COUNCIL OF THE CITY OF PHILADELPHIA

CONTINUED PUBLIC HEARING

COMMITTEE ON FISCAL STABILITY AND INTERGOVERNMENTAL COOPERATION

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Room 696, City Hall
Philadelphia, Pennsylvania
Wednesday, April 7, 2004
10:15 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 FRANK DICICCO
COUNCILMAN JACK KELLY
COUNCILMAN MICHAEL NUTTER
COUNCILMAN BRIAN O'NEILL
COUNCILMAN JUAN RAMOS
COUNCILMAN FRANK RIZZO

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V A R A L L O Incorporated
Litigation Support Services
Eleven Penn Center
1835 Market Street, Suite 600
Philadelphia, Pennsylvania 19103
215.561.2220   215.567.2670

I N D E X

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COUNCIL PRESIDENT VERNA: Good morning, everyone. I don't think we're going to wait any longer for Councilmembers to come in. And we do have a quorum. This is the continued public hearing of the Committee on Fiscal Stability and Intergovernmental Cooperation regarding Resolution No. 040276.

Ms. Wilkerson, would you approach the table, please?

Councilman DiCicco wants to be excused for about 15 minutes.

Ms. Wilkerson or Ms. Davis, I think we're all very confused about the self-insurance health benefits. Can you explain what the Administration means by self-insurance? And how would the program work?

MS. WILKERSON: Joyce Wilkerson.

I'll ask Ms. Davis to respond.

MS. DAVIS: Good morning.

COUNCIL PRESIDENT VERNA: Good morning. I hope you're feeling better.

MS. DAVIS: I still have the pain. I'm a trooper at this point.

By self-insurance the Administration means a program under which, instead of using an insurance carrier to absorb the risk, the City would, in fact, itself bear the risk of our employees' use of healthcare.

Currently, we pay an insurance premium which is intended to cover not only the cost of providing healthcare, but also a risk factor and any profit or reserve requirements of the company with whom we contract for this insurance.

Under a self-insured plan, the risk factor would be eliminated, as would the profit factor, if you will, because the City would stand in the place of the insurance company.

As I mentioned last week, there are three models, one under which the City would entirely administer the plan. There is another where we would contract with a third-party administrator to provide administration, but not access to their network. And then there's a third model in which we would contract with a third-party administrator and would also have access to their doctor and hospital network.

The City hasn't decided yet which model it would adopt and we're in the process of developing our strategy more fully.

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

MS. DAVIS: The decision would be made under each of the three scenarios. One, by the insurance company who's currently making it if we went to a model where we use their network. Second, by the third-party administrator if we only hired a third-party administrator to do administration. That third-party administrator will use the same standards that are used by the insurance company currently in place. And then the model under which the City would do administration, there is a standard that is used across the industry, and that would be the same standard that the City will employ. So it would be the City under where the model where we're providing administration, third party-administrator where we're hiring a third-party administrator only for administration, and a third-party administrator where the network would again be the third-party administrator.

COUNCIL PRESIDENT VERNA: Could you tell us how the City would save money with this plan?

MS. DAVIS: The City immediately saves the risk factor, the amount that's automatically layered in to protect the insurance company against the risk it's absorbing with our employees. We'd also save that reserve/profit piece that the insurer gets on our premium.

COUNCIL PRESIDENT VERNA: Would this mean that the City would discontinue the HMOs?

MS. DAVIS: The City could create its own HMO. There are cities that have used the HMO model. Roughly 90 percent of the cities in the United States are using some self-insured model. And the extent to which you want to use the model, the only thing is, that limits it from being purely PPO to being

HMO. The City could, in fact, contract with an HMO-type relationship of doctors and hospitals to create its own HMO.

COUNCIL PRESIDENT VERNA: You know, I had asked, I believe last week, if the City was ever self-insured, and I was told we weren't. But people in my staff assure me that, I believe, in the late 1970s, probably early '80s, that we were self-insured.

MS. DAVIS: The model that the City used back then was a cost plus model, which isn't the modern day self-insurance model. It was, from what I understand, a tack-on of 10 percent over basic costs and it was not well managed and there were some problems.

The traditional model had come into play mid-'80s. The new model came into play mid-'80s and it is a true self-insured administered program. Any program is only going to be as successful as the administration of the program is.

We are taking time with our strategy to make certain we have a strategy that works. We can't save money, we can't protect the employees' benefits if we continue to do what we're doing now. And so our strategy is, one, to protect the employees' benefits. We can't maintain the level of benefits we have now under an insured plan if we continue to go insured. Our best option for keeping the employees with the highest level of coverage is the self-insured model. That's why we're exploring the self-insured model.

COUNCIL PRESIDENT VERNA: Well, I would assume by your testimony that this will certainly not be going into effect during FY '04.

MS. DAVIS: We may see some benefits of it in FY '04 -- I'm sorry, in FY '05, not FY '04. You're correct.

COUNCIL PRESIDENT VERNA: So we could see it possibly in FY '05?

MS. DAVIS: Yes, ma'am.

COUNCIL PRESIDENT VERNA: Are we going to have options?

MS. DAVIS: As we develop the plan, we will come back to City Council with briefings.

COUNCIL PRESIDENT VERNA: Councilman Nutter, was your light on?

COUNCILMAN NUTTER: It was an inadvertent touch. I will ask some questions later.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: I have a question. Are you still planning on removing and pruning the trees for next year?

MR. DUBOW: Yes. The budget still includes funding for tree trimming.

COUNCILMAN KELLY: How much funding would that be compared to previous years?

MR. DUBOW: I have the budget detail back at the office. I'd have to get you that number.

COUNCILMAN KELLY: Each District Councilperson, I believe -- does that come out of their allotment, you might say?

MR. DUBOW: No. There's a contract that runs through the Managing Director's Office for tree trimming and tree removal.

COUNCILMAN KELLY: I have another

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question. You plan on spending $20 million on demolition of vacant buildings over the next five years. And I've sat through the NTI Program for seven hours. I've been listening to testimony that had to do with more or less removing and demolition of buildings and whatnot. Now, I have no problem with hazardous, of course, buildings that must be taken down for safety reasons, but there doesn't seem to be any plan on what to do.

Is this going to spur development? Where is the economic growth involved in this whole plan with NTI?

MS. WILKERSON: Most of the properties that are coming down are properties that are imminently dangerous. In some situations, the decision is made to take down adjacent properties in order to create a package that has the potential of being developable.

There is development happening. A lot of the development in neighborhoods where we're doing demolition requires some level of subsidy, either through tax credits or CDBG, and so the actual development frequently will await there being funds identified for development to happen.

COUNCILMAN KELLY: Well, what I'm getting at is, I know developers and people interested in, of course, investing into these communities. What they want to see is they want 8, 10, 12 maybe properties at one time rather than one here and one there.

In other words, it's not going to spur anyone's interest to see if you have three or four homes in a five or six block radius. That's not going to do it. It's going to spur development when you rip down an entire block maybe. Then a developer or a builder or a contractor would be interested in going in there and investing his money, private dollars to go into that.

MS. WILKERSON: Before any building is put into a demolition package, there's a team of people that sits down that includes the District Councilperson, City Planning, Redevelopment Authority, L&I, and they talk about those kinds of issues when they assemble the packages.

A lot of times, though, the decision about how aggressive to be will also turn on relocation issues. Because of the pattern of housing and deterioration, the decision to be more aggressive is not made because it would entail widespread relocation of residents.

I think if you were to look at some areas in the 5th District with Councilman Clarke where we actually have funding for replacement housing, a real effort is made to create a large enough parcel of land so that we can attract developer interest. In fact, we had 10 developers respond to the RFP to develop in that area, in part because we were willing to be a little more aggressive about relocation so that we ended up with a community that made sense after all the work and all the investments were made.

COUNCILMAN KELLY: That's going to be included, I imagine, in the economic summit that you're planning on in June, I believe, or May?

MS. WILKERSON: I would think that

some of the community development, some of the housing issues would be wrapped into that.

COUNCILMAN KELLY: I have a problem when you're removing these homes or demolishing these homes and then just leaving vacant land and putting a cyclone fence around them. It just doesn't spur development, to me.

MS. WILKERSON: We're not doing cyclone fencing any longer. If you were to go down 31st Street in North Philadelphia and Strawberry Mansion, which was actually the first demolition package that we identified, and if you were to compare what we had before, you had vacant lots, abandoned buildings. You saw just an extensive amount of drug trafficking going on. You saw a neighborhood that was out of control.

If you were to go back to that same block now, what you would see is an area that is greened. It has post and rail fences, which we're trying to work with the Mural Arts Program in some situations in order to coordinate the mural arts with the greening activity. You get a sense that this is a neighborhood that has potential.

Before the City undertook the demolition and vacant lot management, we drew on the experience in the Empowerment Zone where they had used this kind of strategy, as opposed to the individual lot with the cyclone fence, with no attention being given to how the demolition left the condition of the land. What they found was you actually have a lot less short dumping. You have a lot less maintenance problems in the long run if you include in the demolition specs some level of greening.

Throughout the City you can find instances where neighborhoods look much better, where we're seeing a huge increase in values in some places in the City. Because even though all the parcels aren't large enough for development right now, you have a development that has the blight in it controlled. You have the drug corners under control.

It's not going to be a short

process. These neighborhoods deteriorated over a 50-year period. It's going to take a while to bring them back. But we think we positioned neighborhoods for good things to happen. We're constantly trolling for additional resources for development. When tax credits or the state or federal government announces opportunities for resources, we're making application and have been successful in pursuing that.

COUNCILMAN KELLY: Could you give me an update on that Brewerytown Project?

MS. WILKERSON: Brewerytown is a project that has a number of different components. One part of it is the tax credit transaction. There's a building that will be converted into apartments. It's going to be a mixed-income development, some of them affordable housing units, there are other parcels that are targeted for townhouse development. Some of those require demolition of commercial property. The City has committed to doing that.

The NTI people were here last week

with a resolution to amend the NTI budget. We also have legislation that's been transmitted that would provide the necessary appropriation. The demolition is being held up because we don't have the appropriation.

We've also had to move horses that were, you know, stables in operation. We've been to court. We've removed the horses. It's been a very, very complicated project that has required that Kevin and the people in Housing work very closely with City departments trying to manage a lot of different components. But we think that if we're going to be successful in rebuilding some of these neighborhoods, we have to have strategies for tackling challenges like this. It's going to end up at the end of the day with hundreds of units of new housing.

I think it's going to be a strong neighborhood. It's adjacent to the park. It's at the west end of Girard Avenue. We have a commercial corridor planned. The Empowerment Zone folk have been working with foundations and others putting together a commercial corridor strategy that we think is really exciting. We're committed. We're working with the developer. We've hit a glitch. We're going to work through that and expect to be able to accomplish the demolition in very short order.

COUNCILMAN KELLY: After the demolition of that building, the Western would proceed with the --

MS. WILKERSON: That's right. The Western is working already. It has one tax credit for the rental housing component. We have other parcels we're picking up through acquisition. That is already in place. We're working with the Housing Authority on some components. There are a lot of moving pieces. It's going forward. We do need to get the resources to do the demolition.

COUNCILMAN KELLY: You mentioned about that one complex that you built 210 units, I believe. You have mixed use, you say?

