COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING BEFORE THE COMMITTEE ON
FISCAL STABILITY & INTERGOVERNMENTAL COOPERATION

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Room 400, City Hall
Philadelphia, Pennsylvania
Monday, February 8, 1999
9:30 a.m.

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RESOLUTION NO. 990038 - A 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 2000 through 2004, and incorporating proposed changes with respect to Fiscal Year 1999, which is to be submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority ("The Authority") pursuant to the Intergovernmental Cooperation Agreement, authorized by an ordinance of this Council approved by the Mayor on January 3, 1992 (Bill No. 1563-A), by and between the City and the Authority.

PRESENT: COUNCIL PRESIDENT ANNA C. VERNA
COUNCILWOMAN AUGUSTA A. CLARK
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN MICHAEL A. NUTTER
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CHARLES MCPHERSON, Chief Financial Officer

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P R O C E E D I N G S

COUNCIL PRESIDENT VERNA: Good morning, everyone. This is the public hearing on the Committee of Fiscal Stability and Intergovernmental Cooperation. I would ask Mr. McPherson to please read the title of Resolution No. 990038.

MR. MCPHERSON: Resolution 990038, providing for the approval of the Council of the City of Philadelphia of a revised Five-Year Financial Plan for the City of Philadelphia covering Fiscal Years 2000 through 2004, and incorporating proposed changes with respect to Fiscal Year 1999, which is to be submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority ("The Authority") pursuant to the Intergovernmental Cooperation Agreement, authorized by an ordinance of this Council, approved by the Mayor on January 3, 1992 (Bill No. 1563-A), by and between the City and the Authority.

COUNCIL PRESIDENT VERNA: Thank you.

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

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MR. ROST: Thank you. Good morning, Council President Verna and members of City Council. My name is Gregory S. Rost, and I'm Chief of Staff to Mayor Edward G. Rendell.

I'm pleased to be here this morning with Dean Kaplan, the City's Budget Director, and Rob Dubow, the City's Deputy Budget Director to present the Administration's testimony concerning the proposed Fiscal Year 2000 through Fiscal Year 2004 Five-Year Financial Plan.

As we have done in prior years, what we would like to do this morning is to provide a brief overview of the Plan and then throw the floor open to questions from members of Council. Our cabinet members and commissioners are in the audience today to address specific concerns that Councilmembers may have with respect to the individual departments and the Plan.

Obviously, the cabinet and commissioners will return to City Council for their regularly scheduled testimony concerning the FY 2000 Budget. At that time, they will be prepared to address any specific questions that members of Council may have with regard to the departmental chapters of the Plan or the proposed Fiscal Year 2000 Budget.

As I indicated, my chief responsibility this morning is to provide a brief overview of the Plan. I remind members of Council that this is the eighth five-year financial plan that the Administration has submitted to Council since the passage of the Pennsylvania Intergovernmental Cooperation Act of 1991. It also happens to represent the last plan that the Rendell Administration will submit to Council.

Under the provisions of that act, the City is required to prepare a financial plan so long as the city is, quote, an assisted city, end quote, as defined under the act. An assisted city, for our purposes, is one that has used PICA borrowing power and has not yet repaid that debt or refinanced it out of existence.

As you know, the five-year financial plans are subject to the approval of PICA. The process we follow for the Five-Year Plan is the process that is set forth in the Intergovernmental Cooperation Agreement that was approved by this Council in January of 1992.

Under that agreement, it is the Mayor's responsibilities to propose a five-year financial plan, which is then presented to City Council by resolution along with the operating and capital budgets. Council then considers, and hopefully approves, the Plan typically at the same time as the budget ordinance. And the Plan approved by Council is then submitted to PICA for its approval.

The format of this year's proposed Five-Year Plan is identical to last year's plan. We start with an introduction, which is really a thematic overview of the Plan. Since many people find it difficult to read all 600 pages of the Five-Year Plan, the introduction serves as a suitable overview; and at 36 pages, it is a little bit easier to digest.

In the past, the Administration has made copies of the introduction available to members of Council for their constituents. We would again like to extend that offer to Council again this year.

The introduction is then followed by several additional introductory chapters. The

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General Fund Revenues chapter provides the basis for our revenue estimates and forecasts for Fiscal Year 2000 and throughout the five years covered by the Five-Year Plan. It includes our local tax revenues, revenues from other governments, locally-generated non-tax revenues, and revenues from other funds.

General Fund revenues is followed by a fairly lengthy chapter detailing the City's economic development efforts. This chapter describes in some detail the City's effort to spur economic growth and create jobs in the City of Philadelphia.

The economic development chapter tracks the City's Economic Stimulus Program and our efforts to create economic opportunities in four critical areas: neighborhood economic development, business retention and attraction, defense conversion, and hospitality and tourism.

After economic development, there's a chapter on management and productivity which highlights the numerous management productivity initiatives and accomplishments that the Administration and City Council have pursued over

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these past seven years.

The last of the introductory chapters concerns the City's workforce. This chapter provides an overview of the status of our collective bargaining agreements with our four major municipal unions -- DC 33, DC 47, DIAFF, and the FOP, which are now concluded through the end of the Administration with the FOP arbitration award this past summer. All four of the City's collective bargaining agreements now in effect will expire on June 30th of the year 2000.

Beyond the introductory chapters, the balance of the Plan is divided into two major sections. The first of these major sections concerns what we call "Citizen Service Departments." These are the operating departments that have the most direct impact on the services that our citizens and businesses receive, and include police and fire departments, the Recreation Department, the Free Library, the Health Department, DHS, Fairmount Park, Licenses and Inspections, the Streets Department, and Records.

As in the past, each of these

departmental chapters begins with a mission statement, followed by a summary of major accomplishments, objectives, and constraints. Each chapter closes with a five-year summary of obligations as well as a listing of selected service-level measurements so that we can track the quality and the quantity of the services provided by City government.

The second major section of the Plan concerns what we call "Internal Support Departments." There are chapters on the various departments in the government that do not necessarily provide services directly to citizens, but rather provide support to the rest of the government. Included among the internal support departments are: Finance, Law, Personnel, Public Property, Fleet Management, the Mayor's Office of Information Services, and the Municipal Energy Office. Again, these chapters are generally formatted in the same fashion as our citizen service departments.

The Plan concludes with a brief chapter on the Capital Program, which will be the subject of separate hearings in City Council commencing tomorrow.

At the very back of the Plan, there are a series of appendices that largely contain materials that are required under the PICA statute. I call your attention to two appendices in particular: Appendix I, which covers the City's enterprise funds; and Appendix III, which contains a summary of operations for the five years covered by the Five-Year Financial Plan.

In summation, the new Five-Year Financial Plan that we are submitting today tracks with the philosophy that the Administration and City Council first adopted seven years ago, and that philosophy is as follows:

Number one, to maintain a balanced budget;

Number two, to continue to improve and, where possible, enhance the quality of the services that the City government provides;

Number three, to continue to lower the cost of living and working in Philadelphia through responsible tax reduction;

Number four, to stimulate the economy to provide economic opportunities for every

Philadelphian.

Our new plan reflects the government's continuing commitment to these four principles, which have enabled us to achieve so much.

With the cooperation of this Council, we have completed six consecutive years with a balanced budget, regained investment-grade credit, and ended Fiscal Year 1999 with a record $169.2 million positive year-end fund balance.

We have continued to improve the services we provide to our citizens. For example, with the support of this City Council, we have added 753 new Crime Bill police officers to our police force to push the force to nearly 7,000 officers -- the highest level since 1984.

With the leadership of this Council, we have cut taxes for four consecutive years, including the first historic cuts in the City's wage tax in five decades.

And perhaps most important of all, we will again show positive job growth in 1998. Preliminary Bureau of Labor statistics numbers indicate that the City may have gained as much as 5100 jobs in 1998 on top of the 3,000 jobs that we gained in 1997. This is a far cry from the devastating loss of 2700 jobs that the City experienced on a monthly basis in 1991.

However, as the members of this body know all too well, there are still many challenges ahead. Welfare reform and a possible downturn in the national economy are but two threats to our long-term prosperity. If we are to weather these challenges, we must not break from the fiscal discipline that has rewarded us so greatly thus far.

With that, let me turn the microphone over to Dean Kaplan, the City's Budget Director, who will discuss the revenues side of the Plan; and to Rob Dubow, who will discuss the expenditures sides of the plan. Thank you very much.

COUNCIL PRESIDENT VERNA: You're welcome.

MR. ROST: Mr. Kaplan?

MR. KAPLAN: Thank you. I'm Dean Kaplan, the City's Budget Director.

The FY 2000-2004 Five-Year Plan continues to be a finely balanced document. As

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Chief of Staff Rost mentioned, we've had six years of positive fund balances in the budget; and the Five-Year Plan, as required by the PICA statute, projects a balanced plan at the end of five years as well as individual balance within each of the five fiscal years that make up the Plan.

Obviously, this is a great testament to the leadership that the Mayor and this Council have shown and also to the hard work that the department heads who are here today and the many, many staff who work for them have -- the effort they have put forth over the last eight years.

Although we generally have had a lot of good news -- and much of it just summarized by Greg Rost, including recent job gains and revenue growth -- we still face a number of major challenges. Despite the better than expected performance last year and the addition of millions of dollars in savings over the life of this Plan and over the last six years, we still project reaching the end of FY '04 with a fund balance of only $64.2 million, which is just 2.2 percent of projected expenditures.

This balance itself is threatened with

several major items. First and most importantly, as alluded to by the Chief of Staff, there is no funding for new labor contracts after the current ones expire in less than 17 months. And this Plan absorbs $102 million in new costs related to the recent police arbitration award. So we've taken a lot of the savings and other efficiencies achieved with the number of initiatives in the last year and used those to fund the existing series of labor agreements.

In addition, future target budget reductions are increased in this proposal, from $50 million to $60 million, thereby raising the bar a bit further for future administrations in terms of finding future efficiencies in government to make this Plan work. Also, as this Council knows, in its original proposal, the Administration suggested using funding pension COLAS at a level which would include a $4.4-million-per-year payment from the General Fund. Those were part of the savings that were coming from the pension bond sale; another large piece of those savings were used to fund the police contract.

Those $4.4 million a year are in this plan however. However, the difference between that amount and whatever final pension COLA legislation is accepted by the Council is not in the Plan at this time, and we will have to find additional reductions in order to make up that difference.

Most recently, the most recent pension actuary number that I have seen would indicate that we would have an obligation of about $39 million over the life of the Plan. The money that we put in based in the original proposal was about $22 million, so we're looking for about -- we'd be looking for about $17 million over the life of the Plan.

Most important, as the Mayor's Chief of Staff suggested, the Five-Year Financial Plan this year is predicated on continued modest economic growth, no recession in the local, regional, or national economy, and a minimal impact from State and federal welfare cuts. And those are pretty big if's going out further.

Let me summarize some of the revenue issues briefly and then come back to some of these larger questions.

Revenues in FY 2000 are projected to be $2.61 billion, which is about 2.5 percent over the current FY '99 projection as adjusted, and about 4.5 percent over actual FY '98 revenues. And those track pretty closely to the sorts of future growth we're expecting on the revenue side of our budget.

The Administration is proposing a fifth year of incremental tax reductions, with a cut in the wage tax from 4.6869 percent this year to 4.6135 percent for in-City residents and a similar reduction for commuters, which would be a 7 percent reduction overall, since the Council and the Mayor began the wage tax reductions on January 1, 1996.

We are also proposing a further reduction in the gross receipts portion of the business privilege tax, which would take it from 2.775 percent to 2.65 percent. This would be an 18.46 6 percent reduction in that portion of the tax since January 1, 1996, and overall, a 10 percent reduction in the complete (unintelligible) on the effect of all the modifications to the business privilege tax are factored in.

The result of this is that the cumulative impact of the tax reduction for FY '96 through FY 2000 will be $315 million -- that's $223 million in wage tax cuts and $92 million in business privilege tax cuts, so that the total equals $315 million, without any calculation for the personal property tax. As you will recall, we stopped collecting in 1997. When you count the personal property tax elimination, our total tax reduction for FY '96 through FY 2000 is $382 million.

The annual savings just from the reductions in FY 2000, which are the ones that will occur each year going out, are $108 million, which is made up of $83 million in wage reductions and $25 million in BPT reductions.

And then the total savings from FY '96 to 2004, the end of the plan -- assuming that all the tax cuts proposed in this Plan are adopted -- would be $905 million. And when you combine that with $143 million in the personal property tax, which will not be collected over that period, the total package, the total reduction in revenues from FY '96 to 2004 is $1,048,000,000.

For a wage-earner making $30,000 -- which is kind of the standard we've used in the last several years -- the wage tax cut of $22 in FY 2000 means that they will be paying $104 less in wage tax net year than they were paying when the tax cuts began about three years ago. The cumulative savings for this wage-earner since that time is $288.

For a typical business in Philadelphia with revenues of $15 million and before tax profit of 1.5 million, the BPT cuts just for this year will mean an additional $1,875 in savings. But overall, the business is paying $9,000 less next year than it did in FY '96, and it saved a cumulative total of $30,000. When you add in the effect of the double-weighting change we made several years ago and how the net income portion of the tax is calculated, the cumulative total of savings next year will be $52,815. And the nine-year program, from FY '96 to 2004, will save that business about $177,942, which would higher approximately six of those $30,000-a-year wage-earners.

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The overall strength in our local economy has provided sufficient income to allow us to afford these tax cuts. And that revenue combined with the modest annual savings from the pension bond issuance last month, as I mentioned, helped to sort of absorb a variety of increased costs: the $103 million net five-year cost of the FOP award last year; as I mentioned, a large portion of the pension COLA, which we anticipate Council will adopt in some form; and increases in the funding for libraries, recreation, and homeless services that will be discussed in one moment by Rob Dubow.

There are, however, several areas that we have significant concerns about going forward in the Plan. First, even with the moderate growth we're anticipating, our revenues are expected to only slightly outpace inflation over the planned period.

Despite the public attention over the real estate taxes and their levels and the reassessment totals over the last several years, the overall tax base for real estate has been essentially flat over the last several years and is expected to grow in a very minimal way going forward.

The wage tax and the business privilege tax, our first- and third-largest taxes, are particularly vulnerable to an economic downturn, and those have been the engines that have really driven our revenue success over the last several years.

And then finally, the substantial growth in the transfer tax, which is our fifth largest tax, has been driven in part by the one-time catchup in the recording backlog, which has now reached zero.

And the recent escalation of sales of downtown office towers, which do occur periodically, usually on a 10- or 20-year cycle, and which we expect to be a transient phenomenon -- I don't think you'll continue to see the large office buildings get sold each year, generating large amounts of transfer tax.

