.

COUNCILMAN KENNEY: I guess the sad part is that if you look at what we're being asked to accept in the way of cuts to arts and culture, to the Recreation Department, to things that people really truly enjoy, just a little bit of tightening in the last year on the overtime, not substantial tightening, just a little bit of tightening would have been able to keep those things in place that people are going to be upset about and that a lot of Councilmembers think may be short-sighted as a result of not helping the Art Museum which raises again, as Councilman Kelly said, more visitors and more revenue than all the sports teams combined. But we'll bend over backwards for the Phillies and Eagles, which they're wonderful people, but just a little bit of belt tightening in overtime would have saved the $4 million in cuts that are really going to be painful. Hindsight is 20/20, but somebody had to see that in the last year. And I'm sure someone mentioned it; we just didn't do anything about it.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of the Managing Director?

Councilman Ramos.

COUNCILMAN RAMOS: Just a quick follow-up question. Thank you, Madam Chair.

How much of this overtime money went into the Safe Street Program?

MR. GOLDSMITH: I don't know off the top of my head. Approximately 35 million in '03.

MR. DUBOW: As far as overtime goes, 46 percent of it is for Police Department and then another 17 is prisons.

COUNCILMAN RAMOS: And of the 46

percent, what percentage was for Safe Streets?

MR. DUBOW: Probably about half of that is probably Safe Streets.

COUNCILMAN RAMOS: What number did you give me, Phil?

MR. GOLDSMITH: I thought I said 35 million.

MR. DUBOW: That was last year. This year it's probably in the high 20s, so it's probably about half of -- their total number in '04 is 54 million, so about 20 of that is court, probably 27 or so is Safe Streets, and then the rest is things like special events and emergencies that come up.

COUNCILMAN RAMOS: Thank you.

COUNCIL PRESIDENT VERNA: Any other questions of the Managing Director?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you, sir.

MR. GOLDSMITH: Thank you.

COUNCIL PRESIDENT VERNA: At this time, the Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: I have

questions for the Commerce Department.

Ms. Wilkerson, maybe I didn't hear you correctly, did you tell me that $125 million is for infrastructure and it would be controlled by PIDC, or you didn't know who it would but they would tell me what it was going to be used for?

MS. WILKERSON: What I said was the fund was infrastructure and capital costs, that there is no program in place yet that budgets out all those dollars nor is there in place a funding mechanism for committing dollars to specific projects.

In terms of eligible activities, I've committed to ask bond counsel to generate a memo for Council that talks about where the funds come from, what the constraints are on the use of funds.

COUNCILWOMAN TASCO: Ms. Naidoff, in terms of the economic summit, will you be the initiator of that?

MS. NAIDOFF: I've been asked to coordinate that, yes.

COUNCILWOMAN TASCO: So when do you

envision that is happening?

MS. NAIDOFF: The Mayor has asked me to try to do that before the end of June.

COUNCILWOMAN TASCO: And the purpose of it is to?

MS. NAIDOFF: To try to develop economic strategies that will guide the City in the growth agenda that he's laid out.

COUNCILWOMAN TASCO: Is that just for the entire City or a limited area of the City?

MS. NAIDOFF: No, it's intended to be for the whole City.

COUNCILWOMAN TASCO: How does the $500 million play into that?

MS. NAIDOFF: I think a part of the summit will be that we'll be trying to gather data from people who have been in the economic development arena as to how they believe the best investments can occur as we go forward. The Mayor has laid out the River City strategy, but we have some way to go before we have the whole 500 million in hand, and I think there's time to do some good, creative, thoughtful planning about that; and that's what we intend to start with, the summit process.

COUNCILWOMAN TASCO: So who do you envision to be a part of the discussion?

MS. NAIDOFF: Our goal is to have the broadest possible spectrum of perspectives there, and one of things that we're going to do is put together a Planning Commission that will help to identify all of the stakeholders who ought to be represented.

COUNCILWOMAN TASCO: And how large will the Planning Committee be? And who do you envision being on the Planning Committee?

MS. NAIDOFF: I think it will probably be about a dozen members. And I'm talking to the Mayor and to Ms. Wilkerson right now about how we will constitute that.

COUNCILWOMAN TASCO: Aside from the economic stimulus -- and I guess we'll get into this when you come before us with your department's testimony. We would like to talk to you about neighborhood economic development. Is that going to be -- you said

City-wide, but what is your focus on neighborhood economic development?