MS. WILKERSON: Mixed income.

COUNCILMAN KELLY: Mixed income. Do

you have any track record of how that works?

MS. WILKERSON: In Philadelphia, it depends. There's mixed-income housing in parts of Spring Garden around 18th and Wallace. There are $600,000 townhouses that have been sold. They were developed by a community development corporation that at the same time developed public housing units in the same block in some instances. And so it depends from neighborhood to neighborhood. It depends on how strong the neighborhood is.

We have housing, public housing, that is being redeveloped around Martin Luther King, the old PHA project, and areas of southwest Center City. Kenny Gamble and the Universal folk are developing mixed-income housing. It really does vary.

COUNCILMAN KELLY: It does vary. Okay. Thank you.

MR. DUBOW: To answer your question, Councilman Kelly, on the tree trimming, it's $2.9 million in the '05 budget. And it's included in the Managing Director's Office budget.

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

COUNCILMAN O'NEILL: On the self-insurance proposal, the State is self-insured, I believe. Do we know that for a fact?

MS. DAVIS: I know they were moving toward self-insurance.

COUNCILMAN O'NEILL: They're self-insured. There have been many entities around the State, school board, school districts, cities, towns, even counties that have asked the State if they could piggy-back on the leverage they have with 50,000 employees in their self-insurance. They used the Blues to contract out the administration and everything, but they used the power of the numbers. That's their number of employees.

They also, I believe, self-insure all their retirees because they have lifetime health benefits for retirees. So there's some fairly large numbers out there.

Do you think it would be worthwhile for the City of Philadelphia to enter into at least preliminary discussions with them to see if that were possible? Because 6,000 looks like a lot compared to some cities that aren't that large. But it's a drop in the bucket, probably, compared to the State if we were buying into those lower costs.

MS. DAVIS: It does make sense. And, in fact, there is already a consortium within the Philadelphia area brought together by Ballad Spahr that's looking at just that kind of maybe City regional consortium, looking at the Community College, SEPTA. There are a lot of bodies being insured in the area. And so that is something to consider.

COUNCILMAN O'NEILL: Pennsylvania League of Cities is doing the same thing, trying to create a program either using the State or using a non-Blue Cross provider. That's one national company now that is really getting aggressive.

MS. DAVIS: It's the only way we can protect the benefits of the employees. Insurance is eroding our ability to provide the effective coverage.

COUNCILMAN O'NEILL: As great as Blue Cross is, it's still pretty much a monopoly in the area. Until some strong competition comes in, it doesn't give them any incentive.

On the Water Department, two things. One, you mentioned at the Capital Budget hearing if the $125 million reserve transfer for stimulus occurs, there isn't just a $4 million payment, but there's the loss of the interest on the $125 million on the Five-Year Plan. Is that already in? Is that loss in the Five-Year Plan?

MS. DAVIS: No, it's not included in the plan.

COUNCILMAN O'NEILL: Will there be an adjustment to include it?

MS. DAVIS: We'll have to make an adjustment to include it.

COUNCILMAN O'NEILL: That's roughly over $20 million over the five years?

MS. DAVIS: Yes, sir.

COUNCILMAN O'NEILL: Second question, again, involving the Water

Department. I know the 43 percent increase proposed over four years includes the new assumption of water lateral responsibility in the street area. But I also know that it's an eligible Capital item just as a water sewer pipe is because of the life span of one of those pipes.

I have a deep concern, having been fairly closely involved in this issue for a while now, that the laterals are going to get credit or blamed for the size of the increase. It would seem to me we could segregate out the laterals, move them over to the Capital and then we could find out what the real increase is.

Because right now I don't believe the actual replacements that go on each year are anywhere near what they will be once the Water Department becomes responsible. Because it's very difficult to force people with a threat of a shut-off to get their laterals replaced. It has to get so bad that we basically give them the ultimate ultimatum because of the hardship and the cost involved, which is understandable.

However, the Department also knows that there's a whole lot of laterals under the streets that should be replaced. They can start doing that, so you're going to have a much larger number once you get into the responsibility shift.

It seems to me that rather than hitting the Operating Budget and causing the rate increase, especially one this large when all these other things are happening with the budget, that we should give a lot of consideration to the rate increase only involving ordinary operating costs that we've always had, and separating out the cost of the lateral and moving them over to Capital. If it turns out later that it makes sense, at least you'll see the cost.

Because in every conversation I've had with the Water Department, there's a catch-up period. There's going to be a period of catching up to the laterals that need replacement that aren't so severe that we force people to do it. We know when we drive down the street and the Water Department is on these streets and they see buckling and they see highs and lows of peaks and valleys in the street, they know there's a problem under there. It may not be causing an immediate situation that requires a shut-off notice order to have the lateral replaced. But can you give some consideration to that?

Because I think you've got two problems. One is, I think there's an overblown perception being sent out there that this lateral change is going to punish people with a 43 percent increase. And secondly, there are other reasons why these increases are occurring. We can separate them out and say, "This is what the increase is because of normal things that happen in the Water Department and this is why your rates are going up. And to the extent that your rates are going up because of the $20 million change in the stimulus" -- well, actually, that has to come out of the City, right, the $20 million?

MR. DUBOW: That won't show in

there.

COUNCILMAN O'NEILL: The $4 million will have to too, right? The surety payment.

MS. DAVIS: No. The surety payment will come out of the fund itself.

COUNCILMAN O'NEILL: Okay.

MR. DUBOW: But the other things that cause the increase are things like there was a reduction in State aid, a normal change in inflation and salaries over time.

COUNCILMAN O'NEILL: People have been waiting all these years for some fairness in this area, and it is a dramatic improvement on behalf of customers. Now, for them to think that they're getting this enormous rate increase to pay for some neighbor who had some bad luck this year with a water lateral break that they would have had to pay for otherwise -- because people start shifting their fairness definitions when it's not them that's the unlucky person or the unlucky household.

I think we can at least clarify how much of this increase is because of things like you just mentioned, Mr. Dubow, and seriously look at the Capital side of things for the laterals.

I mean, the Commissioner was very clear, that because they last more than five years -- well, most of them last a lot longer than five years, 25, 30, 35, 50 years, just as our sewers do, and they'll last a lot longer with the Water Department being involved and taking care of some other conditions that help contribute to it under the street.

MR. DUBOW: Water has an analysis that breaks out the causes of the increase by type, so we can show you that. And then we can also talk to them about how the rate increase would look if we were paying the improvements through Capital and paying debt service.

COUNCILMAN O'NEILL: Thank you. That's helpful.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam Chair.

I want to refer to the introduction

of the City of Philadelphia Five-Year Fiscal Plan. In the introduction -- and I'll quote, "Reimbursement from the State for highway patrol cost. The Commonwealth of Pennsylvania patrols state highways in every county except Philadelphia. Since the State does not conduct these patrols, the City has deployed officers to fulfill the State's responsibility. The cost of the patrols is now $5.6 million annually, and the City can simply no longer afford to perform the State duties. As a result, the City will seek full reimbursement from the State for those costs."

To the Chief of Staff, last week I asked if the Administration is prepared if we don't get this reimbursement to direct the Police Department to cease these patrols and force that responsibility to the State.

Secondarily, I'd like to know from the Budget Director, where is this $5.6 million in the Five-Year Plan? Is it in or is it out?

MS. WILKERSON: With respect to the first part of your question, I did ask the question to the Mayor if it was his intention to pull Philadelphia Police off the state highways, and he has not made a final decision about that, about leaving the roads unprotected.

COUNCILMAN RIZZO: Just a second, please.

Mr. Dubow, could you comment on where the $5.6 million is in the Fiscal Plan?

MR. DUBOW: Yes. If you look at the Mayor's Operating Budget and brief, and you go to Page 21, it shows revenue from other governments for the Police Department, and it shows patrolling state highways, reimbursement, $5.6 million.

COUNCILMAN RIZZO: That's in there?

MR. DUBOW: Yes, it is.

COUNCILMAN RIZZO: Okay.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: I'm sorry. I don't have the box here, so anybody that wants to ask questions, if you would indicate.

Councilman Nutter.

COUNCILMAN NUTTER: Good morning,

Ms. Davis, Ms. Wilkerson, and Mr. Dubow.

Ms. Davis, I wanted to go back to the earlier questions with regard to the self-insurance issue. I was not here at my seat when it started, but I picked up on the other side of the room. I thought I heard you say something to the effect that the City could create an HMO?

MS. DAVIS: Yes.

COUNCILMAN NUTTER: I wasn't sure if I took that down correctly, but is that what you said?

MS. DAVIS: You could contract to create, in essence, an HMO, yes.

COUNCILMAN NUTTER: How would that --

MS. DAVIS: You create the relationships with the individual doctors, capitating their amounts, also with the hospitals, capitating their amounts, and then use the services in that fashion.

COUNCILMAN NUTTER: Are there any details or documents on how this would work or anything that we could glean from other places that have this in place?

MS. DAVIS: I'm certain I can get some for you. Ninety percent of the cities are using some form of self-insurance.

COUNCILMAN NUTTER: And I think in response to the Chair's question, the issue here is that, I mean, what, we're cutting out some amount of cost or cutting out a, in essence, I guess the middle person?

MS. DAVIS: The risk factor and also any profit reserve requirements.

COUNCILMAN NUTTER: What do you mean by the risk factor?

MS. DAVIS: The risk factor is the amount that the insurance company assesses to protect them against an over-usage by our employees of healthcare.

COUNCILMAN NUTTER: And how would we protect ourselves from the same thing?

MS. DAVIS: There will be over-usage by some and under-usage by others, and it is that balance. We take the risk. We'd set up a reserve, probably equal to about three months, but you are going to protect yourself.

Because not every employee, although you're being assessed a risk fee on every employee, not every employee is a super utilizer.

I, for example, hate doctors. I try not to go. I think there are a lot of others like Mr. Dubow who probably never goes.

COUNCILMAN NUTTER: We're making a lot of money on Rob Dubow.

MS. DAVIS: Yes. But we're assessed that same risk factor.

MR. DUBOW: This is like my visit to the doctors.

COUNCILMAN NUTTER: I can understand that.

MS. DAVIS: It's balancing out those who are users against those who are not users, but we're being charged for every employee as though there were that risk.

COUNCILMAN NUTTER: In the current situation, we pretty much have a relationship with one company?

MS. DAVIS: Yes. We're captive.

COUNCILMAN NUTTER: Why is that?

MS. DAVIS: They're the only ones in

town.

COUNCILMAN NUTTER: No one else would like to provide service to us?

MS. DAVIS: No one else is able to provide services at the level that we require.

COUNCILMAN NUTTER: And who would administer this program?

MS. DAVIS: It depends on the model that the City chose. The City could administer it itself. The City could hire a third-party administrator that only did administration, or the City could, in fact, hire Blue Cross as its third-party administrator and take advantage of its network of doctors and hospitals.

COUNCILMAN NUTTER: Why would Blue Cross want to enter into that kind of arrangement? I'm assuming they must know that the current arrangement is much better for them, right?

MS. DAVIS: Well, the current arrangement has that risk factor. But they do, in fact, serve as third-party administrators for quite a few people. What they give up is the risk factor.