So although we have done quite well in certain taxes over the last several years, that has masked the fact that many of these are one-time phenomena and the fact that some of the taxes have been not growing at an astounding rate. And we should not expect them to suddenly pick up either, I think, going forward.

At the same time, as I noted earlier, the next mayor and the next Council will have to find funds to pay for new labor contracts for all four City unions for the last four of the five years in the Plan. By way of comparison, the net cost of the '97 to 2000 labor contracts for the four major unions was $232 million. So you're looking at, obviously, a fairly -- whatever those negotiations end up with, it will be a large figure to make up in future plans.

Next, as the Council is well aware, next month, the first Philadelphians will lose their welfare benefits as the TANF law takes full effect. And while we don't expect a catastrophic change on March 3rd, we have already seen the effect of TANF increasing the number of visits by uninsured to our health centers, raising the population at our homeless shelters, and we know that there will inevitably be additional pressures on our budget as the law affects more and more families.

And finally, as I've mentioned several times, all of this is contingent on modest growth in the local, regional, and national economies. Nationally, we're now in the eighth year of economic expansion, which is pretty much a record unparalleled since the second world war.

In Philadelphia, however, we've only really seen the results of this growth in the last three years. So you can make a fairly strong argument that our growth, compared to the national economy, is lagging by five years. And that when the inevitable downturn occurs -- whenever it occurs -- we're assumed to be one of the economies that will be affected first.

One of the good pieces of information out there is that over the last several months, when the downturn in Asia -- particularly in Brazil -- has had a very strong negative effect on regional economies around the country that are very dependent on exports, it has not had such a negative effect here because of our non-export-driven economy. So sometimes some of our weaknesses are our strengths.

However, overall, you know, despite the

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fact that I think all of us are very pleased at the fact that the job losses have turned to job gains, and we've definitely seen growth both in revenues and in employment numbers the last several years, we can't assume that those trends will continue in any substantial way beyond the very modest expectations we have in this Plan.

Before turning this over to Rob, I do want to note that both the Five-Year Plan and the Budget Detail, which you will receive either tomorrow or the next day, and all of the testimony that will be made before Council the next several weeks are the product of a tremendous amount of hard work by a group of people throughout the Administration who have spent days, nights, weekends, and many, many hours meeting, discussing, and putting together the documents which you have before you.

This is a good time to thank all of the department heads and their staff, all of the central agency heads -- particularly from the Budget Office, the Office of Management and Productivity, the Policy and Planning Office, and others -- who have spent a lot of their time putting these together so that they're coherent and rational and provide some information for you, and I just wanted to make it clear how much we appreciate their hard work.

At this point in time, Rob Dubow's going to discuss some of the expenditure enhancements in this year's budgeting plan.

MR. DUBOW: I'm Rob Dubow. I'm Deputy Budget Director, and I'm going to be walking through some of the --

COUNCIL PRESIDENT VERNA: I'm sorry, you're going to have to speak closer into the microphone.

MR. DUBOW: I'm going to walk you through some of the requested funding increases in the FY 2000 Budget and in the Plan.

The first area's in the Recreation Department, which is $2.9 million in increased funding, which is a total of about $15 million over the life of the Plan. It includes $2 million for 52 new full-time custodians for B Centers and 32 new full-time equivalent staff at C Centers, 8 additional trade workers for the Maintenance Division, and 17 additional --

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COUNCIL PRESIDENT VERNA: We're having a very difficult time hearing you.

COUNCILMAN NUTTER: Mr. Dubow, if you'll move a little close to the mike. And are you referring to specific sections of the Plan?

MR. DUBOW: I'm talking about the Recreation Department now, which would be in the Recreation Department chapter.

COUNCILMAN NUTTER: Okay, thank you.

MR. DUBOW: Okay. And I'll start over. Am I coming through now?

COUNCILMAN NUTTER: A little better.

MR. DUBOW: Okay. The Recreation Department increased funding, which will total about $15 million over the life of the Plan, includes $2 million for 52 new full-time custodians for B Centers, 32 new full-time equivalent staff at C Centers, the 8 additional trades workers for the, 8 additional trade workers for the Maintenance Division, and 17 additional recreation leaders to expand programming.

The additional staffing will allow the Recreation Department to provide full-time custodial coverage at all of its B facilities and part-time shared maintenance at all C facilities. As you're aware, all the A facilities already have full-time coverage. The new funding will also enable the Department to follow maintenance standards that will establish certain levels of routine custodial and grounds maintenance work.

The 17 additional recreation leaders will help the Department expand programming at selective recreation centers for five days to six days per week.

The Recreation Department will also receive about $265,000 to go for raises from between 10 and 16 percent for lifeguards (unintelligible) and security personnel. The pay increases are important because the Department has had trouble in attracting and retaining lifeguards.

The next area I'm going to talk about is the Library. The FY 2000 budget includes $1.5 million to the library. Of that, 1.1 million is for additional employees and supplies to enable the Library's staff branches to reopen after extensive renovations. By the end of FY 2000, all the branches will have undergone renovations that will have provided updated computer access, new carpeting and furniture, overhead lighting, and improved handicap accessibility.

The additional funding will provide for the equivalent of 68 and a half full-time employees, and is in addition to the almost $700,000 in increased funding of the Library received in FY '99. Over the course of the Five-Year Plan, the City will have provided the Library almost $9 million in funding beyond that included in the FY '98 budget.

The FY 2000 budget also includes a little over $95,000 to permit the Library to open and staff a branch in east Philadelphia as well as $850,000 in capital funding to repair and open the new location.

The operating funding included in the FY 2000 budget will provide six months of funding for 7 employees to staff a branch that would open in the middle of FY 2000. The Library projects the branch will get about 60,000 visits and circulate about 60,000 books in its first six months. The Plan includes about $200,000 annually to operate the branches beginning in FY 2000.

The budget also includes a little over $275,000 to expand LEAP, an after-school program that focuses on homework assistance, computer literacy, and cultural enrichment. The Library will use the funding to provide these five days a week at nine branches throughout the City and to increase the number of children served by LEAP from 52,000 to 64,000.

In the Police Department, we will also receive substantial increases in funding. The proposed FY 2000 budget includes an additional $8.5 million to pay for the cost of police officers formerly by the Crime Bill. That 8.5 million will bring the General Fund share of the Crime Bill officers' salaries to $34.6 million; while the federal and State shares declined to just 6.6 million. The City's share will increase another 6.4 million to 41 million in FY 2000 that the federal and State shares dropped to 2.5 million. By FY 2002, the federal and State share will have been completely eliminated, and the City's share will increase another 3.8 million to $44.8 million.

Over the life of the Plan, the City

funding for Crime Bill officers will total $212.6 million, and the FY 2000 Police Department budget will reach $388 million, an increase of over $90 million since FY '94.

In the Streets Department, the budget for 2000 includes $810,000 for two pilots. The first pilot will test ways to improve the City's street-cleaning program. And the $390,000 pilot is expected to last about eight months. During the pilot, the Department will combine increased enforcement and education with more mechanical cleaning, and the (unintelligible) street-cleaning schedule time to try to improve the neighborhood street-cleaning program.

The Department also plans to launch an eight-month $420,000 pilot program to test the impact on participation rates of the net costs of switching from biweekly to weekly collections of curbside recycling. We will also test collecting recycling on the same day as trash is collected, as opposed to collecting it the day before it is currently done.

The pilot programs will target those neighborhoods with high- and low-level participation. Higher levels of participation would reduce the City's cost and help the City be creative in compliance with State environmental laws.

The 2000 Budget also increases funding for the Atwood Kent Museum. Last year's Five-Year Plan called for a reduction in Atwater Kent's funding to $100,000 in FY 2000. Instead of implementing that reduction, at the request of the Museum and many members of this Council, this Plan increases the Museum's funding to $219,716.

The budget also includes extra support for both the Mural Arts Program and the Graffiti Abatement Teams in FY 2000. The nationally-recognized mural program will receive an extra $66,000 for salary increases, paint, and other supplies. The Graffiti Abatement Teams will receive an additional $61,000 for paint and supplies. The added money will allow the Mural Program to increase the number of murals it paints from the projected 147 in FY '99 to an estimated 155 in FY 2000. The funds will also help the Graffiti Abatement Teams increase the number of properties they clean, from an estimated 32,750 in

FY 989 to over 34,000 in FY 2000. As recently as FY '96, the City has included fewer than 4,000 properties a year.

And the last area to discuss is OESS. The budget includes 1.8 million for OESS to increase per-diems for shelter providers by almost 17 percent -- from $12 to $14. The adjustment follows a $1 cost-of-living increase in FY '98 and will bring the reimbursement rates more into line with those for other residential services. With $12 per day, the City was having trouble attracting contractors willing to provide services. The rate increase will cost $9 million over the life of the Five-Year Plan.

That concludes my testimony.

COUNCIL PRESIDENT VERNA: Thank you. Mr. Dubow, did I understand you to say that the Recreation Department would be receiving an additional $15 million?

MR. DUBOW: Over the life of the plan. It's $2.9 million in FY 2000.

COUNCIL PRESIDENT VERNA: If you turn to Appendix III, Page 4 of the Five-Year Plan, it certainly would not appear that there is a

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$15 million increase.

MR. DUBOW: Its funding goes from -- if look at the budget FY '99, it shows $29.7 million. And (unintelligible) a projected 2000, it shows 32.6, which is roughly the $2.9 million increase. And then when you multiply that times the 5 years to the Plan, it comes to about $15 million.

COUNCIL PRESIDENT VERNA: How much?

MR. DUBOW: About 15 million over the five years.

COUNCIL PRESIDENT VERNA: Are we simply filling vacancies? I notice, in the Mayor's Operating Budget in Brief, it would appear that we're simply filling vacancies.

MR. KAPLAN: The funding available in the FY 2000 proposal will, in fact, cover the cost of the additional -- I believe it's 52 workers for the D and C Centers.

While the Recreation Department does obviously, like all departments, carry a certain number of vacancies during the year, and they did take a portion of their FY 2000 target budget reduction in Class 100, that was less than -- approximately in the end, I think their target reduction is about between 100 and $140,000. And the increases in the Plan in Class 100 are -- the majority, I believe, of the 2.9 million are in personnel.

MR. KAPLAN: (Addressing Mr. Dubow here.) I'm looking at your numbers going forward here.

I'm not completely clear on why the number -- your point is well taken. The chart in the back of the Budget in Brief does not reflect the position number.

MR. DUBOW: The Class 100 funding for Recreation is --

COUNCIL PRESIDENT VERNA: Gentlemen, I'm sorry, you're just going to have to speak closer into the mike, please.

MR. DUBOW: The Class 100 (unintelligible) the staffing position in the Budget in Brief doesn't show the increase in positions. The Class 100 increase is shown in the table on Page 335 in the Plan.

COUNCILMAN NUTTER: Did you say "235" or "335"?

MR. DUBOW: Page 335. It shows that

the bulk of the increase is in Class 100, so it will enable the Department to hire the extra employees.

MR. KAPLAN: Madame President, I believe your point is well taken, and my suspicion is that the chart is in error, but we'll have to get back to you on that. 'Cause, obviously, it doesn't reflect any real -- any substantial increase from the 99 at the top of the budget to future years; yet, the budget numbers reflect an increase of over $2 million in Class 100.

So unless we're going to give a 10 percent raise to everyone in the Department -- obviously, it's not going to happen -- the table in the Budget in Brief must be in error. So we'll look into that and get back to you.

MR. ROST: If I can just add one more point of clarification, excuse me.

The additional approximately $2 million in Class 100 will pay for 52 new full-time custodians for the B Centers, the 32 new full-time equivalent at the C Centers, the 8 additional trades workers for the Maintenance Division, and the 17 additional assistant recreational leaders to expand programming. That's what the increase -- the approximately $2 million increase in Class 100 buys you.

COUNCIL PRESIDENT VERNA: However, looking at the chart, I would think that there were a number of vacancies that are simply being filled where we are getting additional people, are we not?

MR. ROST: We are getting additional people. I think what the Budget Director tried to explain was, when we allowed the Recreation Department to identify where they would like to make their target budget cut, they chose to take their target budget cut from their Class 100. And that was about -- you said it was approximately $140,000. So above that $2 million is the additional bodies for the maintenance employees in the B Centers and the C Centers.

So there is a net gain, I assure you there is a net gain. I assure you that these are additional bodies above and beyond what they would be hiring anyway.

COUNCIL PRESIDENT VERNA: Okay, I'll take your word for it.

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Would you identify for us what you think are the risks and concerns that can negatively impact the Plan, the Five-Year Plan?

MR. ROST: That's you (addressing Mr. Kaplan).

MR. KAPLAN: Yes. I think there are a number of significant concerns which are of -- which can have a major negative potential impact on the Plan going forward.

As I mentioned earlier, the single largest threat to the Plan is the fact that, as in other years, in order to enter the collective bargaining process without setting a floor or any other type of standard for negotiations, there is no funding for new labor contracts after the current contracts expire in about 17 months from now. That's a traditional position this Administration has taken.

And, as you know, in past years what we have done is try to negotiate in good faith and then come back to this Council and make changes in the budget to fund those contracts. And, as you know, for example, the transfer ordinance before you that you will hear -- that the Appropriations

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Committee will hear on Wednesday has funding for deputy sheriffs and Register of Wills contract, which was not funded in the base FY'99 budget until the negotiation -- until actually, in that case, the arbitration was concluded.

Again, as I mentioned earlier, the single --

COUNCIL PRESIDENT VERNA: Well, while you're on that, can you tell us what every 1 percent would cost over the increase?

MR. KAPLAN: Basically, a 1 percent increase at this point in the Plan is about $10 million across the. . . I'm sorry here.

If you look at the summary of operations, in FY 2000, the personnel services total is about $1 billion, and the benefits figure's about $500 million, or about 50 percent of that.

So if you take a 10 percent on the payroll, or about $10 million, that's for 1 percent for one year across all of the employees, there's usually a benefit impact of approximately 30 percent on that, so that would be about $13 million. And then you have to carry that out for the whole five years of the Plan. So that would be 5 times 13, or $65 million.

So each 1 percent increment that was awarded in the labor contract would affect the Plan by -- I'm sorry, it's actually four years in this Plan, so it would be about $52 million.

COUNCIL PRESIDENT VERNA: What are the other concerns?

MR. KAPLAN: The other key concerns in the Plan are, first, that the -- we have again included future target budget reductions in the Plan, and we think this is a responsible way of both making the plan balanced, challenging ourselves and future administrations to find efficiencies but recognizing that we don't want to make the level of reductions in current services to assume that there will not be any efficiencies in the future. Nonetheless, having that figure there means that departments will have to work harder in order to make the Plan balance in the out-years.