MS. NAIDOFF: You mean for the summit?

COUNCILWOMAN TASCO: For you in terms of new Commerce Director, what do you see in the future for neighborhood economic development?

MS. NAIDOFF: Neighborhood economic development has obviously been a strong part of what the Department has been doing for a long while, what the whole City has been doing, and we will build on that. But I think one of the things we're trying to do now is to develop some overarching strategies.

One of the things that I think we're all concerned about is whether all of the pieces that we've put in place fit together neatly, whether there's a rational array of projects and investments that we're making. And one of the objectives is to bring all of the people together who have been working on this and get their ideas about whether it's been knit together properly and what kinds of things we need to do to leverage the money that's been invested so that as we go forward, we take maximum advantage of that.

COUNCILWOMAN TASCO: Do you envision including the District Councilmembers in your discussion?

MS. NAIDOFF: Absolutely.

COUNCILWOMAN TASCO: Will they be part of any of the committees?

MS. NAIDOFF: I think what we were talking about is the Planning Committee would be a small group of people who have a good idea of who in the community at-large represents the various constituencies. But as far as the summit itself, we envision probably a series of meetings leading up to the summit meeting that would be organized both on an economic cluster basis and a geographic basis so that we'd be getting input from Councilpeople on both sides, both in terms of specific interests you may have in an economic cluster but, of course, in your geographic areas.

COUNCILWOMAN TASCO: Well, the plan

calls for $500 million for the stimulus. What happens if, as we go through this discussion, you come out with a higher -- the budget would be a higher figure.

MS. NAIDOFF: I think that, as in any exercise like this, there's always a wish list of things that people would like to do. What we hope will come out of it is --

COUNCILWOMAN TASCO: Is how to spend the $500 million?

MS. NAIDOFF: Could be trillions of dollars, but I think that the goal is to try to develop a list of priorities. And as I said before, the objective is to see what we can leverage about what has been done and make sure that as we go forward we have a set of priorities so that we can measure specific projects against a set of stated objectives that we all have agreed on.

COUNCILWOMAN TASCO: So we pass this budget and the Five-Year Plan, we still won't have an idea of where the $500 million will be coming from and what it will be used for? We won't have a plan by the time the budget is passed?

MS. NAIDOFF: At the time the budget is passed, no. We will have the plan, hopefully, by sometime next fall.

COUNCILWOMAN TASCO: Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Do we have any other questions of the Commerce Director?

COUNCILWOMAN TASCO: I have one other question for you, Joyce.

In the Philadelphia Forward letter I received, they raised the issue that when they put forth their tax reform plan, some of the recommendations they made were to fund the cuts that they also recommended, but it seems that the Mayor has taken some of the funding pieces from the Tax Reform Commission to use in this year's budget. Does that mean that there is no commitment to the tax reform package, as presented?

MS. WILKERSON: The Administration, as you can tell from our Five-Year Plan, did not adopt the entire Tax Reform Commission proposal. We were confronted with a proposal that I think would have cost about $330 million over the course of the Five-Year Plan. That would have been superimposed on a $600 million challenge in the Five-Year Plan. We're unable to do both at the same time. And so we have used revenue-generating initiatives, some identified in the Tax Reform Commission, to help close the gap on this budget. We have tried to use things like the increase in the parking tax and the benefit that you get from the change in the date for the wage tax to really reach in order to accomplish the single factor apportionment. So you're right, we did pick some aspects of the Reform Commission report and adopt them. Others, we rejected. And we have used some of the revenue-generating initiatives simply to keep the City afloat.

COUNCILWOMAN TASCO: Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of the witnesses at the table?

MS. WILKERSON: From time to time there have been questions about the naval yard. I keep bringing Mr. Longstreth over.

COUNCIL PRESIDENT VERNA: In the meantime, I know Ms. Kahn had her coat and she was ready to leave and I think we stopped her. Debra Kahn, do you mind coming to the witness table. I know you were ready to leave. I believe you were supposed to -- you had agreed to provide us with some information before the end of the day regarding the scholarships.

MS. KAHN: Yes. I contacted the School District, and of their $6 million commitment, they are budgeting $3 million of that as federal funds.