COUNCILMAN NUTTER: And just from a process standpoint on any of this, who implements and/or decides what program we end up with? What is the process to get you there? Who, if anyone, must approve it? And what's Council's role in determining this or any other benefit program?

MS. WILKERSON: This was asked at the last hearing. The Law Department is developing a letter that responds to those questions, and rather than go ad hoc, I'd rather rely on their document.

COUNCILMAN NUTTER: No. If you went down that road already, that's fine.

Mr. Dubow, I wanted to ask you with respect to a response that you just gave to Councilman Kelly. It's kind of not on my list, but from some previous work, you indicated that the dollar amount in FY '05 for tree trimming was $2.9 million? Did you say that?

MR. DUBOW: Yes, that's correct.

COUNCILMAN NUTTER: I thought a

couple years ago -- I don't know whether it was the '01 budget or the '02 budget, I thought that that number was somewhere up in the $4 to $6 million range, maybe when the program started and -- I mean, the Mayor had significantly increased the amount of money -- and maybe I'm confusing both the combination of tree trimming and possibly removal. And then at some point we got rid of the backlog of the dead and dangerous, and then there was going to be a shift of some of those dollars into the tree trimming area. But I thought the number was much higher just a few years ago.

MR. DUBOW: I think we started out with a million dollars in Fairmount Park. We added this money to it. So what I'm really talking about -- and I should have been clear -- is the additional money that's in the MDO. I don't ever remember it being 6. I don't remember it being that high.

COUNCILMAN NUTTER: Okay. I think maybe we were trying to get to 6. Maybe that's why I have that number.

MR. DUBOW: Could be.

COUNCILMAN NUTTER: It was a significant increase.

MR. DUBOW: And we had a schedule for getting rid of our backlog of imminently dangerous trees, and we're ahead of schedule on that.

COUNCILMAN NUTTER: So is the 2.9 number the real number, or are you saying that --

MR. DUBOW: 2.9, and then there's the money in Fairmount Park.

COUNCILMAN NUTTER: All right.

Let me turn a little bit of attention to PGW. I think there are at least four different resolutions floating around Council related to PGW. But at one that I attended recently, I know Mr. Knudsen and I think Mr. White were at the table and I asked them about kind of the future of the company, and they were at a hearing, I think, for one of the items was a surcharge issue.

First, I recall there was a report back in an earlier point in time considering a possible sale of the company, and that we had either -- we the City or PGW or PFMC had brought someone on to take a look at that particular issue. What's the status of that report?

MS. WILKERSON: The City retained Lehman Brothers. The report was not finalized. I think that in the early drafts, the analysis seemed to indicate the same thing as everybody's analysis. It indicated the company carries so much debt and has so many liabilities that there really is no net earnings to the City. It is probable that rates would go up for the customers. There were a number of reasons that made that ill-advised at this time.

The future of the company continues to be very difficult, and the company is looking at trying to diversify its customer base. It relies extensively on residential customers. The number of commercial and industrial customers has been reduced over the years. The company is looking at strategies to try to diversify the customer base. We have some assets that create value for the company and we're trying to identify strategies for making better use of them.

COUNCILMAN NUTTER: Well, based on the current finances and certainly the more recent proposal, this cash receipts, often referred to as the surcharge, I mean, is there a plan in place that would indicate -- whatever our definition of financial stability would be and efficient management operations, is there any plan that shows the company reaching that status in the next three to five years?

MS. WILKERSON: Ms. Davis can venture her own opinion. I think three years is certainly aggressive. Five years may be aggressive. A lot has to do with factors we don't control. The run-up in the cost of natural gas has been unprecedented. The successive years with the run-up in the cost of natural gas is something that perhaps the nation should have foreseen. It did not. But for that, I think we would be much closer to being on a real road to recovery. This was a setback when you talk to people. You know, folk don't expect it to last forever. They're talking three years maybe, but it will never go as low as it was. The company is now trying to do a better job trying to forecast exactly what it's going to look like.

As you know, we have new collection initiatives in place and they are -- I think while the company is still in trouble, we're doing a better job collecting this year than last year, despite the fact that the bills represent a bigger challenge for the customer. There are some things going on in the company that indicate that we can do a better job with collections than we might have thought. And we don't know exactly how good we can get because some of those initiatives are still fairly new. But we're trying to put together a realistic picture of what it's likely to look like in the coming years.

COUNCILMAN NUTTER: Ms. Davis, did you want to venture into that territory?

MS. DAVIS: No. I left my crystal ball home with my broom, so...

(Laughter.)

COUNCILMAN NUTTER: That would be a part of your Glenda outfit?

MS. DAVIS: Right.

COUNCILMAN NUTTER: Let me ask this question. First, is this a business that we should still be in as a municipal government?

MS. DAVIS: An honest answer, probably not. And the reason is that because we are in -- unlike water where our raw product is something that is available to us --

COUNCILMAN NUTTER: It comes to us.

MS. DAVIS: Yes. We're competing in a market where you have to be able to move with that market. The pressures of that market are greater when you're looking at a city with the demographics that we have, that we are unable to spread our cost over a larger customer base because we can't go outside of the City and pick up residential customers.

Any gas company in Philadelphia would face some of the problems, but our company is also saddled with a lot of the social service costs that we, the City, have burdened it with because we don't want people to die in their homes because they don't have heat. It is for humanitarian reasons that we are still in the business. But the business won't be profitable as long as we're in it for philanthropy.

COUNCILMAN NUTTER: I understand that.

How do similarly situated northeastern large cities -- and I understand that with every word it's narrowing the universe, but Philadelphia, Pittsburgh, New York, Boston -- I mean, I don't know how cold it gets in Baltimore in the winter, and there must be others somewhere in the northeastern corridor in the mid-Atlantic states, how do they ensure that people don't die in the winter? And in many instances they are not in this particular business.

MS. DAVIS: Their governments probably pick up more of the social service cost for homelessness or whatever. What we do inside of PGW by having a liberal CRP program or whatever is allow people to stay in their homes longer. Appliance repair and parts and all of that, those are different ways of providing homes for people by not having them leave their homes. These other cities that don't have municipal gas companies probably accomplish it through either their philanthropic community. I know in some cities you have a dollar on whatever bill to cover that. So you have a lot of those types of things. And then the government picking up itself or the counties and the states picking up a larger part of that social service cost, because those people will end up homeless.

MS. WILKERSON: One of the things that the company has been doing is meeting with the State Delegation and lobbying at the administrative level in the State trying to get a larger share. You do have other states -- and we can get you some of the testimony we've been giving elsewhere -- that make many millions of dollars available for off-setting some of the social cost. I think that's one of the challenges, that even if a private company were to take over PGW, the problem wouldn't necessarily go away for the City.

Utility service is something that we know from past experience is a primary indicator of abandonment in neighborhoods. There have been studies done in the past that overlay abandonment with utility shut off, and it seems to be a causal factor. But I can get you some of the testimony.

We are working with the State Delegation. We've been working with Secretary Richman trying to do a better job securing our fair share of both the LIHEAP and the Crisis funding. And we've been lobbying at the federal level trying to increase the pie so that we can offset some of the customer's inability to pay.

COUNCILMAN NUTTER: Can I ask both of you in your official capacities, Ms. Davis, as Director of Finance -- and I know you have another longer title which I know starts with Secretary, but it is a little difficult -- Secretary of Financial --

MS. DAVIS: We can that leave home

with my broom.

COUNCILMAN NUTTER: All right. Fine. We'll say Director of Finance. I at least know that.

And Ms. Wilkerson, as Mayor's Chief of Staff, I'd like to ask you in an official way if whether through PFMC or the financial advisors that already work for the City or if there is some other entity that we might contract with to provide us with a plan option which, on the one hand, incorporates all the programs that we can that demonstrate some ability for the City of Philadelphia not to be in this particular business anymore, which would then naturally, I would think, have a less financial impact on the City of Philadelphia. Because you then also have to take into consideration the $18 million payment we always expect to receive, that I think this budget anticipates not receiving, a $45 million loan outstanding that they say they're going to pay -- and I know in their hearts they want to. My grandmother used to tell me that I had deep pockets and short arms. I never kind of get to the money on the repayment.

That gives us a number of options on what we would do and how we would address all of these particular issues and give us an array of options that we might be able to pick from that that actually make some sense on behalf of the overall citizenry of the people most affected by it. And I guess when you talk about what some other cities do, especially in the northeast, support they get from county governments or state governments, I mean there are many opinions around here about some of the things with regard to certainly the City and the State as it relates to the School District, for instance. But there was a negotiative process. We can debate until the cows come home, you know, whether we like all of the things that came out of it, but there is certainly that example.

And I know from previous position, Ms. Wilkerson specifically is well aware of negotiations that took place in the early

Rendell Administration years as Mayor related to DHS, and concerns and complaints that had been expressed for some amount of time about shortfalls in a variety of programs which, quite honestly, we don't hear a whole lot about anymore. I'm not saying that all those problems have been fixed, but there are a couple models that the City has had experience with, with a positive outcome.

Now, that's obviously a big request and a whole lot of information, but do you have any sense of what it would take to put something like that together?

MS. WILKERSON: I'd rather make the inquiry and try to identify the expertise and come back to you with a dollar figure for what it would take, who might do it, as opposed to guesstimating.

COUNCILMAN NUTTER: Okay. Thanks.

COUNCIL PRESIDENT VERNA: Councilman, at this time I would like to recognize Mr. Vignola, who is here to testify. And if you don't mind, we'll continue on with our hearing. I know he has other commitments and I promised him that we would get him heard when he came in.

COUNCILMAN NUTTER: Absolutely. I didn't know he was here, Madam President.

COUNCIL PRESIDENT VERNA: Good morning and welcome.

MR. VIGNOLA: Good morning, Madam President and Members of Council. My name is Joseph C. Vignola. I'm the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority, known as PICA.

COUNCIL PRESIDENT VERNA: And we all received your letter under date of March 30th, 2004, and I thought that perhaps you would like to discuss that for the record and perhaps elaborate on it somewhat.

MR. VIGNOLA: Madam President, if I may, I think the letter speaks for itself. This was an unusual step on my part to send this letter to the Mayor and City Council at the beginning of its budget deliberations. But upon receiving the draft of the Five-Year Plan, and myself and the two members of my staff giving it a review, we had questions about certain of the revenue estimates. Given the timing that we wanted to get the letter out to the Mayor and Members of City Council, we did not go into the expenditure side, but we're concerned about the revenue side.

I think you, Madam President, have heard me say time and time again that I don't believe PICA as an appointed board should substitute its judgment of that of elected officials. However, PICA does have a statutory mandate, and my position has always been, both when I was a member of this Body and in the last nine years that I've been the Executive Director of PICA, that if the revenues are there, then it's for the Mayor and the Members of City Council as the elected representatives of the people of the City of Philadelphia to determine how best to allocate those revenues, i.e., spend the dollars.