And then finally --

COUNCIL PRESIDENT VERNA: Excuse me, are you referring to the productivity?

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MR. KAPLAN: In part, yes. But in part, as the Council's aware, over the last several years, we each year have asked departments to operate on a target budget which is slightly less than their appropriated level in order to provide funding for contingencies.

We have also -- and in many cases, we have allowed departments to go above that. In some cases, we have frequently made that the base for their following year appropriations. That's one method of achieving future target budget reductions.

A second one, as you mentioned, is through productivity bank initiatives whereby departments have borrowed money from the productivity bank -- in most cases, with the approval of this Council -- to achieve efficiencies in savings which then accrue to the budget in that year and in future years, after their paybacks to the productivity bank are made.

And then in addition to both of those sources, there are generic improvements and efficiencies throughout government, ranging from our ability to negotiate more favorable terms on different contracts -- for example, the EMS contract the last years, our trash disposal contracts, and other places where government has increased efficiency. So it's a variety of issues like that.

The last two points in response to your to your question are that, obviously, this budget is predicated on continued modest economic growth. You know, some would say that's an optimistic assumption; some would say it's a reasonable assumption.

We are comfortable with the level of growth of about 2.5 percent, which is pretty close to the projection of inflation over the next five years. However, it is important to note that any significant economic downturn nationally or regionally or locally will make it much, much harder to make this Plan balance in the out-years.

And then, finally, as I've noted a couple of times, the spending impact of welfare reform is accounted for in this Plan -- but not generously. This Administration continues to believe that it's not solely the City's responsibility to pay for the cost of welfare reform and of poverty in general.

And we've been, as you know, reasonably successful in working with you to convince the State and federal government to help pay their fair share of that burden. This budget assumes that they'll continue to do so, and that the impact of welfare reform will not be catastrophic. If it does turn out to be much more significant than we've assumed in the Plan, then there will be a need for additional spending -- particularly in Health & Human Services and in homeless.

COUNCIL PRESIDENT VERNA: What are the expenditure growth assumptions contained in the City's Five-Year Plan?

MR. KAPLAN: There are a variety of expenditure growth assumptions. The most basic assumption is that in the -- well, there are two. In Class 100, as I mentioned, there is no assumption of growth beyond -- in cost for labor beyond the negotiated wage increases already negotiated between the City and the unions. That's a 3 percent pay increase which just took effect December 15th for the non-uniformed unions, and September 15th for the uniformed employees, and then a 4 percent increase, which takes effect September 15th for the uniformed classes this year, and March 15, 2000 for the non-uniformed classes.

In the other classes, we have prepared the Five-Year Plan as we normally do, which is to say that aside from the specific kinds of increases that Rob Dubow went over in his presentation and have been detailed elsewhere in the Plan in FY 2000, in the out-years, we have generally assumed that Classes 2, 3, 400 will increase at a rate of 1.5 percent beginning in FY 2001. So that's essentially our assumption for inflation and costs for goods and services and contracts in the out-years.

Obviously, to the extent departments are able to make efficiencies beyond that, they would have funds available for programmatic increases and other changes. Or to the extent that cost grew faster, they would have to find a way to absorb those.

That's been our standard practice the past several years, and it seems to track pretty well once you get out two or three years in terms of what the actual growth in departmental costs are.

COUNCIL PRESIDENT VERNA: I think you touched slightly on the next question. While the goal of eliminating waste from the operation of City government remains paramount at some point, the City will no longer be able to rung out sufficient resources from productivity gains.

Do you feel we are at that point now? And if not, what are the areas that the City can reduce its costs through productivity gains? And can you tell us what magnitude of savings that you feel can be achieved?

MR. KAPLAN: Yes. I think that it is clear that there are additional savings to be found in the City's budget. We've worked closely with a number of the departments who are represented here today to make their operations more efficient. And, frankly, they've done a tremendous job since 1992 in really turning around some departments which, I know we were all told, could never be reined in on the spending side.

At the same time, we expect -- there are kind of two different ways to go at this. One is that, as we just discussed, there are $60 million in future target budget cuts in the Plan, which reflect really two kinds of reductions.

One are the ones that you're specifically asking about, which are future savings that the government can point to in specific areas. And in the past, we have obviously renegotiated our trash contracts, worked with many of our providers in different areas to have more reasonable rates, found ways to use in-house existing employees to not necessarily have to carry contracts.

And in the future, our assumption is that there are several areas for a very large change. Number one is, it's quite evident that the energy picture is going to continue to be in a bit of turmoil. Clearly, the four-year agreement we've negotiated with PECO Energy to reduce our electric rates, which expires in a year or two, you know, will be something that we'll have to look and the next administration will have to look very hard at to determine whether they want to continue that -- as you'll recall, there are a couple of option years, where whether the market will have opened up such that there will be room for additional savings.

Another area, for example, is the nature of the City's relationship with SEPTA, which, as you're aware, is tied into a number of agreements which expire in the early years in the next century. And, again, the next administration will have to look at how we may restructure those agreements so that the City gets perhaps a different funding arrangement than it has now.

In addition to those -- of which there are many -- we have been extremely successful in having each department each year prepare a target budget which is a bit below the appropriated level and live within that budget. A substantial portion of the savings which have allowed the City to fund new programs over the last several years have come from the target budget savings across the entire budget that we've achieved each year.

And while that isn't the only way to make those kinds of savings, we strongly recommend to Council and to the future administrations that some similar process be put into play so that departments are constantly challenged to make the kind of day-to-day small efficiencies which add up to some ability to really continue to make important programmatic initiatives, fund important programmatic initiatives elsewhere in the budget.

MR. ROST: I'd also like to add that on Page 92 of your Plan, in the Management and Productivity section of the Plan, there's a summary table at the very top which identifies the impact of Rendell initiatives on the General Fund. And these are all of the management productivity initiatives that the Administration, working with Council in many instances, has pursued. And as you can see, cumulatively from Fiscal Year 1993 through Fiscal Year 2000, in the bottom right-hand corner, you'll see the cumulative impact -- and this includes both revenue enhancement initiatives and expenditure-cutting initiatives -- has been about $3.3 billion.

And was is, in large measure, how we've been able to achieve structural balance in our plan, solve our fiscal crisis. And we believe that moving forward, the government can continue to identify sufficient savings in the government to achieve greater savings.

COUNCIL PRESIDENT VERNA: Thank you.

MR. ROST: You're welcome.

COUNCIL PRESIDENT VERNA: You indicate that the School District could be facing a deficit of $150 million for the school year 1999-2000. What are your assumptions in the Plan in the FY 2000 budget concerning the City's schools and how the City's budget will be affected?

MR. ROST: Well, the one thing, as you know, we've asked the Mayor, and his budget address several weeks ago has asked this Council to again approve a $15 million grant to the School District. This would be the fourth consecutive year that we've requested such a grant. You funded the three prior years for a total of $45 million above and beyond the local contribution in terms of the City's real estate taxes and other taxes that go to fund the School District.

In addition, as Council knows, the City provides approximately $70 million in additional services to the School District, including the provision of nearly 1,000 school crossing guards that have cost in excess of $12 million, water and sewer discounts, etc. So this city and this Council already provides a significant amount of assistance to the School District.

Again, we're asking for an additional $15 million because it's incredibly important to the School District. As you've noted, at this time, they do face a $150 million deficit. I expect that, over the course of the next several months, that number will come down.

I know that the School District has been evaluating some of the recommendations of the various audits that have been done in Harrisburg of the School District, and that they've had a subcommittee of the Business Private Sector Task Force that was headed up by Dick Smoot (ph) and Emma Chappelle looking at those audit recommendations to determine whether there was additional opportunities for savings.

Exclusive of the audit findings, the School District has saved about $29 million a year thus far in terms of the management and productivity initiatives that were identified three year ago.

COUNCIL PRESIDENT VERNA: Okay. Can you tell us what the improvements in the sheriff's sale process and the changes in the way the City collects delinquent taxes on rental properties? It's mentioned on Page 18 of the Plan.

MR. ROST: Madame Chair, with your forbearance, I'd like to ask the Revenue Commissioner to come and answer this question.

COUNCIL PRESIDENT VERNA: Certainly.

(Nancy Kammerdeiner comes forward.)

COUNCIL PRESIDENT VERNA: Good morning.

MS. KAMMERDEINER: Good morning. I'm Nancy Kammerdeiner, the Revenue Commissioner for the City of Philadelphia.

COUNCILMAN NUTTER: Could you switch microphones.

MS. KAMMERDEINER: Good morning. My name is Nancy Kammerdeiner, Revenue Commissioner.

You mentioned something on Page 18, and I wanted to get the exact site before I attempted to answer.

COUNCIL PRESIDENT VERNA: Sure. It's in the first -- I'm sorry, the second paragraph.

It talks about improvements in the sheriff's sale process and the changes and the way that the City collects delinquent taxes on rental properties.

MS. KAMMERDEINER: Okay. This is a reference to a Law Department program known as "rent sequestration." Under that program, a property that has rental space and there is rental income to the landlord can be placed under a sequestrator appointed by the court. And the rental income goes through that sequestrator to come back to the City and pay the real estate taxes until those taxes are satisfied.

The Law Department has found that to be a successful enforcement tool to supplement the other enforcement activities we have underway for the collection of real estate taxes.

COUNCIL PRESIDENT VERNA: And how about the improvements in the sheriff's sale process?

MS. KAMMERDEINER: Excuse me?

COUNCIL PRESIDENT VERNA: Would you elaborate on the improvements in the sheriff's sale process, please.

MS. KAMMERDEINER: Basically, we have been targeting properties for sheriff's sale that

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have a higher potential for sale at the time of the sale and also have a higher potential for the owners to come forward and pay the delinquent taxes before we actually get to the sale. In some previous years, a large number of the properties that were put through the sheriff's sale process had a very low value and very little interest in the acquisition at the time of the sale.

And as you probably know, the sheriff's sale process does entail some very expensive processes along the way. We have to do a title search, there are advertisements that must be placed in various newspapers, and there are some other costs that are incurred in bringing a property to sale.

So you really want to ensure that those properties that go through the sheriff's sale process have a fairly high possibility of sale and bring in the highest dollars.

COUNCIL PRESIDENT VERNA: I'm sure you don't have the figure on the top of your head, but can you give us an estimate as to how many properties are put up for sheriff's sale on an annual basis in the last year?

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MS. KAMMERDEINER: I would have to check on that to get a figure for you, but we do bring a number of properties into the process that never really make it to the actual sale. And so what we would have to look at are really two figures: the number that are certified for sheriff's sale and then the number that actually come to sale.

And, really, there is great deal of activity in terms of settlement on the taxes in that intervening period. And as you probably know, that process takes about a year. At one point, it was taking as much as three years. And the efficiencies both Law and Revenue have worked on in order to improve that process have brought it down to closer to a year.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions of the commissioner?

(No questions.)

COUNCIL PRESIDENT VERNA: Thank you Commissioner.

MS. KAMMERDEINER: Sure.

COUNCIL PRESIDENT VERNA: I have other

questions, but I don't want to dominate the hearings. So at this point in time, I would like to ask my colleagues if any of them have questions.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madame Chair.

I want to go back to the recreation issue for a second. Mr. Rost, can you get us a more detailed and separate explanation based on what you and the Budget Director discussed in response to Councilwoman Verna's question about the $2.9 million for the Recreation Department, the details on whatever classes are being increased, the actual number of bodies involved, and resolve the issue of -- is it the filling of vacant positions? Are these net new employees?

MR. ROST: I'd be happy to do that.

COUNCILMAN NUTTER: Can you give us a separate piece on that, please?

MR. ROST: Absolutely. I'd be happy to.

COUNCILMAN NUTTER: Okay. Now, Mr. Dubow, in your testimony, you talked about the

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Recreation Department. Was your testimony written? Were you reading from a document?

MR. DUBOW: I was reading from notes.

COUNCILMAN NUTTER: Can you recapture those notes for us in written form?

MR. DUBOW: Certainly.

COUNCILMAN NUTTER: So that we can go back over some of those details.

What I recall in your Recreation Department testimony was that as a part, I guess, of the $2.9 million, that there were going to be a number of full-time or full-time equivalent positions for the B and C Centers; is that correct?

MR. DUBOW: Yes.

COUNCILMAN NUTTER: Okay. Can you repeat what you said earlier?

MR. DUBOW: Yes. It's 52 full-time positions for B Centers and 32 full-time equivalent staff at C Centers.

COUNCILMAN NUTTER: That's 52 full-time for Bs.

MR. DUBOW: Yes.

COUNCILMAN NUTTER: 32 full-time --

MR. DUBOW: Full-time equivalents at C Centers.

COUNCILMAN NUTTER: Equivalents for C's.

MR. DUBOW: Yes.

COUNCILMAN NUTTER: Okay. For the record, can you explain what the difference is.

MR. DUBOW: The 32 includes some part-time, and when you total up the additions in hours, it's the equivalent of 32 full-time positions.

COUNCILMAN NUTTER: So how many actual people?

MR. DUBOW: Let me check.

MR. KAPLAN: While he's doing that, I might mention that the Administration's intent in funding this is to substantially fund the Recreation Department's proposal which was generated as a result of hearings Council held, I believe, in November or December.

COUNCILMAN NUTTER: Somewhere around that time.

MR. KAPLAN: Right. The Recreation Department put together a set of proposals for funding additional recreation and maintenance and programming at levels of an additional $1 million, $1.5 and $2 million per year, and also set a group of standards for what those maintenance levels would mean at each of the different levels of centers. And --

COUNCILMAN NUTTER: Is there a report available on all of that?

MR. KAPLAN: Yes. We will send you a copy as part of our response of what the Recreation Department put together for that. But that's the intent of our funding increases to fund the maximum level requested by the Recreation Department.

COUNCILMAN NUTTER: Okay.

MR. DUBOW: I'll have to get back to you on the exact number of bodies.

COUNCILMAN NUTTER: Okay.

MR. ROST: Councilman?

COUNCILMAN NUTTER: Yes?

MR. ROST: After consulting with the Recreation Commissioner, he informs me that we're talking about 46 full-time custodians. 46 new full-time custodians, 8 skilled trades --

COUNCILMAN NUTTER: Can you switch microphones.

MR. ROST: Okay. We're talking about 46 custodians, 8 skilled trades, and then the 32 full-time equivalents is made up of part-time employees and seasonal employees. Obviously, the Recreation Department, the activity in the summer in certain areas is greater than it is at other times of the year.

So it's 46 custodians, 8 skilled trades; that gives you the 54 full-time. And then the balance of the equivalents are seasonal and part-time employees.