COUNCIL PRESIDENT VERNA: So 3 million will be from the federal government and the other 3 million will be from the School District?

MS. KAHN: They are looking at a variety of fund-raising initiatives. And again, if we needed to get more information on that, I'm sure that they would provide it to make up the balance, as needed.

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COUNCIL PRESIDENT VERNA: When will a determination be made on this?

MS. KAHN: They're in the midst of doing their budget right now, so I think that certainly we could either get that information before that or when they come in for their own budget hearing. They have made the commitment, and I anticipate that they expect to honor the commitment.

COUNCIL PRESIDENT VERNA: And the City has committed 4 million?

MS. KAHN: That's what's in our plan, correct.

COUNCIL PRESIDENT VERNA: Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam President, just a follow-up.

So is it safe to say of the 3 million that is left of the 6 million the School District has pledged that the School District may not necessarily be coming out of their budget but they're committed to 3 million in some way, shape, or form.

MS. KAHN: That's right. And I

think that their first preference might be for certain -- they raise funds, for example, for a variety of purposes. And so I think that they would be looking to generate some contributions for this purpose or, again, if necessary, they could look at their regular operating budget.

COUNCILMAN DICICCO: I guess playing devil's advocate, let's assume they fall short of the 3 million, they meaning the District. Is it in their budget, are they prepared to make up the balance? I mean, that's kind of like, you know, you're flying with the idea and somebody's going to have to have that and --

MS. KAHN: Our assumption is, and they have never given me any reason to indicate otherwise, that if the need is there that they will honor their commitment.

COUNCILMAN DICICCO: And the 4 million from the City is from the General Fund?

MS. KAHN: Correct.

COUNCILMAN DICICCO: Thank you.

COUNCIL PRESIDENT VERNA: I think it was made eminently clear this morning how Councilmembers feel about this issue. And I would strongly, strongly urge that you hear the concerns that have been expressed. And I think before the next public hearings I think we need to know exactly where we are in this issue.

MS. KAHN: I appreciate that, President Verna. In the first instance, let me say we really appreciate all the support that the Councilmembers have given right out of the box to the program to begin with, as evidenced by, I think, the letter that Councilwoman Reynolds Brown had referenced.

COUNCIL PRESIDENT VERNA: We were led to believe at that time that all schools would be included.

MS. KAHN: Secondly, I will say that Councilman Ramos, as he indicated earlier, and Congressman Fattah and Archdiocese and I continue to discuss various options.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam President.

The Police Department will be here on --

COUNCIL PRESIDENT VERNA: Just a minute, Councilman. Do you have any questions of Ms. Kahn?

COUNCILMAN RIZZO: No.

COUNCIL PRESIDENT VERNA: Councilman Kenney, do you?

I think Ms. Kahn had her coat on. I had her come back.

Do you have a question of Ms. Kahn?

COUNCILMAN KENNEY: I have a comment I'd like to make because I was not here this morning. I apologize for that. As one the people who raised this issue initially with Core, I want to make it clear what my individual Councilman position is. The money that's being used for this very worthwhile program, extremely worthwhile important program that should happen is money that comes from the taxpayers, and all the parents of all the children in this City, both public and non-public schools, have paid taxes, to go to Washington or go to Harrisburg or go to School District, whatever the money's coming from, and that's the bulk of the money, that's the base of the money that's being used; to ask the Archdiocese to kick into a program that their own constituents, their own parishioners, their own families have already kicked into is wrong. The Archdiocese is in the process of merging and closing schools and doing their best to hold on with fund-raising, with really hard decisions to make. You can't -- and if you look at it from this perspective, you can't punish people for staying in the City. You can't say to those non-public school families, "You stayed here, you didn't run up to Jersey" -- I won't use Washington Township like Councilman DiCicco always uses.

COUNCILMAN DICICCO: I referred to South Jersey.

COUNCILMAN KENNEY: They've gone to Jersey, they've gone to counties, they've gone out of state. The people who are representative of the parochial schools and the non-public, non-parochial schools are loyal to the City. To turn around and tell them now that their kids are not eligible for this publicly funded program because they stayed in the City is a smack in the face, a hard one. And people are really very upset about it because there seems to be this myth that somehow parochial school parents are wealthy. And I can take you to North Catholic and to Bishop Newman and to Cardinal Dougherty and to Ryan and to other places, these people are struggling, hard-working people whose one thing in common besides the love of their kids is they were loyal to the City, they did not leave. And to have a program that is, I'll tell you again, extremely worthwhile, worth doing, important program, and to tell their thousand kids, 9-something I believe the number is, that you're not eligible because you didn't go to a public school, we just can't abide it. We just can't do it. It's not fair.