My concern is that in the budget that was submitted, the revenues are not there. And we highlighted it over a Five-Year Plan to the tune of a little under $300 million. And for next year's budget, that's FY '05's budget that you are currently considering, we're talking about a budget impact of a little over $50 million, and that ranges from the discussions Councilman Nutter was just having vis-a-vis PGW to some of what we're characterizing as aggressive tax assumptions, and also some revenues that are going to come about as a result of what we characterize in the letter as new legislation. New legislation, meaning that not only is the adoption of this budget which is new legislation, but it's going to take legislation by the General Assembly in Harrisburg or by the Congress of the United States to allow the City to attempt to get these revenues. When you add that all together, we're talking about an adjusted fund balance of under $300 million short and the dollars in question over five years of a little over $300 million.

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

COUNCILMAN O'NEILL: Mr. Vignola, first of all, I appreciate you coming and I appreciate your letter. I think it's an extraordinary situation that we face here. Give us a worst case scenario.

MR. VIGNOLA: Well, the worst case scenario is that in addition to not receiving these revenues --

COUNCILMAN O'NEILL: Let me clarify. I'm sorry. I should have made the question a little longer.

Worst cast scenario, the PICA board's strong recommendations from staff doesn't think this is something they are going to approve because of concerns you have now still being out there, either in whole or in part. We never had that before. But could you walk us through what would occur?

MR. VIGNOLA: The statute which set up the PICA and the cooperation agreement by which our relationship with the City of Philadelphia, which was a contract that was entered into in January of 1992 between PICA and the City so that PICA issued the bonds, set forth a procedure for review.

Without going into the statutory

time deadlines is that PICA does not consider the budget, per se. It considers the Five-Year Plan. However, the first year of the Five-Year Plan is the budget. And the budget and the first year of the Five-Year Plan have to match. So whether I'm talking about the budget or Five-Year Plan, for our purposes they're interchangeable.

PICA considers the Five-Year Plan only when it's passed by City Council by resolution and transmitted to us. We have a time period in which to accept or reject the plan. If we accept the plan, everybody goes home for the summer.

Your question is, what if we reject the plan. If we reject the plan we have to state the reasons upon which we are rejecting the plan. It then comes back to the City for correction in accordance with our objections. There is a time frame with all of this. Then it comes back to us. If we believe, again, everything is reasonable, if we believe the corrections are reasonable and we approve the plan, we just go about our business. If we then again reject the plan, this then becomes the time when the next step for PICA is to declare the City at variance with the Five-Year Plan. Since there is no Five-Year Plan in existence, it's really the Five-Year Plan that was for last year, and that triggers some ceremonial steps in that the quarterly reports become monthly reports. But if there is not an additional correction phase, then PICA is obligated to begin the process of withholding state funds that flow from the State to the City of Philadelphia.

Without getting into any of the state funds that are there, suffice it to say that PICA receives 1-and-a-half percent PICA tax, which is the first 1-and-a-half percent of what we call the wage tax on residents and on the business privilege tax and the gross receipts tax. After we pay our debt service -- and our debt service this year is about $85 million -- there's about $200 million left over. That flows routinely. Every Friday, I sign a voucher and transmit the money from the State to the Trustee. The Trustee puts some of the money into a debt service account, puts the rest in the City account, and the City draws it down. That flow would be stopped. So if you divide 50 by $200 million, you're talking about $4 million a week stops there.

Also, the Treasurer of Pennsylvania is required to look at those funds that come to Philadelphia in given categories and not transmit them. So it becomes a real cash flow cash crunch crisis, and that will continue until the variance, i.e., a Five-Year Plan that's agreed to by PICA, is approved. It is not something that any of us want to contemplate.

COUNCILMAN O'NEILL: At the same time you usually don't send a letter out prior to the budget hearings either.

MR. VIGNOLA: That is correct, Councilman.

COUNCILMAN O'NEILL: You usually don't come in and testify at this point in the budget process.

MR. VIGNOLA: Well, I would like to characterize my appearance here as testimony.

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The President requested that I come by and explain my letter, and I felt it important to the Mayor, the Members of City Council and to the people of Philadelphia that I do that. And if I didn't do that, then the last paragraph of my letter wouldn't mean anything because I said I'm available. I'd be more than happy to consult because the cooperation agreement and statute talks about PICA consulting with the City in the formulation of the plan.

If I may go back, you could say, "Well, why this year? Why not two years ago, three years ago, four years ago?"

This year, the fund balance that we enjoy from $300 million all the way down, we don't enjoy anymore. So that if there was room for error in prior years, there is none this year. We have been consistent -- even when I was a member of this Body, we consistently passed budgets that were not structurally balanced. But because of the targeting budget process and then the eventual accumulation surpluses, we were always able either to balance the budget outright or in the latter years. The latter six years of the Rendell Administration actually add the fund balances. And then in the latter four years of the Rendell Administration, the first three years, four years of the Street Administration, continue the tax cuts. That's unbelievable.

What the citizens of Philadelphia have to know is, are we doing something wrong? Well, when you consider the fact that over the past eight years we've cut taxes by over $375 million, the wage and the business taxes; we transferred an additional approximately $270 million to the School District all from the same tax base. Where did it come from? It came from the City side of the ledger. And we have to have a government that fits that size now.

COUNCILMAN O'NEILL: You mentioned that there's this cooperation aspect to the statute and to your agency. It's even part of the name. At some point prior to us passing a budget that we may be fairly certain is not going to get approved by PICA, what would your recommendations be from a consulting or cooperation mode that we should be dealing with, both Council and the Administration, but if it's just Council, it's just Council, so that we don't throw you a budget that we know is going to get bounced back? That doesn't accomplish anything.

MR. VIGNOLA: I agree, Councilman. I think we have to start with the revenue estimates, and take a long, hard look at, are we going to get the money from PGW?

Before I sent the letter, I met with the CEO of PGW, along with my staff, and he told us certain things that had to happen. The most likely of the three was that there would be an increase in collections, and he wouldn't know what effect that would have on PGW's budget until the end of August.

Getting more money from LIHEAP, we contacted people in Washington, both from the American Gas Association, the Public Gas Association, Senate and House staffers that we knew on the Energy Committee, and they said, yes, there's a bill being bandied for $3.4 billion in LIHEAP money. The Bush budget has $1.8 billion. And, guess what? We're not going to rock the boat. We're grateful that the Bush budget kept the $1.8 billion in. So to try to get extra money from LIHEAP, I don't think it's real.

We talked to people at the American Gas Institute, the American Gas Association. I have family who trade on the Mercantile Exchange. My deputy has friends at a Mercantile Exchange. Their view of gas prices over the foreseeable future is, possibly in 2006 gas prices will decline a little bit, but not to any historic lows or not even to 2003 prices. But then again, they're predicting -- and these are the people who do it for a living, who trade in this commodity -- they predict natural gas prices going back up after 2007. One of the reasons being is that normally you have wildcatters come in, that because of prices are high, they think they can make a buck by wildcatting, and that helps drives the prices down. The problem is the start-up cost for these wildcatters, because the cost of the steel rigs and the steel that goes into the rigs and all of that is at an all-time high and they can't get it on-line in time to do it. So we don't think the perfect storm that PGW wants to help them get out of their short-term financial mix is there.

You have to go no further than your Chief Budget Officer, Mr. McPherson. He'll tell you how the $18 million has been paid over the past 10 years from PGW. The only good thing to note is that that $18 million is an $18 million that was set in 1972. If you factored in today's costs, it would be $150 million. So we're lucky in the sense that we're only dealing with the $18 million this year. But again, I look at a Five-Year Plan, it's $135 million, Councilman. That is in jeopardy.

COUNCILMAN O'NEILL: Mr. Vignola, this dwindling down of the surplus in the last couple of years, where without the surplus we would not have been in balance, was PICA doing any forewarning, any consulting with the

Administration calling for this day happening if certain things weren't corrected?

MR. VIGNOLA: Yes, we were, sir. You have to look no further than our staff reports on the Five-Year Plan where we constantly warned about right-sizing government, that the cost of government was too high, that we have to look to economies of scale. And you can check all of our reports on our web page and you could see it replete with ideas given this scenario.

Now, on top of that, we got hit with something else which is, again, beyond our control in that the cost of our pensions have increased because the whole stock market underperformed, and that has driven the cost of our MMO, our Minimal Municipal Obligation. So all of these have collided to come by. And PICA also supported -- I was here testifying on behalf of the tax cuts because we said in our reports that for Philadelphia to be competitive, for Philadelphia to grow, it must ease the tax burdens.

COUNCILMAN O'NEILL: Are you aware

of legislation pending in Harrisburg that would reduce the MMO? Several municipalities and other governmental bodies have asked for elongation of the number of years.

MR. VIGNOLA: Yes.

COUNCILMAN O'NEILL: Can you explain how that may help us, if something like that were passed? I know that we're the only entity in the State that has a July 1st fiscal year, so we don't get the same impact.

MR. VIGNOLA: There comes a point in time that if you go from 30 to 40 to 50 years, you really don't --

COUNCILMAN O'NEILL: Are we at 30 now?

MR. VIGNOLA: I believe that we are. We don't save all that much. The thing that will save us is the recovery that we're seeing in the stock market and the increase on the return of our investments.

The ultimate thing that could save us is that maybe as we go into the 21st century, we have to rethink that benefit that we all receive, that is a City pension, and what would be the vehicle for a City pension in the 21st century. I mean, when the pension plan was designed early on, if a City employee made $1,800 a year, it was a lot of money. And having a lifetime pension then beginning at 55 at 2-and-a-half percent of their average salary sounded pretty good. It was attractive. That's how you got somebody maybe attracted into government. But now at certain levels, municipal employees, given their benefit package, make more than someone in private industry would make.

COUNCILMAN O'NEILL: On the pension, is our recovery mirroring the State's recovery on the investment side?

MR. VIGNOLA: I don't know what the State is doing, but we're doing very well.

COUNCILMAN O'NEILL: Could you check that and let us know?

MR. VIGNOLA: Yes, sir.

COUNCILMAN O'NEILL: We were talking earlier before you got here, I asked a question about a lot of governments would like to piggyback on the State's self-insurance for medical costs because of the size of the employee pool and retiree pool. It seems that we have such large pension costs -- I know you've been involved with the pension side -- that if we have such a giant entity like the State investing and getting good returns in part because of the size of their portfolio, that we could cut a lot of costs and get a better return.

MR. VIGNOLA: But historically the last couple years, the State underperformed. They had negative growth as well. I can only speak for my agency because I have to sign the check.

COUNCILMAN O'NEILL: No one had in the last few years.

MR. VIGNOLA: But I have to sign the check, the employee reimbursement check, to the State from our funds. And for two years I did not have to make a pension contribution as the employer to the state fund because the fund was so big and growing. But in the last two years, I had to start making a contribution because investment returns were down.

Our pension plan, we're right at the 70 percent level. And for those people who receive a pension who have invested pension, who are going to get a pension, for all practical purposes, that plan is fully funded. If the City, quote, went out of business tomorrow, the municipal pension plan could pay all its obligations. But actuarially, there's an unfunded accrued liability that we still have to make up.

COUNCILMAN O'NEILL: Because we're treated like a private company in terms of the hundred percent?

MR. VIGNOLA: Yes. Right.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam Chair.

Mr. Vignola, maybe you can explain these numbers. You talk about this $18 million annual payment. We talk about the $45 million payment that's going to be due in

Fiscal Year 2007. Is it all or nothing? If they don't have $18 million and they could give us $7 million, why aren't we taking what they can give us? Why if they can't come up with $18 aren't we asking for something other than that?