But we'll be happy to put this in writing and submit this to the Chair.

COUNCILMAN NUTTER: If you could add to that, what I'd like to better understand, I guess, for the seasonals and part-time people is, what would their actual hours of work be?

And do I understand you to say that the 54 full-time people, that means that there are 54 actual people who will be working an 8-hour day at B Centers?

MR. ROST: Yes. That is my

understanding.

COUNCILMAN NUTTER: Okay, all right. Now, the increase for the Recreation Department, is it a flat 2 million, or is it 2.9?

MR. DUBOW: It's 2.9 million. The 2 million is for the maintenance -- scheduled maintenance program.

COUNCILMAN NUTTER: Okay. What's the $900,000 for?

MR. DUBOW: There's roughly $275,000 for raises for lifeguards.

COUNCILMAN NUTTER: Right.

MR. DUBOW: And there's $500,000 in increased maintenance costs for the Vet.

COUNCILMAN NUTTER: Now, the raises for the lifeguards, is that going to help us to keep them longer; is that what that's for?

MR. DUBOW: Yes.

COUNCILMAN NUTTER: Or do we just think that their rate is too low?

MR. DUBOW: Let's have Mike DiBerardinis respond.

(Recreation Commissioner Michael DiBerardinis comes forward.)

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COMMISSIONER DIBERARDINIS: Yeah, it's not necessarily to keep them longer. I mean, it may, but the primary goal is to ensure that we recruit enough guards. There's competition in the marketplace -- both within the lifeguard field, the lifeguard work in the summer as well as other seasonal employment that's available to young people and college students in the summer.

COUNCILMAN NUTTER: Right.

COMMISSIONER DIBERARDINIS: We surveyed equivalent cities -- Pittsburgh, Baltimore, Chicago -- who have a big pool system.

COUNCILMAN NUTTER: Okay, all right.

COMMISSIONER DIBERARDINIS: And looked at it, so we're under the market in a lot of areas.

COUNCILMAN NUTTER: Okay, well, we can return to this when you have your full opportunity to sit at the table.

COMMISSIONER DIBERARDINIS: Okay.

COUNCILMAN NUTTER: What I would like, Commissioner, if you could for when you do return to us, if you could give us a more detailed explanation of the full use of the increased dollars for the Recreation Department.

And I understand from Mr. Dubow's testimony that 66,000 of it is going to the Mural Arts Program. We've had some discussions about that program, and I guess I'd like to better understand either what the request was for that program and what the $66,000 get us out of a total of a $2.9 million increase for the Department.

MR. DUBOW: Just one point of clarification. The 66,000 is separate from the 2.9 million.

COUNCILMAN NUTTER: All right, okay, I understand.

Mr. Rost or Mr. Kaplan, the City sales tax or the sales tax that's paid in Philadelphia as compared to everywhere else in the Commonwealth of Pennsylvania is 7 percent. That was imposed either concurrent with or right around the time of the creation of PICA. Is that my recollection, is that correct?

MR. ROST: You're correct. Just to clarify, the additional 1 percent increment that is unique to the city of the first class, or the City of Philadelphia, is the PICA, the so-called

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PICA sales tax.

COUNCILMAN NUTTER: And why is it called "the PICA sales tax"?

MR. ROST: Because it was one of the -- excuse me?

MR. MCPHERSON: (Shakes head.)

MR. ROST: Excuse me?

It was my understanding that it was a part of the PICA Intergovernmental Cooperation Act.

COUNCILMAN NUTTER: Does it go to fund any PICA debt, or does all the money come back to Philadelphia?

MR. KAPLAN: The 1 percent increase in the sales tax is not specifically tied to the -- it's not deposited in a separate fund or segregated. However, it's our understanding that the sales tax was initiated at roughly the same time as the PICA deficit reduction debt was issued in order to provide the City with some means to pay for the PICA deficit reduction bonds.

COUNCILMAN NUTTER: So the 1 percent sales tax was instituted actually to make up for the portion of the wage tax that is devoted to

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paying off the PICA bonds; is that correct?

MR. KAPLAN: I don't believe that's the only reason it was implemented; I believe that was one of the reasons it was implemented. I believe it was --

COUNCILMAN NUTTER: Well, what are the other reasons that it was implemented?

MR. KAPLAN: I think to recognize the City's difficult financial condition and the problems that the City was having more generically.

COUNCILMAN NUTTER: You're talking about structural deficiencies?

MR. KAPLAN: Yes.

COUNCILMAN NUTTER: Okay. And what's the state of the City's finances eight years later?

MR. KAPLAN: Well, the City still has approximately four more years of payments on the deficit reduction bonds, as obviously, as I've discussed with the Council President.

COUNCILMAN NUTTER: All right, but the tax wasn't instituted as a part of the deficit reduction bonds based on your previous testimony, right?

MR. KAPLAN: No. I said -- well, I think what I said was that was one of the reasons for implementing the tax. Part of it was general financial conditions, part of it was dealing with the deficit reduction bonds, and part of it was --

COUNCILMAN NUTTER: None of the tax goes to pay any of the deficit reduction bonds; is that correct?

MR. KAPLAN: It does not specifically go to that, but it does allow the City enough revenue to pay that amount.

COUNCILMAN NUTTER: Okay, all right.

MR. KAPLAN: But I guess the reason that it's not tied specifically is because there was no sunset on the tax, it was not assumed to go away. It was assumed -- I believe it was assumed to be a general broadening of the City's tax base, creation of a new source of revenue, and offset to the fact that the City would not have all of the wage tax and net profits tax revenue available to it because of the PICA bond payments that go to PICA as well as the deficit.

So there's a number of things that were

happening at the same time.

COUNCILMAN NUTTER: Well, how much longer do you think the 1 percent additional sales tax only paid in Philadelphia will continue to exist?

MR. KAPLAN: The Five-Year Plan assumes that the 1 percent sales tax will continue to exist into the future. The reason I'm flipping here is I had actually done a kind of a model of the effect of the tax compared to the tax cuts.

As you know, the sales tax now brings in close to $100 million a year, and that's in the Plan. Certainly, the sales tax is -- the 1 percent sales tax is one of the several taxes that could be reviewed as part of the Administration's suggestion that there be a select committee on tax relief to look at the broad variety of taxes and which ones might be changed as we go into the future.

There are two caveats to that. One is, I think we need to examine whether -- and we're not actually going to -- we did take a look at this in response to recent news reports, but we are not completely sure whether there is any obligation to maintain the sales tax as long as any part of the PICA bonds are outstanding. That's one piece of research, which is simple but needs to be completed.

The second is whether reducing that tax, which, obviously, would have a negative impact of $500 million roughly on the Five-Year Plan. A, it could be made up in some other way; and, B, it would more sense than reducing some other tax.

COUNCILMAN NUTTER: Well, but for the purposes of this record, if we could -- I know that the Administration often likes to talk about numbers and then automatically multiply them by 5. The real number is about 96 million a year, correct?

MR. KAPLAN: Yes, I believe -- however, I believe that --

COUNCILMAN NUTTER: Not the 500 million number that you'd like to leave on the record.

MR. KAPLAN: I believe our --

MR. ROST: Well, the forecast in Fiscal Year 2000 is $99.3 million.

MR. KAPLAN: The average over the five

years, in fact, is more than 500 million. I mean, the total for the five years.

COUNCILMAN NUTTER: All right, okay. You were starting to answer, though, the question a little while ago, what was the state of the City's finances presently eight years after the imposition of the tax? Have things improved, stayed the same, or gotten worse?

MR. KAPLAN: I think things have clearly improved. And I think that the budget and Five-Year Plan we proposed reflect some assumptions about what the impact of the previous tax reductions have been and what taxes should be reduced going forward. I don't think we have a monopoly on wisdom on that, but I think there is some reasonable evidence to support our position.

At the same time, I think that, you know, obviously, as we've said, we'd be very open to discussing, you know, which taxes should be reduced and in what amount going forward.

COUNCILMAN NUTTER: Okay. Lastly on this issue, do you think, given our much-discussed resurgence and revitalization, do you think the City, at this point in time, is in an any less competitive position with everyone around us, with the highest sales tax in the Commonwealth?

MR. KAPLAN: I think that the impact of the sales tax is -- increases -- the higher sales tax here is probably relatively minimal. There are a couple of reasons for that.

One is that most necessities are not -- that people pay for are not subject to the sales tax most -- notably here of clothing, food, and shelter.

The second thing is that certain large purchases travel with the -- most notably automobiles -- travel with the purchaser. So if you purchase an automobile as a Philadelphia resident outside of the City, you still pay the City level of tax, and that's probably somewhere in the range of 10 percent of the total amount collected but is among the single largest items.

And the second issue is -- our preliminary understanding is that most of the purchases that make up the sales tax numbers are for smaller -- high-volume smaller items. And that while there may be some traveling beyond our borders to make a sales tax savings on certain larger items, that that number probably has decreased over the last several years as Internet sales and mail-order sales have increased. And, in fact, people aren't traveling to Delaware County to make a purchase; they're going to buy something over the Internet, whether they live here or in Delaware County.

Our sense is that the noncompetitive nature of that tax is probably much less than some others in the City.

COUNCILMAN NUTTER: Okay. Talk to us a little bit about the future of PICA, going forward. What does it presently do other than send us reports on a periodic basis? What's its primary function at this point in time? And when will they go away?

MR. KAPLAN: PICA serves a number of functions for us. Most importantly, as Council is well aware, there are still a substantial amount of outstanding PICA capital dollars which work for a variety of projects, which we work with PICA staff to ensure that they're properly spent and --

COUNCILMAN NUTTER: What's the total outstanding amount of PICA debt at this point?

MR. KAPLAN: The total outstanding amount? I don't know it off the top of my head; I can find that out for you.

COUNCILMAN NUTTER: Didn't we refinance some PICA debt recently?

MR. ROST: Councilman, there was a refinancing, I believe, two years ago. I just happened to look today. We have PICA debt outstanding until, I think, Fiscal Year 2023. I can get the exact dollar amount for you.

MR. KAPLAN: The second role which they play is that in addition to specifically approving the plan and reviewing the plan, PICA does meet both annually on the plan and periodically with City departments and agencies and agency heads, both in terms of their general performance, asking in fact many of the questions similar to those that you ask, but in a role in which they're, you know, seeking to gain information for approval of the plan.

And they also -- they will also follow up on very specific project which they've been interested in over time. For example, they have spent a fair amount of time going over a lot of economic assumptions we've made. They've done made in some detail of what you have just suggested in terms of taxes and our choice of what taxes to reduce and have focused on our ability to perform particularly in areas that they have funded -- most notably in capital.

Obviously, I think that PICA's role is going to vary over time, depending on the City's financial condition. You know, the stronger our performance, I think the more comfortable that they are. I think it would be fair to say that they have never exhibited great comfort with the City's overall long-term position.

Each year, their staff report on the Five-Year Plan has raised some fairly significant concerns about where we may be going in the long run, and also has raised, perhaps in more detail, some of the concerns that we've had. We tend to take a look at the overall economic situation and the City's financial position and have taken, you know, although a modestly optimistic, an optimistic view.

I think PICA has taken the role of what if? and has been careful to make sure that, particularly on the revenue side but also on the expenditure side, that the City remains within a frame work where a significant change in the economy or other conditions will not put the City back where it was eight years.

MR. ROST: Councilman, I have the answer to your question. On Page 393 of the Plan, there's a table, City Long-Term Debt Service Fiscal Year '98 through Fiscal Year 2027.

And just eyeballing -- I'll get you the specific number, but if you look at Fiscal Year 2000, it looks to be approximately a little over $100 million in outstanding debt PICA --

COUNCILMAN NUTTER: I'm sorry, what year?

MR. ROST: If you look at Fiscal Year 2000, it appears to be -- I don't know -- 110, $115 million. I'll get you the precise number.

COUNCILMAN NUTTER: All right. And then in 2023, it looks like it's about 20 or so?

MR. ROST: Approximately, that looks correct.

COUNCILMAN NUTTER: Okay, all right, so it will be around for a long time.

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Mr. Kaplan, you made reference to a number of the tax cuts that have been made, whether it's a wage tax or a business privilege tax. Can you get us a separate report showing this decrease in the cost of living in Philadelphia, comparing this hypothetical taxpayer with $30,000 earnings and show on the annual and then the cumulative basis what the reduction in that person's tax bill has been?

MR. KAPLAN: Certainly.

COUNCILMAN NUTTER: Okay. I see we're back to the First Judicial District game. On Page 20 of the Plan, we talk about 170 million in FY 2000, as the City ends funding for the First Judicial District, and as a result, will no longer receive revenues for court costs, fees, and charges.

Does that mean that this Plan anticipates that we're not going to fund the First Judicial District past FY 2000, is that the current strategy?

MR. KAPLAN: Yes. The Plan makes an assumption similar to what we've made the last several years. And as we've discussed a couple times at transfer hearings, although our leverage is limited, we continue to try to use it however we may.

The significant change, I think, this year, compared to last year is that, as you know, last May, after the State and the City both passed their budgets without funding for the courts, the City was sued by the First Judicial District.

The matter was sent to the Supreme Court immediately, and they remanded it to the President Judge of Commonwealth Court, who held a hearing in June, and ruled -- actually, "ruled" is not correct. He made an advisory opinion back to the Supreme Court in which he added his voice to the chorus of people suggesting that the State step up to the plate. He directed that -- suggested that the City fund the courts for Fiscal Year '99, and that beginning July 1, 1999, the beginning of FY 2000, that the State take over that funding.

So the budget this year reflects that recommendation to the Supreme Court. And, as you know, the Supreme Court has not acted on that, and they have not acted to enforce either their 1985, 1996 --

MR. ROST: That's 1987.

MR. KAPLAN: 1987, 1996 rulings to that effect. However, I don't think that the City should be in a position of not maintaining the belief that the courts, A, are properly funded by the State, and that to the extent that there are valid Supreme Court rulings and an advisory opinion to the Supreme Court as recently as last year saying that we should end funding to the court, that we should not continue to provide whatever push in that direction we can.

COUNCILMAN NUTTER: All right. So tell me how you anticipate this playing out. You're going to fund the courts through June 30, 2000. The next mayor -- whoever that lucky person is -- they get to come and put forward in January of 2000 a budget for FY '01.

What happens between now and June 30, 2000 as it relates to the courts?

MR. KAPLAN: I might not have been clear. The budget does not include funding in the First Judicial line for the courts this July, in July '99 for the beginning of 2000.

COUNCILMAN NUTTER: It does not?