So I compliment Councilman Ramos for

his work with the Administration and the Archdiocese.

As you know from the morning, a number of people in here who are extremely concerned and interested in this. And I, for one, cannot stand by and allow this kind of insult to these families to occur. I don't think you're meaning to be insulting. I know that Congressman Fattah is not meaning to be insulting or Paul Vallas or the Mayor or anybody else. But see it from their perspective, it's one of those things that just makes you angry. And I think that we need to resolve it.

I wish Councilman Ramos well with his discussion with you and the Archdiocese, but I want to reiterate, I don't think it's fair to ask the Archdiocese to contribute anything because their people thought their taxes have contributed already.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

MS. KAHN: Thank you.

COUNCIL PRESIDENT VERNA: Thank you

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very much.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Ms. Wilkerson, tell me what the move to the single sales factor apportionment will accomplish economically.

MS. WILKERSON: What we hope to accomplish is what was identified in the Tax Reform Commission, the elimination of a disincentive to locate businesses in the City. Before, under the current system, the taxes imposed on personnel and also sales and property so if you're located in Philadelphia you pay an extra penalty.

COUNCILMAN GOODE: That recommendation was part of a broader package and part of other business privilege tax cuts, so what do you expect will be accomplished from just doing the single sales factor apportionment without the other business privilege tax cuts?

MS. WILKERSON: Well, that's not the only one we're doing. The City already had in place reduction in the gross receipts portion of the business tax. We also -- those are the two specific business tax changes. And also trying to --

COUNCILMAN GOODE: I could ask the question in the context of if we continue the gradual reductions in the wage tax and business privilege tax and move to the single sales factor apportionment what will be accomplished, because clearly it's not going to accomplish the same thing that was envisioned by the Tax Reform Commission. It's going to accomplish something different because that was a more comprehensive package.

MR. DUBOW: You're absolutely correct. They had a more comprehensive package. I think what we're doing makes us more competitive and allows us to do that within the context of balancing this plan.

COUNCILMAN GOODE: You're removing a disincentive, which is admirable and there are other disincentives need to be removed, but removing one disincentive if it requires the removal of several others to complement the removal of that disincentive, do you know that removing just this one disincentive accomplishes anything at all economically?

MR. DUBOW: Yes. We've been consistently told that removing this disincentive helps businesses that want to locate in Philadelphia but may do a portion of their business outside of Philadelphia, that it will reduce costs for businesses. It won't reduce costs for every business, and there are other things that the Tax Reform Commission recommended that would have helped other businesses that we couldn't afford in this plan.

COUNCILMAN GOODE: Do you use the same mechanism to pay for it, the parking tax?

MR. DUBOW: Yes. That was one of the decision points we made, yes.

COUNCILMAN GOODE: So the use of the parking tax wouldn't have bought you a certain amount of other tax relief in terms of business taxes?

MR. DUBOW: Yes. Business, wage -- yes, part of the overall tax reduction that's included in the plan.

COUNCILMAN GOODE: So this is not just a matter of affordability, this is a matter of strategy in terms of what it's actually going to accomplish economically. So what is this move going to accomplish economically aside from removing a disincentive?

MR. DUBOW: That's the point of it, it's to remove that disincentive so that the City is a more attractive place for those businesses.

COUNCILMAN GOODE: In other words, if you have a City that has a poor school system and high crime and you deal with the crime but don't deal with the school system, you deal with one disincentive but you don't deal with the other, a business still might not locate. I'm saying, do you know that this move is actually going to accomplish anything?

I know that the Tax Reform Commission has even certain job creation projections based upon the comprehensive package.

Have you, as I asked in terms of other initiatives, whether it's NTI, whether it's Economic Development Investment Fund or just in terms of this tax reform proposal, do you have any projections in terms of the creation of businesses or permanent jobs based upon making this move?

MR. DUBOW: We don't have specific projections on jobs or business creations. We have had conversations with a number of people who said this would help make us more attractive.

COUNCILMAN GOODE: Like knocking down blight but not necessarily knowing when a developer is going to come?