MR. VIGNOLA: Councilman, I don't know the answer to that. I never turn money down if someone's going to give us money. But I have to look at it as there's a contract there, and the contract calls for $18 million. Then there's an additional contract that calls for the repayment of $45 million, and these revenues are plugged into the Five-Year Plan to help balance the Five-Year Plan. So if we get 7, that's great, but we're still 10 short. And if it's 10 short over five years, that's $50 million. And if they're not making the 18, how are they making the 45? That's $95 million. And the plan is still $95 million out of balance.

COUNCILMAN RIZZO: But I would still rather it be short by a smaller number than a bigger number and play catch-up at some time.

But I guess I need to know, maybe they have $17,999,000, and say they can't make the deal because they're a dollar short, are they playing with us?

COUNCILMAN NUTTER: Councilman DiCicco is putting up the buck now.

MR. VIGNOLA: I will answer the former question and not the latter question, Councilman. I don't know, but that is a good question to ask.

COUNCILMAN RIZZO: Could I ask the Administration why we're not asking for whatever they can kick in here? Can I ask the Budget Director that question? Is that appropriate? Or the Chief of Staff, the Finance Director, whoever? I know that they're going to say -- the gas company is going to say, "Well, we don't have anything."

MS. DAVIS: Well, at this point, the gas company doesn't have any of the $18 million that they can really spare. Their situation this year, and probably for the next two or three years, will be a cash flow situation. They do not have the cash in hand to actually make the payment. We can't expect any part of it. Just from a cash flow standpoint, none of it is available.

COUNCILMAN RIZZO: Do you know that as a matter of fact? Do we know that they cannot come up or they cannot cut internally to come up with the $18 million? Are we just accepting that? Because if I ran that place, I wouldn't be hot to give up the $18 million.

MS. DAVIS: Well, we've spent quite a bit of time with their financials. Again, I could draw on Mr. McPherson's experience with the company. The company is cash poor. We've drained, for whatever reason, into paying for debt service, paying for gas. They are cash poor.

We've looked at ways of cutting the cost of their services. But again, once you strip our purchasing gas, gas procurement, there is very little -- it's sort of when we do our rainfall of where our expenditures lie. You get down to maybe $2 or $3 million that you even have an opportunity to attempt to reduce and not even eliminate at that point.

COUNCILMAN RIZZO: They claim that that company is running as efficiently and lean as possible. I understand it's a gas utility and it needs to have a certain number of people to operate it safely and efficiently. How can you convince me that in fact that's true?

MS. DAVIS: I would never attempt with any government organization to tell you that it's running as leanly as it could. It's an oxymoron when you say government and completely efficient. There are efficiencies that could probably still be garnered, but those would be in the neighborhood now of saving $100,000. Maybe if we looked at vehicles -- and maybe it's not even that because they have reduced their fleet. I don't know that there are significant numbers outside of perhaps restructuring completely the way the company does business, and that would be subject to labor negotiations.

A lot of their costs for healthcare are costs that they occur for retirees. These are lifetime costs. We have not figured out how we can get the company out from that type of requirement. So there are things that are obviously ways to save additional money, but those are subject either to negotiation or perhaps some legal challenge.

COUNCILMAN RIZZO: Well, don't you think based on what we've been hearing here, that we're about to create this surcharge on the customers that can pay, don't you think it's time that we restructure this company?

Other gas utility companies that I know are lean and mean, and from what I understand from some of the executives of these other companies -- and being a municipally-owned company, does not mean it cannot run efficiently. That's supposedly the independence that the chief executive officer says he has, that he can do what needs to be done there. So I'm telling you that other executives of gas utility companies kind of snicker because they don't believe we're sincere in managing that place as well as it can be managed. Layers of management, the executives in between each other. I think at some point somebody's really got to bite the bullet and restructure that place, get it to look like other utility companies that are investor-owned, and we wouldn't be in this situation.

So is it safe to say that if we're not going to get the $18 million, based on what Mr. Vignola just said, we're not going to get the $45 million in Fiscal Year 2007?

MS. DAVIS: We're still hoping that we will get the 45. It is essential to us that we get it. So we're still hoping that we get it. We are eliminating some of the services that they are providing that aren't core services. We've also discussed and will probably push a little harder on consolidating maybe some of the things that they do that we also do, like procurement and items like that to further cut their costs. But again, those are items that become subjects for negotiation.

COUNCILMAN RIZZO: Well, I don't think those things that you just described are subject to negotiation. I honestly believe that if we're not doing or at least talking about those things that you just described by now, that the wreck that that place is in, that it's a real disgrace. Somebody's not got their eye on the ball when we're doing and talking about some of the things -- and they're not buying smart. They're not consolidating with our procurement.

Like we pushed for the School District, and Mr. Vallas says that they're doing that now. The gas company comes in here, yeses us to death, shake their heads, great idea; and in my opinion, continue on the same track that they're on. And I think that's a terrible, terrible track that they're on. I don't see any guidance to try to fix that place.

MS. WILKERSON: What we're looking at is eliminating appliance repair, eliminating some of the parts and labor plan. Those are areas of the company that no other gas utility provides that we provide, in part, because of the perception that it has something to do with safety in our neighborhoods. We have older neighborhoods, old appliances, and there's a risk associated with PGW getting rid of appliance repair or the parts and labor program.

We're completing the close-out of our neighborhood offices. The company is looking at a number of things that it has done historically. We'll probably end up proposing that we get rid of the heater repair program. The company spends about $2 million annually on heater repair. Those are the kinds of discretionary services that the company provides that we will be taking a look at if, in fact, the company is going to be the lean, mean company that you refer to.

COUNCILMAN RIZZO: I certainly hope so. You heard -- maybe you didn't -- that they have a medical dispensary over there, which I'm not saying we should do away with the medical dispensary, but you heard the chief executive say that they can't figure out an alternative when every other cooperation that had medical facilities, at least that I know of, have figured out another way to contract it out to a hospital, to do it a different way. It saddened me when I heard the chief executive say, "Well, we really can't figure out how to do this better." And that's sad.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Mr. Vignola, thank you for coming over today.

In light of your responses to Councilman O'Neill's series of questions and the context of the letter that you sent in, the question is: The Five-Year Plan as it is currently constructed, if there were no changes to the plan at all and if it were approved by this Council and in front of PICA today, would it be approved?

MR. VIGNOLA: Councilman, I think you know I do not like to answer hypothetical questions.

COUNCILMAN NUTTER: I'd consider those less than hypothetical. They are real, live scenarios. I could even venture to say potentially likely. There's a time frame by which we have to approve the Five-Year Plan, but the Committee could decide today, if it wanted, to approve a Five-Year Plan, could send it on to the Council at our next session. More than likely the Council could possibly approve it.

I'm not asking you about a whole series of assumptions. I mean, it is quite possible that this Committee could approve this Five-Year Plan the way it's currently constructed. It is quite possible that the City Council could then by resolution approve the Five-Year Plan. All very likely. I mean, we will do something. You know that.

What I want to know is, the present plan in front of us, if nothing else happens to it and it ends up on your desk, whether it's next week or two months from now, would this particular plan be approved?

MR. VIGNOLA: In your hypothetical, are you saying that the budget that is associated with the Five-Year Plan is approved as submitted?

COUNCILMAN NUTTER: Yes.

MR. VIGNOLA: We at PICA believe -- or I believe that the revenues are not there to cover the expenditures. And that we would urge Council before it submitted anything by way of a budget to the Mayor for a signature by way of resolution, that expenditures be cut in this budget to reflect the realities of the revenues.

COUNCILMAN NUTTER: And you make the emphasis on the expenditure side because we're statutorily prevented from doing anything on the revenue side; is that correct?

MR. VIGNOLA: You're not statutorily prevented from doing things on the revenue side. You will have revenue bills in front of you and you could use the "T" word, but I don't think that, in the long run, helps Philadelphia.

COUNCILMAN NUTTER: Well, I understand that. Just so we're in the same situation, we can't change the revenue estimates?

MR. VIGNOLA: Right. You can't

change the revenue estimates except to the extent that you change the underlying tax structure. If you change the underlying tax structure, then the Finance Director would calculate new revenue estimates based on the new tax structure.

COUNCILMAN NUTTER: Well, I think if the Administration wanted to enhance the tax structure or the revenues generated by the taxes, they'd have probably sent over a budget with a bunch of tax increases in it. I don't think that's the one they got introduced a couple of weeks ago.

MR. VIGNOLA: I don't disagree with that hypothetical statement.

COUNCILMAN NUTTER: So we have what we have.

MR. VIGNOLA: Correct, sir.

COUNCILMAN NUTTER: The Administration, after great effort and thought, submitted a budget with certain revenue expectations and certain expenses. Your recommendation is, since we can't do anything to adjust the revenues other than provide more tax revenues and adjust rates, that the only thing that's left is to cut expenditures?

MR. VIGNOLA: I would agree with that statement.

COUNCILMAN NUTTER: And if we don't do that?

MR. VIGNOLA: It is likely that our analysis of the Five-Year Plan would show that the revenue estimates were not reasonable pursuant to the statute and cooperation agreement, and we would then send back to the Administration and to Council our report indicating that the Five-Year Plan should be adjusted accordingly.

COUNCILMAN NUTTER: If you send it back, what does that mean? What is that considered?

MR. VIGNOLA: The word would be we would not approve the Five-Year Plan as submitted.

COUNCILMAN NUTTER: When you were responding to Councilman O'Neill, you did talk about some of the time lines; but based on the question that he asked, you didn't want to go into that particular area.

Could you lay out for us in the context of your response to Councilman O'Neill and in response to the question that I laid out to you, let's for discussion purposes assume that since we have to pass at least a budget by May 31st -- and I don't remember what day of the week May 31st is, but I think it's a Thursday.

MR. VIGNOLA: It's a Monday. It's a national holiday.

COUNCILMAN NUTTER: Is that the holiday?

MR. VIGNOLA: That's Memorial Day, yes.

COUNCILMAN NUTTER: I don't have the Calendar memorized.

Let's assume for the moment that there is a session on -- what does that get us, 28th, 27th? Let's assume there is a Council Session on May 27th and that we approve the budget on that date. Lay out for us from a timeline standpoint PICA's review period. If you, in your words, do not approve the plan, which is in essence a rejection of the plan, and send it back to Council and the Administration, lay out for us what happens over the course of, in essence, the next month before the end of the fiscal year?

MR. VIGNOLA: Again, what I was saying to Councilman O'Neill was there's a 30-day period for which we have to consider the plan after it's passed by City Council and transmitted to us. Let us assume in the best of all worlds it is signed, it is transmitted on the 27th. We have 30 days, roughly the 28th of June, to make a decision on the plan. As I said to Councilman O'Neill, if the plan is approved, everyone has a nice summer and goes about their business.

If the plan is not approved, it gets sent back to the Administration and City Council with our reasons for its disapproval and you have -- the Administration and City Council have 20 days to make those corrections. We then have a further 20 days in which to look to see if the corrections you have made fit our criteria for plan approval.

COUNCILMAN NUTTER: How do these timelines fit in with the, at that point, looming end of the fiscal year?