MR. KAPLAN: It does not. We have, as in previous years, we have taken that funding and put it in two places -- in Commerce and Finance. And as you've heard the Mayor say, he would assume that should the --

COUNCILMAN NUTTER: Right, I know.

MR. KAPLAN: Should the State step to the plate, we would use this funding predominantly for -- propose to use it predominantly for education.

COUNCILMAN NUTTER: I'm sorry, can you -- maybe I misunderstood the statement on Page 20.

You're talking about collections. You're saying that in the FY 2000, there is no money for the courts?

MR. ROST: Councilman, Page 20 of what chapter?

COUNCILMAN NUTTER: Page 20, General Fund Revenues in the Five-Year Plan, up at the top.

MR. DUBOW: Yeah. I think that text is supposed to say there's no revenue in 2000. What it's trying to say is that collections go down from 186 to 170 in 2000 because we end funding for the First Judicial District and will no longer receive revenues for cost fees and charges.

COUNCILMAN NUTTER: In FY 2000.

MR. DUBOW: Yes.

COUNCILMAN NUTTER: Okay, all right. It's not --

MR. KAPLAN: It's not -- you may find a few other places --

COUNCILMAN NUTTER: It's not the clearest language to leave with you that.

MR. KAPLAN: We work hard at that you.

COUNCILMAN NUTTER: I believe it.

COUNCIL PRESIDENT VERNA: Excuse me, Councilman, I think on that line of questioning, Councilwoman Clark would like to be recognized.

COUNCILWOMAN CLARK: Thank you, Madame Chair, for permitting me, who is not a member of this committee, to ask a specific question with respect to these First Judicial dollars.

Mr. Kaplan, what specific plan does the Administration have to more urgently insist that local dollars be freed up for use with public schools? Now, in the Mayor's budget, the money that he planned to use to enrich public schools was coming from dollars not spent on the Judicial District.

Well, this could easily be a boring (unintelligible) unless there comes a plan, a plan as urgent and as doggedly pursued as the plan to fund the stadiums. Now, that's a plan; that's not a dream, that's not a hope, that's a plan.

Where is the plan to turn these dollars into something real that we can program and then expect direct results from some?

MR. ROST: Well, Councilwoman, like the stadiums, this is a plan that apparently has worked fairly well in the past. In 1987, the State Supreme Court in Allegheny One said that it was the Commonwealth's responsibility to fund the courts. Again in 1996, the State Supreme Court said that it was the Commonwealth's responsibility to fund the courts. And again, as Mr. Kaplan alluded, last summer, when this matter went before Commonwealth court, that judge issued an advisory that it was, again, the Commonwealth's responsibility to fund the courts.

And we are pursuing every available legal and political means to try to get the Commonwealth to live up to its obligation to fund the courts in Philadelphia. Including the (unintelligible), it's approximately $160 million that we're talking about.

And as the Mayor made reference to in his budget address several weeks ago, one of the options that he's put forth to help adequately fund public education in Philadelphia and elsewhere throughout the Commonwealth, where a lot of the small and rural school districts experience the same kind of problems that we do, is that this is one possibility that you could basically come up with some sort of, quote/unquote, zero sum game, where the Commonwealth could take the money that they're supposed to be paying for the operation of courts throughout the Commonwealth and use that to fund public education.

COUNCILWOMAN CLARK: But, Mr. Rost, until this gets down to a bumper sticker, okay, until it gets to be a rallying cry -- it took you five minutes to say that, and you've been studying it for years. You just detailed at least a ten-year history. We don't have that kind of history with stadiums.

Where's the urgency? Who's mad about it? Who's got some kind of deadline beyond which they have no patience to wait? That's what I'm looking for here. And I see the legal pursuit; I don't see the political pursuit.

Are we meeting with the other school districts around the Commonwealth who are experiencing the same problems we're having with respect to having the burden of the courts? What have we done besides annually put a line in that there's some dollars that we might be able to get?

MR. ROST: Now, again, this is something that the Mayor has talked about with the Governor. It's something that we've pursued in terms of a legal strategy now for the past several years.

COUNCILWOMAN CLARK: I know, Greg, and I don't want you to repeat your comment.

MR. ROST: Yeah.

COUNCILWOMAN CLARK: Now I want you to speak to the issue of the politicizing of this issue. Because the stadiums got passed because it got to be a political football that nobody wanted it to land in their lap.

Who's going to get egg on their face if we don't get the money from the courts into the schools?

MR. ROST: Well, regrettably, besides the Administration and the members of this body, there doesn't seem to be a ground swell of support for --

COUNCILWOMAN CLARK: Stop. And that's my point, and that is exactly my point. Nobody's going to be real sad if this doesn't happen. I want somebody's face on the line, I want somebody's reputation, I want something real big to turn on whether this happens or not. Do you see that happening in this Administration, in the remnant of this term?

MR. ROST: Well, I can assure you that the Administration's doing all it can to --

COUNCILWOMAN CLARK: No, no --

MR. ROST: We have actually tried to lobby other business groups and --

COUNCILWOMAN CLARK: No, no, let me

disagree.

MR. ROST: Okay.

COUNCILWOMAN CLARK: They are not.

MR. ROST: Okay.

COUNCILWOMAN CLARK: When they're doing all they can, they go back and forth to Harrisburg, like they did all last week. Do you see what I'm saying?

This is a dream. Where is the plan? This box of money, this pile of money that we might one day have is a dream, a pretty little dream that we can entertain ourselves with from time to time.

Where is the plan to turn the dream into a reality? If you don't know, that's a good answer, but don't tell me what you just said 'cause I didn't forget it.

MR. ROST: Again, I mean, the Mayor has had discussions with the Governor. We have talked to the business community business. The business community has lobbied in Harrisburg.

COUNCILWOMAN CLARK: Did they lobby like they lobbied for the stadiums?

MR. ROST: No, ma'am. In honesty, I

can't say that they lobbied like they did for the stadiums.

COUNCILWOMAN CLARK: And honestly, you couldn't because you know that I'm watching and then you know that's true.

MR. ROST: Right.

COUNCILWOMAN CLARK: I'm saying, where's the fire, where's the passion, where are the deadlines, whose face is on the line? I want to see the Administration put some passion and some political points behind turning those "maybe" dollars into real dollars.

MR. ROST: Your point is well taken.

COUNCILWOMAN CLARK: I yield back. Thank you.

COUNCIL PRESIDENT VERNA: Thank you, Councilwoman.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: I'd just like to make a comment along the comments Councilwoman Clark made.

When an issue is very passionately felt by the Administration, they gather support from the media and the business community, and I echo her support that you all have good experience in putting together a full court press on an issue when you really want it, and I support her comments that that activity and action should take place to move the money forward so we can look at it for the public schools.

COUNCIL PRESIDENT VERNA: If my memory serves me correctly, wasn't that supposed to be in phases? Has any of that occurred? Have we gotten anything at all from the State for the courts?

MR. KAPLAN: One of the more interesting pieces to this is that the missing piece seems to be, in part, in the legislature, obviously -- but also, in part, in the Supreme Court. As you correctly point out, he suggested a phased plan. And the first phase of that plan was that the senior court administrators in each judicial district across the State would move to the State payroll, much as the judges are paid now.

That funding was estimated to be about $12 million, of which about $800,000 to $900,000 in Payroll would have been in Philadelphia, and about 30 percent more in benefits. And in his FY '99 budget proposal, the Governor actually included that first phase that was in his budget. It went through in the budget. However, at the last moment, the State legislature included a proviso, which essentially stated that that money could not be spent for the court administrators until there was a broader comprehensive court-funding plan in place.

That was -- that same provision was included in this year's budget, funded -- and the court administrators were funded throughout the multiple years of the State budget plan, and there was an additional increment for some technology, about a million dollars statewide.

So the key issue here that's lacking -- and this gets back, in part, to what Councilwoman Clark and Councilwoman Tasco said -- is that, unlike the stadium situation, we're in a situation where we are at the mercy of the judicial branches enforcing its own repeated orders to make this happen. The Governor has, for better or for worse, at least put something on the table, the first step. The legislature has found ways to block that.

The courts need to fulfill their role as an equal branch of government and insist that the State perform the duty that it believes that they have. And that's, I think, one of the key differences between this and some of the other issues we have faced, that there's a point at which, if the courts refuse to enforce their orders, there is only a limited amount that a smaller jurisdiction can do to make that happen.

COUNCILMAN NUTTER: Mr. Rost, given the comment of my colleagues and based on previous public comments that I've made and in private discussion that you and I have had, in an effort not to further irritate anyone -- specifically a couple floors below -- I'll reserve any further comment about the school funding issue to another point in time, but I can only echo the sentiments of my colleagues.

Mr. Kaplan, though, when you raise issues about leverage with the Pennsylvania Supreme Court, let me also remind you that a couple of us at the table and a few others in the room have helped a few of the people who are on the Pennsylvania Supreme Court get to where they are. So, again, I don't take the position that we are solely at their mercy unless people want to forget where they come from or how they got there. And we have remedies to deal with that as well.

So we should exert every possible pressure that we have everywhere in every venue to try to get a resolution to this problem.

Madame Chair, I have three last issues. Hopefully, two of them can get very quick responses, and then I will be done.

Do either of you know what the total outstanding amount of fines there are with regard to Traffic Court? Whether it's parking violations, moving violations, or anything else.

MR. ROST: No, off the top of my head, I don't have that number.

COUNCILMAN NUTTER: Okay.

MR. ROST: I could certainly get it for you.

COUNCILMAN NUTTER: Okay. Does the Five-Year Plan take into account any revenues from the various TIF projects that have been approved?

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I think there are 14 of them.

MR. KAPLAN: Not specifically.

COUNCILMAN NUTTER: Why not?

MR. KAPLAN: Specifically no, but generally yes.

COUNCILMAN NUTTER: How about unspecifically?

MR. KAPLAN: Yeah. As we have in prior years, we have assumed that the growth in the City's revenues -- most notably in this case, in some of the TIF taxes but also in other taxes -- is presumed to be generated by a variety of sources, including economic development along the line of the TIFs. Part of our confidence in projecting the growth that we do project in all of our taxes across the Five-Year Plan is because of that development. We do not, however, allocate specific funding from any of those specific projects to the revenue projections going forward. So we --

COUNCILMAN NUTTER: Are you saying you build them into your various assumptions based on the models or based on the numbers that are presented at the time of the TIF presentation?

MR. KAPLAN: Not exactly. Our revenue numbers are calculated on a --

COUNCILMAN NUTTER: Sounds like a Hertz commercial.

(Laughter.)

MR. KAPLAN: Right, I think so. There are kind of two different processes. In terms of the TIFs, we look -- obviously, particularly the Commerce Department looks at specific projects and projects what specific projects do or might do. It's not possible for us across the City's entire economy to build our revenue model based on taking each individual taxpayer through the system and building a forecast for those taxpayers all the way through the five years.

COUNCILMAN NUTTER: I understand that, but I mean, we get tons of paperwork on these various projects, and they all have numbers associated with them. I mean, is that just best guess at the time and we kind of see what happens going forward?

I mean, how does the -- you know, you pick a project. I won't name any one specifically, but I mean, there are two or three pages of anticipated tax revenues to come from those projects. Are you looking at the then 14 and figuring out as it relates to our current budget and going forward, how they get infused in the Plan? Or do you just say, you know, the project's going to happen and we'll just see what happens?

MR. KAPLAN: Well, I think our general assumption of economic growth in the Plan is based on numerable projects, including the TIFs. However, we don't build our revenue model up on a project by-project-basis.

In other words, each time we go out and secure a new economic development project, we don't increase our revenue estimate to account for that project. We assume that the growth in our tax base that we have looked at across the economy includes those kind of development projects. If we -- if we went the other way around, we would constantly be in a case of adding and subtracting on practically a daily basis across each project.

The TIF projects, I think, are very important, but they are not the only growth in the revenue forecast, and they are not the -- as an overall percentage of on your economy, they're not a huge percentage.

COUNCILMAN NUTTER: Okay, all right. Lastly, there is -- I think it's all the way in the back, it may be the last complete section of the Five-Year Plan. It talks about capital projects.

And I wanted to know from you, at times, it seems that it takes forever to get certain capital projects completed. And there was mention made somewhere in here of developing a disqualification process for non-performing contractors, Page 484.

Whose responsibility is it, other than the Capital Program Office, for the departments that are not a part of that process to make any determination about if a project is taking longer than anyone thinks is reasonable. Do some contractors have more work than they can reasonably get taken care of, notwithstanding the fact that they were the lowest responsible bidder on the last five projects that they bid on but they've got, you know, eight people working, and there's no way in the world they're going to be able to get all of these projects done in any reasonable period of time.

How do we deal with that?

MR. KAPLAN: The Capital Project Office is the lead agency for that. And, as you mentioned, Law and Procurement work on specific debarments and other criteria.

But let me allow Emily Bittenbender from the Capital Office to speak of that.

(Emily Bittenbender comes forward.)

MS. BITTENBENDER: Good morning. My name is Emily Bittenbender, Capital Director for the City of Philadelphia.

Councilman Nutter, you've asked two specific questions. One -- and the first question that was asked was to the bullet or the issue of developing a disqualification process for the non-performing contractors.

There's a program that has been underway for the last nine months that's a shared responsibility between the Law Department and the Procurement Department, with aid and help from the Capital Program Office and some other departments that also provide capital projects to actually look at a process of debarment.

I believe that they have a schematic plan in place, and the debarment process is an evaluation of the contractors' work, and if those contractors have not performed up to their level or ability and have caused delays or harm to the City, a department process would be put in place that would not allow them to bid on public work projects for a certain amount of time.

COUNCILMAN NUTTER: Who makes that determination?

MS. BITTENBENDER: The Law Department is the lead, and they are --

COUNCILMAN NUTTER: Well, is the Law Department out monitoring all of these projects? I mean, are there --

MS. BITTENBENDER: No. It's more or less the process that allows us to disqualify, A, through the Procurement Department first of all; and then the ultimate would be the debarment process through the Law Department.

But as far as the second part of your question as for the ongoing monitoring of capital projects, that management responsibility lies within the departments that are managing those departments. So, certainly, that would be the Capital Program Office, Recreation, Streets, Water, Aviation.

COUNCILMAN NUTTER: I'm sorry, what was the last thing you said?

MS. BITTENBENDER: The departments that actually manage their individual projects themselves are responsible for the performance of those contractors and that ongoing management.

COUNCILMAN NUTTER: And so what's too long a period of time for a project to be completed and who makes that determination?

MS. BITTENBENDER: It depends on the scope of the work, how large the project is. It's very different if it's an airport project that's $500 million as opposed to replacing a boiler in a library.

COUNCILMAN NUTTER: Right.