MR. DUBOW: Obviously, every decision we make is a trade-off. This is something we were told was a primary impediment to business.

COUNCILMAN GOODE: More so than the gross receipts portion of the business privilege tax?

MR. DUBOW: We're also reducing the gross receipt portion of the --

COUNCILMAN GOODE: But you couldn't have brought more reduction in the gross receipts tax with the parking tax?

MR. DUBOW: That's correct. We could have used this money in some other way.

COUNCILMAN GOODE: But do you know that moving to the single sales factor apportionment and paying for it through the parking tax is a better move in terms of business and job creation than buying more gross receipts reduction with the parking tax?

MR. DUBOW: We're not sure. One of the conversations that we've had with the Tax Reform Commission as we developed the plan was to say, "This is how much we're investing in tax reform. If you think that there's really a better way that we could have done that, let us know."

COUNCILMAN GOODE: I understand the affordability issues and I understand use of the parking tax was the Tax Reform Commission's recommendations. You obviously are not adopting their comprehensive package. The affordability issue is dealt with through the parking tax. The issue is in not adopting their comprehensive package, have you actually determined what the best move in terms of what to do in terms of business privileges taxes is what you'll be able to buy through the parking tax? And is that measurement a measurement that is based upon business and job creation?

MR. DUBOW: We based this decision on talking to both people who had been on the Tax Reform Commission, people who were working on the Philadelphia Review Forum who all said if there was a single thing you could do with business tax, this is the best thing.

COUNCILMAN GOODE: They said a single sales apportionment over a gross receipts reduction?

MR. DUBOW: That is what people told us.

COUNCILMAN GOODE: I'll take your word for it. Thank you.

MS. WILKERSON: It's interesting. Last year --

MR. DUBOW: Can I just say one thing. I think to be more complete in the answer, I think they said that in the context of knowing that we were already reducing gross receipts portion.

COUNCILMAN GOODE: I'm taking your word for it because I know you deal with budget matters and fiscal matters, not necessarily economic matters in a broader sense. And my guess is the context has changed in terms of discussions. So I'm not sure what context you really actually had that discussion in and whether the question was posed to them, "If we're buying a certain amount of business tax relief through the parking tax, where should we direct it?" Because the people you're having conversation with, my guess is they were first focused on comprehensive tax relief in terms of Tax Reform Commission's proposals and then you probably didn't give them a choice, you probably made a choice for them.

MR. DUBOW: Let me say again that the last conversation I had with the Tax Reform Commission was, "this is the decision that we've made, If you think there is a better way that we use the amount of money that we've allocated for tax reform, is there a better way we could have done it?"

They haven't gotten back to us, but we have got posed that question basically for the reasons you're raising.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo

COUNCILMAN RIZZO: Thank you, Madam Chair.

Ms. Wilkerson, I know, the Police Department and the Commissioner will be here on the 19th, I believe, of April. But I want to set the stage for that visit. It's more about policy that the Administration's going to have to make. You know I have also another interest, and it's in the Mayor's Five-Year Plan about the $5 million for the State Police patrols. What I would like to know is, is the Administration prepared in the event that State does not cooperation and reimburse us or provide State Police to patrol those roadways, are we prepared to pull the police from the expressway and allow the responsibility to become the State's?

MS. WILKERSON: I'll leave that for the Police Commissioner to respond to.

COUNCILMAN RIZZO: This is policy. I'm talking about will the Mayor direct the Police Commissioner to pull the police, the 60 officers, from the roadways. I'm asking about the Administration directing the Commissioner.

MS. WILKERSON: I'll have to get back to you on that.

COUNCILMAN RIZZO: No comment?

MS. WILKERSON: I just don't have the answer right now.

COUNCILMAN RIZZO: You will get back to us?

MS. WILKERSON: Yes.

COUNCILMAN RIZZO: That's why I want to ask it now because I don't want the Commissioner to say he'll get back to me on the 19th. Thanks.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

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Are any other questions of these witnesses?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, the Committee will stand in recess until Wednesday, April 7th, at 9:30. Thank you very much.

(Council adjourned at 3:50 p.m.)

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

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Wednesday, March 31, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE OF FISCAL STABILITY AND INTERGOVERNMENTAL COOPERATION

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Lisa C. Bradley, RPR