MR. VIGNOLA: The fiscal year is over. It's done with. That's the area that, again, I don't want to explore because I have not --

COUNCILMAN NUTTER: Let's just say we approve it on the 27th and you take until June 15th; You don't take your whole 30 days. You send it back to us on June 15th. I think what you laid out was we then have another 20 days to do something?

MR. VIGNOLA: Correct.

COUNCILMAN NUTTER: Which clearly goes through June if we took the entire 20 days.

MR. VIGNOLA: Correct.

COUNCILMAN NUTTER: Let's say that for discussion purposes we don't complete the task by June 30th.

THE WITNESS: Here's where we're really getting into a very foggy area.

Because while the Five-Year Plan -- the first year of the plan is the budget. Pursuant to the Philadelphia Home Charter, you have passed a budget. So the argument is, do you have spending authority? And I think Mr. McPherson would agree with me that you do have spending authority, But that doesn't mean everything is okay. It still then may begin to trigger these, for want of a better word, punitive steps until you bring that budget in conformance to an approved Five-Year Plan. And if it's not done in a reasonable fashion after this repeated give-and-take, then I'm obligated by the PICA statute to begin the process of shutting down on the cash flows of state monies, the first one beginning with the PICA monies that flow to the City. And that creates all sorts of problems.

COUNCILMAN NUTTER: Okay. I just want to understand the full ramifications --

MR. VIGNOLA: What I was trying to answer with Councilman O'Neill, was like putting a ten-day, a five-day, a three-day here. It's something that none of us want to contemplate, but the time frames we're going to have to deal with will not make for a pleasant summer, especially since labor contracts are up at that point.

COUNCILMAN NUTTER: I understand that. I guess my last question in this area is, let's say we're in July and we start to wrap all this up, but for whatever reason adjustments have to be made to the, at that point, then current FY '05 budget to make it all conform to the Five-Year Plan. How would we do that if we're already in the budget year?

MR. VIGNOLA: The same way you make adjustments now; you amend it out.

COUNCILMAN NUTTER: I understand.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions or comments to Mr. Vignola?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you so much for coming in. We appreciate your appearance.

MR. VIGNOLA: As I said in my letter, Madam President, we are available to meet with any Member of Council and their staffs or Council's technical staff to try to get through this Five-Year Plan cycle.

COUNCIL PRESIDENT VERNA: We appreciate that. Thank you so much.

Councilman Nutter, do you still have questions of the Administration?

COUNCILMAN NUTTER: Ms. Davis, Ms. Wilkerson, you were responding while Mr. Vignola was up to some questions by Councilman Rizzo. We went back into PGW world. There was some discussion -- there have been millions of discussions about the state of PGW over the years. But I just have maybe two items to refresh my recollection.

One, the reason that PGW presently operates with PFMC in charge is because we have a contract with PFMC; and if we did not have such a contract, PGW would actually be under the Department of Public Property, is that correct?

MS. WILKERSON: Yes.

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COUNCILMAN NUTTER: And if that were to happen, because you've probably looked at this a few times before, I guess one of the challenges there is how -- if we took PGW back into the City, someone's idea was that that would make things more efficient or do some other things because now it's just like the Water Department, totally under the City Administration. Is one of the many challenges about how do you bring that workforce into the City of Philadelphia?

MS. WILKERSON: Yes. We would have to figure that out. Currently, PGW employees are not Civil Service employees. They're represented by different unions. They have different benefits. There would be issues you would have to look at.

MS. DAVIS: I think gas procurement was the other situation that would be more challenging in the City environment.

COUNCILMAN NUTTER: We don't have folks in the City government who are experts in the variations of the natural gas market?

MS. DAVIS: No. That would be our

other challenge.

MS. WILKERSON: Not just the lack of expertise, but the company buys on the spot market. There's a lot of different kinds of arrangements that would present a challenge.

COUNCILMAN NUTTER: I understand. Are there opportunities, though, in terms of consolidation or cooperation? I mean, both companies -- and I talk about both water and gas -- they have pretty much -- people talk about kind of penetration rates, but both I think have extensively covered the City with AMRs, for instance. I'm assuming that they're different pieces of equipment. Each has its own personnel that literally drive down the same streets, same day, different day, whatever, doing AMR readings out of the same house.

MS. WILKERSON: They've taken a look at coordinating the AMR readings, and I can get you the feedback on that.

COUNCILMAN NUTTER: May I assume out of that, if you only had one person in one truck that was going down the street once getting all of that same information -- or maybe they would have to do it at different times because they don't want the gas meter AMR running at the same time that the water AMR is running, but there's got to be some --

MS. WILKERSON: We've asked about that and I'll have them write up -- I don't remember the details of the response. I think water may contract that out. It's done in-house. And at the end of the day the dollar figure was the magnitude that Ms. Davis was talking about when we were talking efficiencies. I can get that written up for you.

COUNCILMAN NUTTER: Two questions on surcharge. What is the Administration's position on -- the official name I guess is this Cash Receipts Reconciliation Clause, often referred to as a surcharge. What is the City Administration's position on the surcharge?

MS. WILKERSON: The Administration supports the tracker. We're going to work to try to assure that it doesn't end up in vote.

It is a mechanism that only kicks in if it's needed. We are working with the company trying to hit the collection figures that we need so that we don't end up having to resort to the tracker clause, but we can't be in a position that we don't have any fail-safe in position, and so support the tracker.

COUNCILMAN NUTTER: Last question on that. If in the worst case scenario -- you refer to it as the tracker -- the surcharge comes into play and the revenues are generated as a result of the paying customers paying whatever that additional charge is, how does that impact the City's request demand for the $18 million payment from PGW?

Will we find ourselves in a situation where under the worst of circumstances the surcharge comes into play, the company generates whatever it generates as a result of either better collections/surcharge, and are we then going to be demanding the $18 million as a part of that?

MS. DAVIS: Let me take a look at

that. I'm not certain and I don't want to just give you an off-the-cuff answer.

COUNCILMAN NUTTER: All right. Thanks.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam Chair.

Madam Chief of Staff, I believe when you came on the 31st when you addressed the issue of the Administration's intent on going into self-insurance, my colleague Marian Tasco was concerned that approving the Five-Year Plan would be a stamp of approval on the undefined self-insurance plan. You indicated that you would go to Council and draft a clarification regarding what legislation would be needed to approve a self-insurance plan. How far are we along?

MS. WILKERSON: I should have that to you by the end of the week.

COUNCILMAN RAMOS: Because there's also a question that I was asking Madam President and Charlie about, whether in fact we needed legislation to approve self-insurance. Can you enlighten me?

MS. WILKERSON: Their letter will address it. What it talks about is the need to have the contracts with the party that administers. If it's a long-term contract, a contract in excess of a year, that would have to come back to City Council. But I'll get you the letter by the end of the week so that you have a precise answer.

COUNCILMAN RAMOS: I believe it was you who indicated -- correct me if I'm wrong -- but someone, either you or Rob, indicated that there was talks, ongoing talks with the municipal unions. How are those talks going on this business of self-insurance?

I know, being a union member, it is a very big concern with union members and its leaders. Can you tell us where we stand with that?

MS. WILKERSON: We're talking. The arbitration -- the City gave us an Act 1 arbitration --

COUNCILMAN RAMOS: You're talking to

what unions?

MS. WILKERSON: The process has started with both AFSCME unions and the FOP. The arbitration proceedings, which are Act 1-11 arbitrations, begin later on this month, and there have been positions exchanged between the AFSCME unions and the City and there are informal conversations going on.

COUNCILMAN RAMOS: I just heard a person I have a lot of respect for and I will continue, the Chief of Staff of this Administration, but I see Tom Cronin back there from District Council 47 -- there is ongoing talks with you and District Council 47?

MS. WILKERSON: We have a team of people that are involved. That process began with the exchange of positions --

COUNCILMAN RAMOS: As you well know, Madam Chief of Staff, that this is so crucial that we engage fully our municipal unions on this matter that will change, according to your plans, how City employees are covered for medical costs.

MS. WILKERSON: We understand that this is something that the City has to bargain with all the unions. We only have unilateral control with respect to exempt employees. This is a huge issue.

As you heard when Mr. Vignola testified, the City has enormous challenges and that we are going to have to begin doing business differently. And when you look at the areas in our budget that are growing in a way that we can't afford, the whole benefits area is one of those areas. And so we're going to be working with the unions, talking with them, but at the end of the day we believe that there are going to have to be substantial changes.

COUNCILMAN RAMOS: You also stated on the 31st that the pension system will be moved from defined benefits to defined contributions for new employees only. We're trying to curb the rising cost of pension contributions. What is your thinking with the existing City employees, union employees in particular?

MS. DAVIS: We cannot unilaterally change the benefit that people have earned and are already vested in. Our attempt is to protect the City going forward from the impact of that same type of pension structure for new hires. We have no intention at all of changing the benefit for those employees. We cannot, in fact, change their benefits.

COUNCILMAN RAMOS: You will not be asking our municipal unions to restructure their pension system?

MS. DAVIS: No, sir, not for current employees. We're only looking prospectively.

COUNCILMAN RAMOS: You mentioned a detail here. You referred to something the other day of a productivity bank. Who was that?

Was that you, Rob? Can you tell me what it is and where is it?

MR. DUBOW: The productivity bank was established with funds borrowed by PICA, and it's money that's supposed to be used to fund ideas or initiatives that would either produce revenues or reduce cost. For example, one of the things that it was used for was to automate the Revenue Department, which has allowed them to increase collections while reducing staff.

COUNCILMAN RAMOS: How much is in that fund?

MR. DUBOW: It's in the upper 20s of millions of dollars.

COUNCILMAN RAMOS: Have we used it before for other --

MR. DUBOW: The only restriction is that it can't be used for personnel costs.

COUNCILMAN RAMOS: So it's only this restriction on the use of the fund?

MR. DUBOW: Yes. And it has to be paid back. It's a loan. It's a bank. So when we make loans from the bank, they have to be paid back over five years.

COUNCILMAN RAMOS: Thank you for letting me know what it is and where it's at.

Has the Administration at any time, Madam Chief of Staff, considered taking over the management of PGW? And if so, can you share?

MS. WILKERSON: We have talked generally about things like consolidating the call centers and the billing centers. PGW has a state-of-the-art call center with -- the City doesn't. They're all doing call center operations, although it would involve a lot of retraining. PGW has a very different set of rules under which it operates than the water company does, and so it would involve extensive cross-training. And it would involve a lot of labor issues, so we have identified it as an area of potential opportunity, but haven't put together a plan for even analyzing it carefully. But it's at that level that we talked about the City becoming more directly involved in the operations of the gas company. We are not talking about trying to fold it back in so that it becomes another City department.

COUNCILMAN RAMOS: You're not?

MS. WILKERSON: We've talked about it generally, but don't have an active plan for bringing it back into the City.

COUNCILMAN RAMOS: Given the

testimony that we've heard here, and I assume your talks with them over the years and as of recent because of their budget problems, are you inclined now to further explore the possibility of taking over something that actually belongs to us?