MS. BITTENBENDER: The scope is basically determined on like or types of projects. And, as you know, in the City of Philadelphia, our projects span the entire scope. Eighty percent of our projects are smaller. Part

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of the Capital Program Office mission is to complete fiscally-funded projects of $500,000 or less in one year fiscal year.

But it is also determined by season, when projects are designed and bid.

MR. KAPLAN: I think that you've hit on a very important point. I think that clearly, historically, the City's really struggled with its ability to -- because of the rules surrounding how we bid Public Works project, how you exclude people from the bidding process and how you disqualify people from doing projects.

COUNCILMAN NUTTER: Well, I'm not necessarily on a mad mission to disqualify people. If anything, I've probably been a person that argued for more inclusion.

What I'm asking is, one, are there any limits on the number of projects that any one contractor can have at any one period of time? I mean, unless you have, you know, unlimited access to a labor pool, isn't it possible that someone could have five different jobs with us at the same time?

MS. BITTENBENDER: Yes, it is possible.

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COUNCILMAN NUTTER: That they could have themselves so stretched out, either financially or personnel-wise, that they just physically cannot complete the project? Isn't that possible?

MS. BITTENBENDER: Yes, it is.

COUNCILMAN NUTTER: Then what do we do about it?

MS. BITTENBENDER: We work with them to try to develop a plan with project schedules, we put our own construction inspectors on site to help to monitor. If the resources aren't there, then we work with them to put together a plan to make sure that they are providing the resources when they can and approaching the project as quickly as possible.

COUNCILMAN NUTTER: Does it make sense for the person to have five different contracts at the same time when we know they can't do all of the work?

That's generally a yes- or no-question.

MR. ROST: No.

MS. BITTENBENDER: No.

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COUNCILMAN NUTTER: Okay, so why do we do it? Or why do we allow the --

MR. KAPLAN: The issue isn't why we do it; the issue is can we prohibit people from having those five projects.

MR. ROST: Well, one would hope, Councilman, that --

COUNCILMAN NUTTER: All right, so answer the question. Can we?

MR. ROST: Councilman, one would hope that through an entity like CPO and CPO and Law and Procurement working with the various departments that aren't under the umbrella of the CPO, that you would have a good idea about, you know, "Company X" that may be bidding for five or more different projects, and you would know the capacity of that firm, and you would have some ability to determine whether they could handle five projects or whether they couldn't handle five projects.

And I think that's a responsibility of city government -- and that would include the CPO, the Procurement Department, and the Law Department to make those kinds of determinations.

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COUNCILMAN NUTTER: Well, lastly on this point, then. For instance, let's take the Recreation Department. I would like someone to get me a complete list of every contractor that has been a bid in or has been awarded work with the Recreation Department, and tell me how many different jobs they have presently.

COUNCILWOMAN VERNA: And with that, would you add something as simple as new swings? I understand that last year -- Commissioner, where did we have to get the swings from? There was one individual who filled the request or the bid -- where did he come from?

COMMISSIONER DIBERARDINIS: (Responds inaudibly off-mike.)

COUNCILMAN NUTTER: We can't hear you.

COMMISSIONER DIBERARDINIS: Okay, Councilwoman, if you're referring to the play equipment at Finnegan?

COUNCIL PRESIDENT VERNA: Finnegan and several others.

COMMISSIONER DIBERARDINIS: Well, the one that we sort of struggled with together was a company in -- I think it was in Indiana or in the

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Midwest who fabricated and, you know, built this equipment and ships it here for the contractor to put it in. So the point is, there's --

COUNCIL PRESIDENT VERNA: I know we had to end up going to somebody who manufactures swings in Canada. I just can't believe that we don't have someone closer by that can manufacture swings.

COUNCILMAN NUTTER: I think Toys-R-Us has pretty decent swings down at their places. There are few of them around the city and in the region.

COUNCIL PRESIDENT VERNA: And I'd hate to tell you what the swings cost.

COMMISSIONER DIBERARDINIS: But we bid the job, and then after that, the people who are awarded the bids then sort of go out and get the products. We don't order -- my department doesn't order the products. We create the standards within the contract -- this grade of this.

And then, once Procurement awards the contract, they go out -- it's the person who gets the award who goes out and orders the specifics if they have to be fabricated in another facility somewhere. Or as I understand it -- am I right about that?

COUNCILMAN NUTTER: Well, let me just share one other small little horror story. This was with the Fairmount Park Commission.

We were in a situation where one contractor had so much work with the City and a significant amount of money that was owed to the contractor, that the person then couldn't purchase the fabricated building that was a part of another contract until I worked with the Finance Office to get the person partially paid from previous jobs that they had done so they could go and buy another piece of equipment for another job that they were working on. They were stretched too thin, they did not have any money.

So I got to sit around waiting for a prefab building that's on a truck coming somewhere from halfway across the country, which the manufacturer will not deliver until this person can give them their money, which they're waiting on us to pay them so that they can buy some more equipment.

I mean, it's a vicious cycle of folks

stretching themselves to the end, bidding on a million contracts. They know they're going to be the lowest bidder, and the they're financing their work based on payments from the Finance Office. But it took six months to get the building -- past the time that the job should have been done.

So, I mean, it's not your department so you can say, you know, you can say, "Shame on the Fairmount Park people." For the moment, I will wait until they come.

I mean, that person probably shouldn't have gotten that other job because they can't perform at that moment.

COUNCILWOMAN CLARK: (Addresses Councilman Nutter inaudibly off-mike.)

COUNCILMAN NUTTER: Well, the City was slow paying, there's no question. They actually weren't that overdue, though.

COUNCILWOMAN CLARK: (Initially off-mike.) . . . at fault for people at the table was, what happens when people are a successful low bidder on more jobs than they can possibly do, one, because they're stretched too thin financially, and two, because their person power is stretched too thin?

COUNCILMAN NUTTER: Right.

COUNCILWOMAN CLARK: But if somebody's holding the money that they're due and it's owed to them, they have a right to believe that that money's going to come at a reasonable time. So I would not like you to put that kind of twist on it 'cause then, you know, you give them an impossible situation.

The first question that you asked is a legitimate one: Who checks to say and whose judgment will prevail when somebody says, You've already got more work than you can do? Based on what? That's a good question.

COUNCILMAN NUTTER: Right.

COUNCILWOMAN CLARK: But don't put the City at fault for not paying them 'cause then that lets you off the hook. That's issuing a check and then let 'em take 20 jobs.

COUNCILMAN NUTTER: Right. No, I understand, I agree.

MS. BITTENBENDER: If I could, this is a subject that's near and dear to my heart, as you can probably imagine, as well as Commissioner

DiBerardinis. And it is, as you say, a very challenging cycle because there's so many multiple departments involved between Procurement, our department, Law, the payment of the process.

But I think that one of the things that is challenging, and I'd like Joe Resta, who is the First Deputy for the Capital Program Office, and a prior Deputy for Procurement for Public Works Bidding, just to explain some of the guidelines for Public Works Bidding and how those fiscal checks happen or don't happy per the requirements.

(Joe Resta comes forward.)

MR. RESTA: Good morning. I am Joe Resta. I'm the First Deputy of the Capital Program Office.

The initial check is a part of the prequalification process. It includes descriptions of prior project-related experience, it has financial qualification. These are reviewed by the department managing the project on a bid-by-bid basis.

So the Councilman is correct that a given contractor can submit qualifications for many projects simultaneously. The Water

Department -- specifically, the bidding cycles that are used as funds become available, there are many water-and-sewer projects bid on a given day, and a given contractor can win all of them potentially. How they are policed is basically on a contract-by-contract basis.

So the department managing the project will basically -- has to look at the contracts individually. If a contractor is performing poorly on one and well on another, their responsibility is to basically take remedy on the contract that they are performing on.

COUNCILMAN NUTTER: Are they required to tell us what other contracts they're presently or recently within the past year have bid on or work that they are presently performing for us on other contracts? Is that on the form that they have to fill out?

MR. RESTA: The entire universe of projects is not required, but part of the process, if you are bidding water-and-sewer project and you would like to bid on another one, is to basically provide project-related experience of comparable scope and magnitude to be qualified for the one you're in essence bidding on or potentially bidding on.

COUNCIL PRESIDENT VERNA: Once the bids are awarded, doesn't the work have to be done within a certain period of time? And if not, are they penalized?

MR. RESTA: Basically, in the specifics for bidding, there is quite normally either a calendar day or working day time limit of the contract. It begins with the notice to proceed, and it ends if there's basically a calendar date when it does end.

Due to the fact that -- the way that the City applies money to projects, there is many times almost universally a contingency fund that's placed on any given project for unforeseen circumstances on that project.

So if we take, for example, a 30-calendar-day project, if it is, in fact, over 30 days, it may be for a multitude of reasons. The City could have come upon an unforeseen condition that it has to remedy, which would indeed require additional time and additional monies. Or the City may amend a project for the same reasons.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Do the requirements allow for -- I guess, does the contract call for you to give -- does the law require you to give the contract to the lowest responsible bidder?

MR. RESTA: Yes, it does.

COUNCILWOMAN TASCO: And how do you identify "responsible"? Can we set the standards of what "responsible" would be? Are there certain set guidelines for "responsible"?

MR. RESTA: The criteria basically prior to bidding is actually the review of the prequalification questionnaire. If the City has experience with a given contractor that has performed poorly on many past projects, it has the right, and the Operating Department has the right to attempt to disqualify that contractor on that particular bid.

COUNCILWOMAN TASCO: Let me ask you a question. Would you tell me how your department interacts with the Procurement Department? Do the Public Works projects still go through the Procurement Department?

MR. RESTA: Yes.

COUNCILWOMAN TASCO: Are you the administrative arm of the Procurement Department? Or what is the difference between the two offices?

MR. RESTA: Basically, we have the direct interface with the contact and community. We will take these prequalification questionnaires and review them financially, their project-related experience, and we'll make the first determination whether we think a given contractor should be disqualified.

At that point, any operating department managing capital projects will turn over a list of bidders that they feel to be approved or not approved for a given project. In the Procurement Department, there's basically some criteria for due-process hearings that takes place between the Procurement Commissioner and two other members of the City municipal government basically selected by the Managing Director.

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There's due process. A contractor has the right to basically come in and defend themselves if we deem them to be not qualified.

COUNCILWOMAN TASCO: So in the prequalifying process and under the term of "responsible," to answer the concern raised by Councilman Nutter, couldn't you not at that point review all of the projects that the contractor has, to determine whether or not they would be stretched out?

MR. RESTA: You could, in fact, do that review at that time.

MS. BITTENBENDER: In fact, we do. Councilwoman, we have been through the process before with contractors that have had poor performance in our capital projects and have gone through the process of disqualification. And hence, then, there's hearing that is held, as Joe said, by the Procurement Commissioner and the committee to review.

So that process is used.

COUNCILWOMAN TASCO: But after you finish with all of that, the Procurement Department puts it out for bid?

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COUNCILMAN NUTTER: Again.

COUNCILWOMAN TASCO: Again?

MS. BITTENBENDER: Well, the committee votes on whether this contractor can be disqualified or not.

COUNCILWOMAN CLARK: (Asks a question off-mike.)

MR. RESTA: Okay. When a contractor's -- basically after the due process hearing, if the panel determines that the contractor is not qualified, they are, in fact, not qualified for that bid. They can bid on another project, they can bid on future projects. That is why it is basically imperative that the City really moves forward with the debarment policy for repeat offenders basically.

MS. BITTENBENDER: So that the disqualification's on a project-by-project basis, and debarment is a long term, a set term of three to five years.

COUNCILMAN NUTTER: How many people have been disqualified in the past year?

COUNCILWOMAN CLARK: My question is: What happens to the contract if the contractor is deemed to be not able to finish?

COUNCILMAN NUTTER: Disqualified. Do you go to the next one?

COUNCILWOMAN CLARK: Does it get rebid? What happens to it? That's the other end of her question.

MR. RESTA: The disqualification occurs prior to the opening of that bid.

COUNCILWOMAN CLARK: Well, then you've answered her wrong question. We're talking about a person who is in the midst of a contract and is clearly not going to be able to do it.

MR. RESTA: In the midst of a contract, a contractor would, in fact, be defaulted on that contract.

COUNCILWOMAN CLARK: And then. . . ?

MR. RESTA: And then the bonding company would be required to take up and prosecute the work from that point forward.

MS. BITTENBENDER: A good example, and one of the questions I'm expecting to be asked tomorrow during the capital program, is the contractor who is doing the toilet rooms in City Hall. We actually did, in fact, default him and he was removed from the contract in the midst of construction.

So, yes, we do follow that process. Even after the disqualification, if a contractor has been awarded the contract, we do have the ability to default them. And, in fact, we have done a number of times this year on multiple projects.

COUNCILWOMAN TASCO: Well, my question was not what did Councilwoman Clark said. The question was: How do we say prevent the guy from getting the contract if we believe he's too stretched out from the beginning before you award the contract in the prequalifying process, under the lowest responsible bidder.

What I sense is that you look at his qualifications based on whether he's done a similar project; that's how you determine whether he might be able to do it.

But do you ask for all of the projects he's presently working on now so that you can evaluate the ability to complete the project, the one he's bidding on? Do you have a list of all of the projects that he's presently working on --

whether it's for the City or anything else so that you can evaluate the ability to complete the bid he's working on now, that he's bidding on now?

MR. RESTA: Actually, no, we don't have a given contractor's entire universe of work.

MS. BITTENBENDER: We have their entire universe of work with the City but not in the private sector as well, no.

COUNCILMAN NUTTER: But what about the current universal work? What Councilwoman Tasco is asking you is, if "Contractor XYZ" is presently working on four different jobs for the City presently -- has men and women out, heavy equipment doing stuff somewhere. Now another project comes along and they bid on that.

Her question is: The person wins the bid, they're the lowest responsible bidder. They've got 20 employees, they're out at 4 different sites somewhere. They have no ability to bring on another person and possibly cannot do this fifth job, even though they were awarded the job.

Her request is: Do you have the ability --

MS. BITTENBENDER: Yes.

COUNCILMAN NUTTER: -- to find out first, Contractor XYZ, you have four jobs with us right now. How are you going to complete this fifth job with no expansion plans or without the financial resources to do this? Are you anticipating that -- I mean, does that kind of go back to what I got my hands smacked on by Councilwoman Clark, are you expecting that the revenues from the four jobs you're working on now are going to come in at such a point in time that you'll now be able to start the fifth job and hire more people?

Do you know that this person is working on four other jobs for the city right now? That's the question.

MR. RESTA: Many times, yes.

COUNCILMAN NUTTER: And many times, no.

MR. RESTA: It basically is depending on the type of project. I would assume --

COUNCILMAN NUTTER: Why does it depend on anything? Why doesn't the person have to fill out on the form the question, "Are you presently performing any work for the City of Philadelphia?

Yes, no? If yes, tell us what they are, what's the scope of the work, when did you get the project, what's the dollar amount, how many people in your company are working on the project, and when is that one schedule to be completed?"

Do you ask those questions?

MR. RESTA: We as similar questions to that, yes. Councilman Nutter, basically, the first --

COUNCILMAN NUTTER: Well, if your answer is "yes" to that series of questions, then your answer should have been "yes" to the earlier series of questions.

MR. RESTA: I would actually like to go back to if a contractor is performing poorly, the City has all available remedies to have that contractor discontinue work via the --

COUNCILMAN NUTTER: I'm not asking about you the contractor performing poorly. Maybe the contractor's doing a bang-up job on the four projects that they're presently working on. The problem is that they can't do anywhere near as good a job on the fifth project that they just got awarded yesterday.

And what I want to know is, do you have the ability to evaluate not only what you're presently doing but your capacity to do the fifth? Or do you have to wait until the other four are done, which is automatically delay the fifth and result in my calling Mike D., Bill Mifflin, or Miss Bittenbender, or somebody else, and screaming in the phone to them that "Contractor XYZ" is way behind schedule, and I'm taking a whole lot of crap for it. That's the real life of what goes on with these projects.

MR. RESTA: Yes, that's correct. Basically, if we make an assumption as to a contractor's future performance, if a contractor's performing well in four and we assume that he's going to perform poorly on the fifth, that's an assumption that the City would then have to basically prove in a due-process hearing -- which is very difficult.

COUNCILMAN NUTTER: Councilwoman Tasco took you through a series of questions about the lowest responsible bidder. Your response was, there are various criteria that we can use to evaluate the phrase or the term "responsible."

The City could make a determination, "Contractor XYZ," you're doing a great job for us on the four projects that you're presently working on. We don't see any capacity or ability for you to do this fifth project in a reasonable amount of time; therefore, you don't get the work. You don't --

MR. RESTA: We can say that, but when comes to a hearing, if the contractor feels that they do have the capacity, bonding or financing or workforce, we have to basically dispute their claims that they are, in fact, capable.

COUNCILMAN NUTTER: How many contractors did you disqualify last year?

MR. RESTA: I do not have that figure off the top of my head.

COUNCILMAN NUTTER: Don't you participate in that process?

MR. RESTA: Yes, I do.

COUNCILMAN NUTTER: Okay. How many disqualification hearings did you go to last year?

MR. RESTA: At the Capital Program Office, we went to probably -- I don't have the exact figures, but I've been participating in disqualification hearings for a number of years now.

MS. BITTENBENDER: We can get you that number today and report back to you tomorrow. There have been a number of hearings where we have disqualified. We also have one or two contractors that bid constantly on our projects, and we -- every time they attempt to bid, we go and disqualify that same contractor. So I --

COUNCILMAN NUTTER: Well, I'd like to know how many you've disqualified every year for the past three years, I'd like to know who they are, and I'd like to know the reason why they were disqualified.

MS. BITTENBENDER: (Nods.)

COUNCIL PRESIDENT VERNA: What is the likelihood of the contractor also being a subcontractor on other jobs?

MR. RESTA: It's sometimes likely, it's very likely on --

COUNCIL PRESIDENT VERNA: Would you be aware of that? Would you be aware of that?

MR. RESTA: The operating departments for the -- of the City that manage capital projects basically know the subcontractor pool on a given project during the project, yes.

COUNCIL PRESIDENT VERNA: So the contractor that has the five jobs may, in essence, really have eight jobs to do.

MR. RESTA: That is in fact true.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: I think Councilwoman Clark has a question on this issue.

COUNCIL PRESIDENT VERNA: Oh, I thought you had a question.

COUNCILWOMAN TASCO: I do, but please let --

COUNCIL PRESIDENT VERNA: Oh, you're going to yield to the Councilwoman, okay.

The Chair recognizes Councilwoman Clark.

COUNCILWOMAN CLARK: Thank you, Councilwoman Tasco and Madame Chair.

My question is, I hope, you will think relevant. Who has standing to initiate an investigation of a contractor whose performance falls below the City Solicitor's expectation? Who can bring the charge, how does it get before you? Who has standing to raise the issue?

MR. RESTA: Basically, the first cut is the department that's managing the project. If a contractor's performing poorly, they can request of the Procurement Commissioner to begin a default proceeding against that contractor.

COUNCILWOMAN CLARK: Is "performing poorly" a legal term of art, or is it some kind of feeling of discomfiture?

MR. RESTA: I would say that it is a little more than a feeling of discomfort (sic) but, ultimately, when it comes to a due-process hearing, it would have to be proven via schedule, via cost.

COUNCILWOMAN CLARK: How about a person who was a competitor who did not win; does that person have standing to bring an issue of adequacy of performance against the winning contractor?

MR. RESTA: Absolutely. If a contractor is, say, disqualified for a given project?

COUNCILWOMAN CLARK: Well, he's not disqualified. You and I competed, you won, I watch, and you're not doing this job half as well as I could have. As a matter of fact, you fall below any reasonable community standards for acceptable performance.

MR. RESTA: I'm sure that they could raise concerns to the managing department, yes.

COUNCILWOMAN CLARK: But if I'm raising it, I've got to raise the enabler, I've got to say, "I challenge you on the basis of. . . " and then I've got to reference a paragraph and a piece of paper somewhere, where I'm not going to get past shaking my fist at fate.

MR. RESTA: Basically, if a competitor of a given contractor has concerns --

COUNCILWOMAN CLARK: An unsuccessful competitor.

MR. RESTA: If a successful competitor (sic) has concerns about the way a given project is proceeding or whether they're building that project to specification, they can absolutely bring that to the attention of the managing department.

COUNCILWOMAN CLARK: Has that ever been successfully done, sir? In your term, has that ever been successfully done?

MR. RESTA: No, it has not.

COUNCILWOMAN CLARK: Okay. You know why? 'Cause it's an almost impossible burden to sustain, isn't it?

MR. RESTA: It's very difficult.

COUNCILWOMAN CLARK: First of all, the person who hears my complaint can't get over my sour grapes, so you're -- everything I say is going to be said in the light of, "Well, you're just mad 'cause you didn't get the contract. So here you are nitpicking the winner."

So I need a standard. And you -- I respectfully suggest that you need a standard for who can bring -- who has standing to bring the charge and what is the standard for going forward in an investigation. And does winning mean that the successful contractor is ousted and the contract is then put up for rebid?

MR. RESTA: Not necessarily. On a contract, the performance bond and the bonding company on a given contract, if that contractor has defaulted, the first -- basically, the first part of the process is that the bonding company would have to supply a qualified contractor to finish the work. It would not necessarily go to a competitor or the second bidder or the third bidder.

COUNCILWOMAN CLARK: Okay.

MR. RESTA: The Procurement Commissioner can actually reserve the right to rebid the project.

COUNCILWOMAN CLARK: All right. How do you communicate this process? How do people outside the process know how to access it? Is it in the fine print somewhere? How would a person know to complain?

MR. RESTA: Well, basically, I think the answer would really be that the market will determine -- if you are a competitor and you feel that the winning bidder is performing poorly, it's in your best business interests to notify the Procurement Commissioner or the Capital Program Director or anyone in City government that the City is not basically getting the best performance for the price that they've paid. And it happens quite frequently.

COUNCILWOMAN CLARK: At some point off

the record, we really need to spend some time on what does "lowest responsible bidder" mean, as Councilwoman Tasco raised it. Now, that is a legal term of art.

MR. RESTA: Yes, it is.

COUNCILWOMAN CLARK: I don't think that it is understood to be equal to some other performance criteria.

MR. RESTA: That's true.

COUNCILWOMAN CLARK: And in the defense industry from which I come, there have been some pretty good cases that would be useful, I believe, in helping to define what is "lowest responsible bidder." But I won't burden this record with this now.

I thank you for yield.

COUNCIL PRESIDENT VERNA: Okay. The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: I think I'm finished with the contracting business for now; I'll have some questions for you tomorrow when you come back.

I want to go back to talk to Mr. Kaplan and Greg Rost about the impact of the welfare reform on the budget. When the Mayor gave his statement, his budget message in Council, he said that the impact of welfare reform could have a billion-dollar impact on the economy.

Do you see that impact? Is that accounted for in this Plan? Or have you all discussed where the impact could impact directly on the City revenue?

MR. ROST: The billion-dollars-plus that the Mayor talked about in his budget address is not reflected specifically in the Plan. Basically, that was a model of a worse-case scenario of money that would be taken from the Philadelphia economy by welfare reform.

On Page 147 of the Plan, there's actually a table that shows the total dollar value of the benefits that would be lost, and it runs down through the federal legislation and the State legislation. And what we've done is, we've actually taken and attached a dollar value to the benefits that would be lost, and it comes up over a billion dollars from Fiscal Year '99 Fiscal Year 2001 in terms of the benefits that are taken out of the Philadelphia economy.

And the point that we were trying to make is that in addition to the devastating human cost of welfare reform if it's done inappropriately, there is an economic cost to the region as well that must be taken into account because folks won't have General Assistance dollars, and those dollars will be taken out of the economy. So there's a real ripple effect.

But the important not to lose sight of, the important thing is the impacts on individuals and on humans. These are people that are going to lose medical benefits, these are people that are going to lose their cash assistance, etc. But you can show an economic cost to the region from welfare reform.

COUNCILWOMAN TASCO: Well, it would have some impact on the revenue received through sales tax, through small markets, neighborhood markets that depend on a number of -- a lot of assistance recipients who buy in the local stores. Therefore, you would lose on taxes, you'd lose on sales tax, you'd lose on business tax if they go out of business.

I mean, has any economic impact

analysis been done on that which could impact on the revenue we receive here in the city?

MR. KAPLAN: Because of the full impact of the changes, it's not known yet, there's not a specific. You can't say, We've changed this assumption by this much because of welfare reform.

However, there is a generic assumption in the budget. One of the things people have said to us since the budget was announced is, Well, look out the window -- buildings are going up, jobs are being created. The Administration itself has pointed out there's a preliminary (unintelligible) system out of 5,000 new jobs this year so how come your revenue assumptions aren't more aggressive? That's one of the several reasons that that's the case, and you very accurately pointed out the specific reasons there.

The other issue is that we have, in several places in the budget, put in specific spending in anticipation of this. Most notably, we've funded -- provided the second half of an annualization of funding for a new City shelter, which will total about $450,000 this year. We've

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maintained the number of beds we've had for the last several years, despite the strong economy, because we know that there will be additional new people seeking shelter in the homeless system.

We've continued -- although the overall visits to the health centers right now have levelled off over the last six months or so, we have maintained the increases in health center funding of 1.2 million that we put in over the last two years in order to -- under the assumption that there will be additional cases of uninsured people coming into the health centers.

And if you look in detail at the Human Services budget, you'll see there's a tremendous continuing increase in Human Service expenditures, and some of those are because of new mandates, but some of that is because we are assuming that there will be increased pressure on that system as we go forward.

So I think your comments are entirely correct.

COUNCILWOMAN TASCO: One other question I want to ask you relative to the sales tax: Has any thought been given by the Administration and has any action been taken on the national level to address the Internet sales tax issue? And do you believe -- what do you feel the impact of not having Internet sales tax would have on the local economy if people suddenly start buying off the Internet.

MR. KAPLAN: I guess there are a couple responses to that. One is that the single most passionate advocate of the rights of cities, counties, and other local jurisdictions on the Internet sales charges has been the League of Cities, which obviously, as president, Councilman O'Neill has been very, very active in over the last year, as Congress, which had originally looked at a very broad expansive exemption from the Internet sales taxes, has instead put in a three-year temporary extension. I think that's a battle we're going to keep fighting again and again.

Here again, we're in a situation where -- I think you've raised a good point: we have not done a specific analysis of this stuff, and I think that you've essentially given us an assignment -- and a good one, I think.

The one thing I will say is that here again, our competitive position affects us a little bit because we have learned that even though the number of PCs per household in Philadelphia has gone up dramatically over the last year, we still do not have the penetration per household that perhaps they do in the suburbs. So there is clearly less Internet commerce in the City than there might be -- on a household basis, anyway -- than there might be elsewhere.

But I think that you've definitely hit on an issue which we need to investigate further.

COUNCILWOMAN TASCO: Let me just ask you a question. You've done pretty good with the Recreation Department and the libraries 'cause you know that we feel passionately about those two departments.

But I have another department that I really care about, and that's the Department of L&I, because I get most of my complaints from my district regarding issues around L&I and specifically around the lack of enforcement. And it's not a lack of enforcement; it's the time it takes to inspect and enforce some action on a property.

And I have looked at the -- you haven't increased the level of staffing in that department in the chart in the back of the budget summary. It seems that there will be no staffing increase.

MR. KAPLAN: While Mr. Rost and Mr. Dubow are looking up the details in that, I know -- as you know, there was an increase last year in staffing at L&I, and there was some delay in their personnel getting on the street because it takes sometime to train them. And, in fact, there's actually a slight dip, I believe, although this might be a better question to direct to the L&I Commissioner at her hearing.

But they actually usually assign new inspectors to go with the experienced inspectors. And, obviously, that actually that will affect the number of inspections they'll do for a while 'cause they go through very carefully.

And we have seen those -- I believe all of those people are on board now. And that's -- again, that's a question for her. But I believe that the department was relatively comfortable with those additions, with the current staff complement coming into the budget.

MR. ROST: I would just like to add that that's one reason that the Department projects that it will increase the number of housing inspections from about 91,000 at the current situation to 105,000 in Fiscal Year 2000 and in Fiscal Year 1999 as well. The addition of those additional personnel will help make that possible.

COUNCILWOMAN TASCO: With the City having 1.5 million residents, are 32 people enough in housing inspectors?

MR. ROST: Councilwoman, it was my understanding that there were 57 inspectors.

COUNCILWOMAN TASCO: Well, is that enough?

MR. ROST: There were 57 inspectors with the addition of the 15.

COUNCILWOMAN TASCO: We'll talk to the Commissioner when she comes. Thank you.

Thank you, Madame Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

I just have a few questions.

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Councilwoman Clark, are you finished with your questioning?

COUNCILWOMAN CLARK: I am, Madame Chair, and I thank you for the yield.

COUNCIL PRESIDENT VERNA: Thank you.

How much funding is contained in the Plan for the Economic Stimulus Program? And how are these funds going to be used?

MR. ROST: The total funding for the Economic Stimulus Program, cumulative, is now $6.5 billion. I'm frantically searching for the breakout, so if you'll bear with me for one second.