MS. WILKERSON: As Ms. Davis indicated, I think there are areas we might be able to collaborate with them. There are certain other lines of business that the company has that would make it very, very difficult -- for example, their whole gas purchasing unit. PGW is one of the best in the region at purchasing gas. They don't do your traditional, you know, go to the Procurement Department, RFP, buy gas. They have some aspects of their operation that don't readily get incorporated into the City. And it's mostly the overlapping functions where we would derive an efficiency. We're going to probably try to get at those without bringing the company directly back into the City. It's not clear what the benefits of that would be.

COUNCILMAN RAMOS: As you probably know, what we have heard from PGW has basically been that they really don't know what to do with this hole that they're in. And someone is going to have to come to the rescue. So we're going to have to get our collective minds here together and see what we're going to do about this problem. They have very articulately stated in hearings that they do not know really what to do except to raise the rates and put it on the taxpayers and the gas users. So that's a pretty tough situation to be in for us to just stand on the sidelines.

MS. WILKERSON: The City is not on the sidelines. Ms. Davis serves on the board. I serve on the board. The City Solicitor is at the meetings. We probably have four or five people who are on at least a monthly basis wrestling with PGW challenges. And the Administration has been intimately involved in the operations of the company since the very beginning.

I think that when the Mayor first

took office, we all began to understand that the arms-length relationship didn't work, that PGW had in a lot of ways spun out of control and understood even then that because of the relationship between the company and the City, it could end up on the City's door step, all the PGW problems. And I think what we're living through now are what have been decades of lack of attention. And just because we have not proposed moving it into the City, I don't think is any indication of a lack of direct involvement by the Administration.

COUNCILMAN RAMOS: This is my last question, Madam President.

Concerning PICA's statement here this morning quite emphatically through Director Vignola that they're saying to the Administration, cut expenditures, are you looking at cutting expenditures some more? It seems as though PICA is not inclined at this time to approve your Five-Year Plan.

MS. WILKERSON: Some of what PICA chooses to characterize as speculative expenditures are revenues that we identify as coming from other governments.

For example, the Administration is proposing that reimbursement for social workers go to 100 percent. There are a number of those kinds of initiatives. We are putting together a list of cuts that will happen if it appears that those additional revenue measures aren't going to happen. And so we will and are formulating cuts in the social service realm that will be implemented if, in fact, we are unable to get the additional revenue we need.

Currently, if you look at what happens out of DHS, that's discretionary. It's in the area of preventative measures. We would be taking a new look at some of those initiatives that we feel very strongly about, but might end up proposed for cuts. None of the things that the Administration has put on the table, not the cuts to the Art Museum, not the cuts in the Recreation Department, the changes in health benefits -- I mean, all of these measures were arrived at after very careful deliberations. We have a sense of how painful they're going to be, both for the City and for the workforce.

Since 2001, I guess, when we imposed the hiring freeze, we've been aware that the City is going to be in a precarious situation. The Administration had proposed moving very slowly on tax reductions because we knew that we were going to end up where we are today, with a very, very difficult financial situation. We think that we have a defensible Five-Year Plan. We're putting in place now contingencies in the event that the revenues don't materialize. But over the course of the next several weeks we will be in close conversation with PICA. We meet with PICA almost weekly and will be trying to develop a level of comfort between PICA and the City in our contingency plan in the event that some of these revenues don't materialize.

When we come to Council and talk about the cuts, you know, to the Art Museum and some of the others, it's with an understanding that we really do have a very dire situation. It's bad this year. Next year is not going to be any easier on the City. There will probably be more even difficult measures proposed in the coming years.

COUNCILMAN RAMOS: Thank you, Ms. Wilkerson.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam Chair.

I have a few questions for the Finance Director and the Administration.

To the Finance Director, Ms. Davis, many months ago I brought to your attention the fact that there was a problem with the police overtime issue where officers work off-duty, the City pays the officer, and it appears that we have serious problems with the process where we're assured that the vendors, the contractors, the businesses that hire these police officers are paying their debt. I'm disappointed to hear that there's been a breakdown in bringing that entire process under control, where the Revenue Department was supposed to take control of the billing. And I understand that that is not happened, that has been delayed because of some reasons.

My questions are, could you give us a brief report for the record where we are? Do you believe that we have this under control, even without all of the pieces in place? I'd like to know what you're doing about the outstanding debt, the monies that has not been collected that are owed the City.

MS. DAVIS: The Managing Director and the Police Department have been working on policies and procedures governing that whole operation, and they've been looking at those arrears and how to handle those.

We had difficulty when the new TIPS system came up, which is our consolidated tax system. There were some problems in bringing real estate into the system that delayed our ability to bring miscellaneous receivables into that system. It's still anticipated that that will happen sometime during May, in which time we'll have other receivables coming on as well as the police overtime. And once that's done, it becomes a function of the Revenue Department, with it being remotely input by police but being monitored through our system. So my anticipation is that by summer we'll be fully up and running, unless we have some other problem.

COUNCILMAN RIZZO: There's hundreds of thousands of dollars, if not more, that have not been collected. Can you tell me what you're doing to collect it?

MS. DAVIS: I'd have to defer to the MDO's Office because they've been working on that. I can get you the information.

COUNCILMAN RIZZO: Does Mr. Dubow know? The Chief of Staff?

MS. DAVIS: I don't believe -- Phil Goldsmith is the one who's been honchoing that one, so I'd have to get the information from him.

COUNCILMAN RIZZO: Chief of Staff?

MS. WILKERSON: I'd have to defer to Mr. Goldsmith as well for exactly where they are with collections.

COUNCILMAN RIZZO: Okay. My last question today. If someone has the need for fire rescue to come to their home, we have a process in place, I believe, where if they have insurance or if they don't have insurance we send a bill for that service, am I correct?

MS. DAVIS: Yes, sir.

COUNCILMAN RIZZO: If a vehicle accident occurs at an intersection, one car, two car, multiple vehicle, do we have a process in place where if fire rescue responds to that vehicle accident and those vehicles have insurance, are we recovering any of those expenses associated with that response?

MS. DAVIS: I'll have to get that answer. I'm assuming that if some person is involved, we would seek reimbursement. But just to water down the street or wash down the street or whatever, is that the question?

COUNCILMAN RIZZO: No. I'm talking about if a medic unit comes, transports the person to the hospital, I'd like to know are we utilizing the same process when they respond to a home to recover the costs, which I understand are very, very expensive? And if these folks have insurance, you would think that we would have some process to recover that.

Again, it's a stretch on this part of it. Are we making any effort to collect for the accident investigation costs associated with that? I know there's some basic police services that we are required, but based on the budget that we have in front of us, I think you should be looking for recovery every place you can. So my question is, do we know if we look for those reimbursements that I just described?

MS. DAVIS: I believe whenever we transport, we seek reimbursement. But I'll get the other information for you.

COUNCILMAN RIZZO: Could you get that answer back to the Chair, please?

MS. DAVIS: Yes, sir.

COUNCILMAN RIZZO: Thank you. And I would appreciate having an update on where we are with this process, because I have been sent some policies from the Managing Director's Office that are very vague on how this program where police officers work off time, the liability of the City still has not been issued if they're injured off duty. I understand we inherit that injury, that the City is responsible to cover that employee. So I think that this program is still loose.

I've been patient for a long time now. And these are the obvious problems that we're facing on having money, hundreds of thousands of dollars, that haven't been collected, continuing to have a program that is possibly adding to that uncollected. So I think it's a reasonable request to fix this.

MS. DAVIS: Yes, sir. Part of our work so far with it, when we had Risk Management looking at it also, was to assign a cost that would recover all of the cost, not just the cost for the labor, but also provide some level of recovery for vehicles and also some recognition of the risks that the City assumes when it does this kind of work. So that was all part of the study. I'll get that information for you.

COUNCILMAN RIZZO: So it's still safe to say -- and I believe there was some speculation when we met -- that if a police officer working off-duty was injured, that that became an on-duty issue?

MS. DAVIS: That was one of our concerns, yes, sir.

COUNCILMAN RIZZO: Well, is it or isn't it?

MS. DAVIS: We believe it is still our liability.

COUNCILMAN RIZZO: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam Chair.

Good afternoon. I think it was Ms. Wilkerson who made mention of -- something in your statement said about the concern that the Administration has had concerning continuing tax reductions. Could you be a little more specific about that?

MS. WILKERSON: I think that the Administration embraces tax reduction. As I said before, it's part of our economic development strategy, but that it makes the budget that much more challenging. And I believe Mr. Vignola was talking about the numbers that we've returned to Philadelphia residents and businesses as a result of the tax program. But it does make the budget very, very challenging, and that it means we have to operate in a more efficient way than before. So we need to proceed carefully and slowly or be very strategic in our tax reduction program. That was the only --

COUNCILMAN DICICCO: I understand that. But if there's anyone taking into consideration but for those cuts -- when we talk about imposing cuts in order to stimulate the economy and grow the economy -- and I guess it's kind of an unknown -- but had we not continued with those cuts, would the revenues be even less today as a result of companies not coming or not staying?

MS. WILKERSON: I think that point is well taken, and that's why the Administration has supported cuts, came to this budget with additional cuts being proposed. But they do create a challenge, but we believe they are essential.

We also believe that it's essential that we have the opportunity to make other kinds of investments to grow the economy. Because if we continue on a course of without righting the problems with the tax system, if we continue to have assets around the City like the naval yard and the North Delaware and don't ever come up with strategies for making them part of our economic engine, the City is not going to see the kind of recovery that all of us want to have.

But the flip side of that is it creates pressure on the budget. It makes necessary cuts, some of which we probably ought to be doing anyway; others, we might prefer not to do, but on balance believe that the tax reform and the tax reductions are sufficiently important. We believe the ability to invest in the assets are sufficiently important, that we ought to go on and bear the pain of the cuts that are being proposed.

COUNCILMAN DICICCO: During the last maybe, say, three years, from 2001 to the current time, what were collections, revenue collections, compared to expenditures?

In the simplest way that could be explained, how are we doing?

MR. DUBOW: Our expenditures have exceeded our revenues for the last few years. In '03, the last year for which we have in actual, there was a $67 million gap between our collections and our expenditures.

COUNCILMAN DICICCO: Meaning that we outspent by $67 million?

MR. DUBOW: Yes. That's right.

COUNCILMAN DICICCO: '03. Where were we in '02, do you know, '02 and '01, ballpark figure?

MR. DUBOW: Well, I think it was the end of '01 -- I think -- I'm trying to remember. I think we were $230 million at the end of '01.

COUNCILMAN DICICCO: Over?

MR. DUBOW: $230 million was our fund balance at the end of '01.

COUNCILMAN DICICCO: A positive?

MR. DUBOW: Yes. And then I think -- I'll get back to you with the right numbers. I think we went down about $100 million in '02.

COUNCILMAN DICICCO: So we would have been left with $130, approximately?

MR. DUBOW: Yes. I think it's in the Five-Year Plan.

COUNCILMAN DICICCO: I'm sure it is.

MR. DUBOW: I can give you the difference by year. Okay. We were at 230 at the end of '01. We went down to 139 at the end of '02. So that was roughly a $90 million decrease.

COUNCILMAN DICICCO: So '03 we're minus 67. Does that come off the 139?

MR. DUBOW: Well, we're minus 67 when you look at revenues versus obligations.

There are some below the line adjustments that affect the number. So our fund balance will wind up going down to 91, so it went down about $50 million.

COUNCILMAN DICICCO: In '03?

MR. DUBOW: Yes. And then we're projecting at the end of '04, it will $14.6 million, so you'll go down another $77 million.

COUNCILMAN DICICCO: We go down 77? Maybe I'm missing the point here.

MR. DUBOW: From '03 to '04?

COUNCILMAN DICICCO: From $91 million to $14 million?

When we started in 2000, this Administration, what was the surplus in the City at that time?

MR. DUBOW: The fund balance at the end of 2000 was $295 million.

COUNCILMAN DICICCO: That's an accurate number? Because when you talk to the Controller, he said it was closer to $500 million. And then that was the number we were working from, 295?

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MR. DUBOW: 295 was the number that was in our audited financial statement that's audited by the Controller's Office. So they signed off on that number.

COUNCILMAN DICICCO: So really the major impact, negative impact, has been between '03 and '04, based on what we started out at the bank at $295 million?

MR. DUBOW: Let me do the sequence. We went from 295 in 2000 to 230 at the end of 2001. Most of that was because of accounting change. And then we went to 139, so that was actually the biggest decrease, from '01 to '02. And then we went to 91.3 in 2003. And then we're projecting 14 million at the end of '04. But the biggest decrease was in '02.

COUNCILMAN DICICCO: And most of that is as a result of the expenditures as opposed to the collections? There are collections apparently -- I know there's a schedule here, but I don't think they reviewed that quickly enough.

MR. DUBOW: Revenues grew more slowly in those years than they had in the late '90s as the economy slowed down. And in some years they were actually up from what we had budgeted. But there was a slow-down, and expenditures didn't slow down correspondingly. There were many things that happened that drove those costs, a lot of which was beyond our control. But that's what happened, expenditures have grown.

COUNCILMAN DICICCO: But what were the things that were in our control?

MR. DUBOW: Yeah. They were things like the School District funding. That's been an extra $45 million a year. That's a big part of this. That's over $200 million to the School District. And the accounting change was another $70 million. So just between those two things you have $270 million.

COUNCILMAN DICICCO: No overtime costs?

MS. WILKERSON: The pension costs over the course of the same time period, the change in our pension expenditure.

We acknowledge that there's a problem with overtime, and I believe an overtime report is being generated that shows where in government it is. Some of the overtime is avoidable, but not all of it is. I believe out of the last hearing there was a request made for overtime, and we will provide that.

MR. DUBOW: We actually, in one of the briefings that we did for you, we had a graph that showed the swings in fund balance, and it listed the six major contributors, when was the accounting change, when was the School District funding. And then there were pension costs, health benefit costs, police costs and prison costs. Those were the major drivers in the swing in our fund balance.

COUNCILMAN DICICCO: When you do your calculations, although it's three years out, the tax exemption bill that we passed in 1997 for building conversions where the real estate tax stayed at the same level, regardless of what the improvements are, that's actually coming due in three years. Is there any calculation being done? Because that's going to be additional revenues.

Although it's three years out, I was just curious if any of that's being taken into consideration, because there's a significant number of buildings that went on-line with the exemption bill in '97.

MR. DUBOW: Part of the calculation we do and are getting to you are property tax estimates, including abatements that expired. So we do include that in our projections.

COUNCILMAN DICICCO: Thank you. No further questions.

COUNCIL PRESIDENT VERNA: I believe Councilman Nutter will be back very shortly. I think he has a number of questions he would like to ask.

However, before he returns, I know we spoke about the switch from a defined pension plan to a defined pension contribution. Has an actuary prepared the analysis of this proposal? And what are the benefits that the City would accrue?

MS. DAVIS: We've not factored in any savings from this in the current plan. The benefit that the City would accrue would be that the City would no longer bear the risk of non-performance in the market, such as we saw over the past three years where the City lost approximately a billion dollars in value. Those types of risks will not be borne by the City. So you wouldn't see an escalation in your pension cost to cover the non-performance of the market.

COUNCIL PRESIDENT VERNA: But was an actuary prepared?

MS. DAVIS: We've not had an actuarial report done, because at this point this is just a plan and there is no savings projected for the future years. It's just something that the Administration will start to investigate as a way to shield the City from further cost escalations.

COUNCIL PRESIDENT VERNA: Thank you.

I believe that we're waiting for Councilman Nutter.

The stenographer would like a break. We will stand in recess for 10 minutes.

(Brief recess.)

COUNCIL PRESIDENT VERNA: The

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Committee is now in session.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. I apologize.

Let me start this round -- and I mean it when I say I'll really try to be quick. If there were things that were raised at the last hearing, if you would just tell me.

I know you had a lot discussion about the Economic Development Fund last week and the proceeds coming out of -- technically what's the place?

MR. DUBOW: Residual fund.

MS. DAVIS: It goes from the debt service reserve fund into the residual fund.

COUNCILMAN NUTTER: Have the details been, I guess, kind of developed as to how is this all going to work? I guess what I mean by that is, we have to approve something to move the money from one place to the other. And then where does the money go and who's in charge of it?

MS. DAVIS: You approve the substitution of the surety policy for the actual funds.

COUNCILMAN NUTTER: And that would be a bill or a resolution?

MS. DAVIS: An ordinance or something.

COUNCILMAN NUTTER: It would be an ordinance to allow for the substitution. And that surety is a guarantee that if something were to happen, we can go against the bond to make up for the revenues?

MS. DAVIS: It serves exactly the same purpose as the debt service reserve fund. And in fact, the ordinance supporting the last bond issue anticipates that instead of using cash proceeds, the City would use a surety.

COUNCILMAN NUTTER: And what, if any, restrictions or limitations are there? Was that yesterday?

MS. WILKERSON: What we were going to do is get something from bond counsel so that it's real clear, so you have something in writing.

COUNCILMAN NUTTER: If the surety bond ordinance is passed, if you could walk me through the mechanics of where the dollars are today and where they would end up after -- I mean, if we do all we're supposed to do -- I'll read the memo when you get it together -- what happens then?

MS. DAVIS: The money would flow the way we anticipate. It would flow from the debt service reserve fund to the residual fund. And then that's where it's dispersed from.

COUNCILMAN NUTTER: And is the residual fund still within the --

MS. DAVIS: It's within Water.

COUNCILMAN NUTTER: Within Water. And then how do you access the dollars and who would actually access them?

MS. DAVIS: There's $125 million appropriation in that residual fund. The specific mechanics of who gets it out, how it's accessed, we haven't developed.

COUNCILMAN NUTTER: Would that be put together prior to the approval?

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MS. WILKERSON: Yes. We anticipate having a program in place prior to coming to City Council for authorization to swap out the surety bond for the sinking fund.

COUNCILMAN NUTTER: When you say a program, are you talking about where the dollars are going or what the process is?

MS. WILKERSON: Both. Some of what we want to come out of the economic summit is really a refinement of how the whole half-billion dollar fund will be used. But we will not come to City Council for authorization to swap the surety bond without having developed a proposed program.

COUNCILMAN NUTTER: And the balance of the $500 million Economic Development Fund, the 375, the source of funds for that presently is?

MS. WILKERSON: We talked about those are proposed to be borrowed funds. The debt service is not in this Five-Year Financial Plan. We haven't developed that fully yet, so it's not in the Five-Year Plan.

COUNCILMAN NUTTER: One last

question for the moment. I'm sure we'll have more extensive hearings. These funds have been in the residual fund for some time?

MS. DAVIS: They've been in the debt service reserve fund for some time, yes.

COUNCILMAN NUTTER: What's the rationale for utilizing these dollars for economic development purposes as compared to doing anything with them that is directly related to the Water Department customers or the ratepayers?

MS. DAVIS: They would be used for Water capital-type items, and that's what we anticipate using them for in this process. It's a policy decision, whether you call it economic development and use it there or call it something more specifically, you know, broader sewer pipes or whatever. It was just a policy decision.

MS. WILKERSON: But I think it's a real critical decision for the City. As we talked about with Councilman DiCicco just previously, we've got to do something to grow the economy of the City and to grow the City.

We really do have wonderful assets that we've got to figure out strategies for taking advantage of them. And as the Administration tried to identify revenue that it could use to help support the build-out of infrastructure in these areas that were previously industrial, it appeared to be an appropriate and strategic use of these reserve funds. We are still going to be doing infrastructure. They will still be water related. But at the same time it helps open up areas for development that have been dormant for decades in this City.

COUNCILMAN NUTTER: And the thought here -- I mean, is there a belief or a view that the lack of infrastructure has been a barrier to development -- yesterday's discussion, and I'm sure last week's -- it's the Delaware River, it's the navy yard. And was there a third?

MS. WILKERSON: And Schuylkill and select NTI communities. We've seen it in particular with NTI when you go into these areas that were previously industrial, frequently you'll have old buildings. You frequently have environmental issues. You don't have the water sewer. You don't have the roads that you need. And those are the kinds of things that thwart development.

When the Commerce Department comes, the PIDC folk will be here with the Commerce people. They can talk to you in more detail about the but-for issue of what it is that's blocking the growth of these areas.

COUNCILMAN NUTTER: Can you give a sense at the moment -- and I know this is all still being developed. We're at early April. I'm assuming that as a part of the budget process you want all of these things done by the May 31st date, although some of this stuff may not have that kind of time pressure on them. We've asked for a whole lot of things and you're working on trying to get a whole lot of things back to us. Do you have any sense of when some of that will start coming back?

MS. WILKERSON: In terms of the economic development, I would see that in the fall. The summit will happen sometime, hopefully, in June. There will be additional work dome after the summit to actually finalize the blueprint. Out of that will be in more detail the plan for spending the fund.

COUNCILMAN NUTTER: But I thought you wanted the approval on the first part of the 125 now.

MS. WILKERSON: We're not seeking approval for the surety bond. We haven't transmitted legislation in support of that. That would probably come in the fall.

COUNCILMAN NUTTER: Okay. Maybe it was a misunderstanding on my part, I thought, I was left with the impression that somewhere within the budget and all of its complexities that approval of the budget there's a -- I don't want to call it a trigger -- but some mechanism, some provision in the budget that once it's approved moves the money. Is that incorrect?

MR. DUBOW: That's not completely correct. There's appropriation power in the budget. But if we don't use the surety bond and we don't move the money over, there's no revenue to go with that appropriation. So there's no actual cash to spend.

COUNCILMAN NUTTER: All right. Okay. Thanks for clearing that up. Thank you.

COUNCIL PRESIDENT VERNA: Any other questions from Members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, this Committee will stand in recess until Tuesday at 9:30.

MS. WILKERSON: This coming Tuesday?

COUNCIL PRESIDENT VERNA: We're going to be here anyway. We're just rolling them so that we will be able to report all of the bills out at one time.

MS. WILKERSON: But you don't need Ms. Davis?

COUNCIL PRESIDENT VERNA: Well, I think she may have to come back.

I would like to remind my colleagues at 2:00 we have a public hearing on Finance and at 2:30, a public hearing on the Capital

Budget.

(Council adjourned at 12:50 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, April 7, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON FISCAL STABILITY AND INTERGOVERNMENTAL COOPERATION

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Lisa C. Bradley, RPR