COUNCIL PRESIDENT VERNA: Sure.

MR. ROST: The sixth year of the Economic Stimulus Program contains $881.8 million.

If you turn to Page 55 of the Economic Development chapter, you'll see the approximately $6.5 billion down at the bottom right-hand corner -- that's total sources, both public dollars and private dollars.

And then the figure that I just gave you, the $881.8 million, is the column to the left, which is the new projected sixth year of the

Economic Stimulus Program -- total of all sources again.

COUNCIL PRESIDENT VERNA: On Page 48, Challenges to Economic Prospects, this section of the Plan identifies the challenges to the health-services sector and the financial-services sector on the City. Please state for the record what the impact of these items are to the City's revenue projections budget and Five-Year Plan.

MR. KAPLAN: The impact on the health-services sector is a mixed one -- in part because the purchase of the Allegheny system by Tenet on the one hand means that we are assuming generically in the Plan that there will ultimately be fewer beds and perhaps fewer employees throughout the former Allegheny system. However, pending the eventual negotiation of the resolution of the bankruptcy agreement and the evaluation of those properties, we're also assuming that that will be at least partially offset by the fact that Tenet is a taxable entity.

So at this point, we are very cautiously projecting that there will be more or less over the five years a rough equivalency in the tax impact on the health side. That is somewhat offset by our again generic concern that the overall health system in the region and in the City remains a bit over-bedded in acute care. There is -- a number of the rating agencies have opined that we need more long-term beds and that those beds are supported by lower-paying positions and lower tax revenues.

We are not completely convinced that -- we don't necessarily dispute that contention. However, we don't necessarily agree that that will have a significant revenue impact.

And in the Plan, again, our assumption is more or less that the health-care sector will be not necessarily a growth sector but not an area where revenues will decline precipitously.

MR. ROST: I'd just like to add as well that the health-services sector has been one of the real engines of the Philadelphia economy, even in the darkest of the darkest days. From 1987 to 1997, the health-services sector was the only sector of Philadelphia's economy that showed positive job growth each and every year. Although there was a blip in 1998, it appears as though the health-services sector has rebounded somewhat.

As Mr. Kaplan referenced, the Tenet situation certainly helps the Allegheny mess. Also, there's the Abramson Cancer Center, which is planned for the University of Pennsylvania. That center, I believe, is a $450 million project that will eventually employ 2,000 people.

So I think the health-services sector in Philadelphia and in the region at large is still a relatively strong economic engine for the City of Philadelphia.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Clark.

COUNCILWOMAN CLARK: Thank you, Madame Chair. I'd like to go back to a discussion on the Economic Stimulus Program, which I have given the acronym of "ESP."

If you had to defend the ESP, what successes would you highlight by type, by increased employment, by neighborhood revitalization? What beyond your feeling that things are better would you say to skeptics to convince them that this was an important and successful public-private partnership?

MR. ROST: Councilwoman, I think if I had to point to one factor that proves that the Economic Stimulus Program is working, it's the fact that between 1987 and 1992, the City of Philadelphia lost 100,000 jobs -- and that's not a City statistic, that's a federal government Bureau of Labor statistic. We lost --

COUNCILWOMAN CLARK: But if I said to you --

MR. ROST: Well, if you could just let me finish.

COUNCILWOMAN CLARK: I want you to frame your question in light of this too, sir. I need to refine my question.

MR. ROST: Okay.

COUNCILWOMAN CLARK: I don't know how you determine what your work produced as opposed to a national upswing in the economy. About 1992, Clinton came on the scene, and in about 1992, things started to go up nationally.

What can you say that we have done that either dovetailed with a national economy that was getting better? Do you see what I'm saying?

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MR. ROST: Yes, ma'am.

COUNCILWOMAN CLARK: Help me understand the whole picture.

MR. ROST: Sure. And I mean, I don't want to take anything away from President Clinton 'cause he has enough things going on.

COUNCILWOMAN CLARK: True.

COUNCILMAN NUTTER: That's true.

MR. ROST: We didn't even start the Economic Stimulus Program, I believe, until 1994. And, again, if you look at between '87 and '92, we lost 100,000 jobs. It looks like we're going to end 1998 with a gain of 5100 jobs.

In 1991 alone, in 1991, we were losing 2,700 jobs on average per month, per month. So if you look now where we've gained, you know, 5100 jobs -- last year, we gained about 3,000 jobs, and the year before that, we actually gained 100 jobs -- that was when we started to turn the corner, I think those simple statistics alone sort of capture the essence of what we've done.

If you then --

COUNCILWOMAN CLARK: Well, don't tell me that ESP works. I want you to say that as a result of our putting X-number of dollars of seed money in, this company came in and brought X-number of jobs. Do you see?

MR. ROST: Right.

COUNCILWOMAN CLARK: I need a direct correlation between some City intervention and an improved quality of life.

MR. ROST: Right. And, Councilwoman, I wish I could sit here and tell you that there was a direct correlation between all of these things. And, I mean, as Councilman Nutter knows from his role in the Economic Development Committee, I mean, economic development is an inexact science. I wish I could sit here and tell you that there's a linear correlation between us cutting taxes and businesses coming here. Unfortunately, a lot of these things are a combination of variables -- some are real and some are imagined. I mean, the real things are the tax cuts, the HUD 108 loans, the TIFs, and those kind of tools that the economic experts use.

On the other side of the coin, however, there's that ethereal sort of "Philadelphia's a city on the move." You know, that's the same kind of thing that went into the Republicans deciding to bring Philadelphia 2000 their convention here. I mean, those things are immeasurable, they're non-quantifiable. But, unfortunately, in that inexact science known as "economic development," those things mean a lot.

So I wish I could sit here and tell you that there's a direct linear correlation between a lot of these things and the job successes. I'm sure some of it is because of the national economy, I'm sure of it.

COUNCILWOMAN CLARK: But if you were here today to defend this program for continuation and against deletion, you'd have to say something that was fairly persuasive, wouldn't you?

MR. ROST: Right.

COUNCILWOMAN CLARK: Supposing we were trying to get together nine votes to kill the ESP.

MR. ROST: Right.

COUNCILWOMAN CLARK: You'd start thinking pretty quick, wouldn't you?

MR. ROST: Right. Well, basically, I'm a fairly simpleminded person. And if I think of things simplistically, the one thing that I keep coming back to is the fact that we, after losing jobs for, I believe it was 61 consecutive quarters, we've now gained jobs. And I think that's -- you know, the Mayor believes firmly, and I happen to believe that the Mayor's right in this. He firmly believes that the best opportunity that we could provide for people is a job.

COUNCILWOMAN CLARK: Well, that is the best welfare reform.

MR. ROST: Yeah, absolutely. So if you look at where we were and where we are today, and if you look at all of the projects that are in the pipeline -- I think the Mayor used the figure of $2 billion worth of projects in the pipeline in his budget address, and 500 million of those projects are already underway today.

But if you look at all those projects teed up, if you look at how busy the building trades are, if you look at all the exciting economic things that are happening across the City of Philadelphia, you can't help but feel somewhat optimistic that maybe we're headed in the right direction.

And, you know, again, those things would not have happened -- I'm convinced that those things would not have happened had Council not enacted the tax reduction program, had Council not enacted several of the TIFs that they've enacted etc., etc.

COUNCIL PRESIDENT VERNA: Are you finished, Councilwoman?

COUNCILWOMAN CLARK: I'm confused, but I'll quit here.

COUNCIL PRESIDENT VERNA: Partners for Progress. Can you tell us what the funding contained in the Plan is for Partners for Progress?

MR. KAPLAN: Council president, as you know, Partners for Progress is supervised by the Managing Director's Office, but it draws resources from the various departments. I believe in his testimony, the Managing Director will have -- I don't have a specific number for you.

The one thing that in the plan and we have institutionalized due to success was that, as you will recall, two years ago, we added a half-a-million dollars in demolition money so that

Partners for Progress would have its own ability to do demolition as needed in Partners for Progress census tracts. And we have institutionalized that throughout the Plan so that they should be able to, without regard to anything else, handle about 200 houses a year in the demolition budget.

And the Managing Director, we'll ask him to make sure that he summarizes the different resources applied to the Partners for Progress Program in his testimony.

COUNCIL PRESIDENT VERNA: Thank you. Can you tell us what steps the City is taking to deal with the Y2K problem?

MR. KAPLAN: Yes, I can. But since the City's Chief Information Officer is here, I'm going to punt.

While he's coming up, I might mention that in addition to a hearing Council has scheduled that we are in, hopefully, the final stages of putting together a more both formal disclosure for other entities and also a presentation for other government bodies on this specific issue. So I think that the CIO will be able to speak generally, but we hope to have additional detail for you in the near future.

COUNCIL PRESIDENT VERNA: Thank you.

(Brian Anderson comes forward.)

COUNCIL PRESIDENT VERNA: Good afternoon. Please identify yourself for the record.

MR. ANDERSON: Hello. My name is Brian Anderson. I am the Chief Information Officer for the Mayor's Office of Information Services.

To answer your question, we are actually doing a lot to minimize the risk of the Y2K problem impacting the City services. In particular, we are focussing on essential services. We have completed a substantial amount of work on our main frame traditional computer systems.

In addition to that, in 1998, we conducted a citywide risk assessment, where we identified every essential service provided through the City. And then we identified those systems, those embedded technologies equipment and those suppliers that those services depend on.

We're currently looking at all of those

and assessing as to whether they will be impacted by the Y2K computer bug, the century date problem. If there is a problem, if we identify a problem, we are correcting that problem either by correcting the system, replacing the equipment, or working with our vendors to ensure that their problems are corrected and that our supplies are not interrupted.

COUNCIL PRESIDENT VERNA: Thank you.

On page 175, can you tell us, the Plan assumes that the City will provide half of the funding for the Park Rangers and that the private sector will fund the other half. Can you tell us if the private dollars have been secured and what changes you have made to this program in order to improve their mobility and visibility within the park system?

MR. ROST: Yes, Council President Verna. As you'll recall last year in terms of our budget discussions, Councilman Nutter and others brought to our attention the fact that the funding for the rangers was coming to an end. In discussions with then-Council President Street, we took it upon ourselves to do three things:

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Number one was to increase the mobility and the visibility of the rangers;

Number two was to increase the rangers' cooperation with the Police Department;

And number three, last but not least, as you alluded to, to institutionalize some sort of joint public-private venture in terms of funding the rangers on a long-term basis.

I am pleased that the Fairmount Park Board -- excuse me -- the Rangers Board, which is not to be confused with the Fairmount Park Commission Board, has provided us with a letter committing to fund for five years at $500,000 per year their portion of the private dollars necessary to keep the rangers afloat. The City, for its part, will pay the other 500,000.

COUNCIL PRESIDENT VERNA: Thank you very much.

Are there any other questions from members of the committee?

COUNCILMAN NUTTER: Mr. Rost, so for the moment, you're saying that the City is fully committed to the $500,000. Is this commitment $500,000 flat commitment, is this a $500,000 match, is this a challenge? What is it?

MR. ROST: It was a challenge match, a one-for-one. But our Five-Year Plan contains $500,000 per year for the rangers. We have also been provided with a letter from the Rangers Board -- Pete Hoskins is President of the Rangers Board -- committing to provide their $500 (sic) per year for the next five years as well. I'd be happy to provide Council with a copy of that letter.

COUNCILMAN NUTTER: That would be helpful because I continue to get calls from different interested parties about the City's commitment to the rangers or potential lack thereof. And I'd like to be able to have --

MR. ROST: I'll also get a copy of the letter to Bill Mifflin as well.

COUNCILMAN NUTTER: The letter to. . . ?

MR. ROST: The letter from Pete Hoskins.

COUNCILMAN NUTTER: To Bill Mifflin?

MR. ROST: Yes.

COUNCILMAN NUTTER: Okay. And then

you'll get me something besides what I have --

MR. ROST: Yes.

COUNCILMAN NUTTER: -- in the Five-Year Plan on the City's commitment?

MR. ROST: Absolutely.

COUNCILMAN NUTTER: Okay. If I could ask one last question.

You, in response to Councilwoman Clark, you touched on the issue of the amount of construction activity and other projects that are in the City, and you made a passing reference to the building trades. Do you recall that?

MR. ROST: Yes, I do.

COUNCILMAN NUTTER: Okay. Can you get us information about -- and there are a couple of different sections in the Plan in the economic development area. But for instance, there are -- I don't know -- somewhere in the neighborhood of eight or so new hotels that are being built. There are various TIF projects in different places. And then there are the projects that have been completed -- whether it's the Convention Center or a couple of others.

What are the reporting requirements as

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it relates to the people who actually work on these projects from the construction and temporary jobs standpoint? What are the reporting requirements for these various projects?

MR. ROST: Councilwoman, that's probably a question that would be best addressed to one of the economic development professionals.

I know that some of the projects, they are monitored by our Bureau of Labor standards, which is headed up by Deputy Mayor Gerry Murphy. These are projects that fall under Davis Bacon (ph.) and their prevailing wage requirements, so we monitor those projects.

But that's really a question that I think one of the economic development folks could probably best address.

COUNCILMAN NUTTER: Okay. Well, more than likely, you'll probably see them, talk to them or access them a little quicker than I will over the next couple of days.

MR. ROST: Sure.

COUNCILMAN NUTTER: What I'm interested in is the level of detail that we get on who actually works at the site. Now, I know we go through -- for every project, we have this ongoing issue back and forth about composition of the workforce and who's working on the job and who's not and how many hours and the like.

But do we get the level of detail that indicates who the person is and where they live or what section of the City or the region they live in? Do we get that kind of information?

MR. ROST: Not that I'm aware of across the board.

COUNCILMAN NUTTER: It's not a part of any reporting requirement? How do you ever certify whatever targets you were trying to meet?

MR. ROST: I'm sure that it's specific to each project. I mean, the example that people cite most frequently is the Convention Center, where I think they actually do know, you know, which section, if not which street people live on that are working there.

COUNCILMAN NUTTER: Okay.

MR. ROST: But I'll get back to you with information on that. I am not aware of any citywide number, but I'm aware that there are numbers kept on a project-by-project basis.

COUNCILMAN NUTTER: Okay. Well, on a project-by-project basis, if you could ask those folks to begin compiling data on a project-by-project basis on the total number of people who worked on the project, a breakout by way of race and gender, and then the zip code of each individual where they live who worked on that particular project.

MR. ROST: To the extent that we can get that, I'm happy to provide it.

COUNCILMAN NUTTER: Okay. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you very much.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: I have another job for you. I'd just like to note for the record that I, too, am very active with the National League of Cities.

I recently read that -- and shared with Sue Jacobs federal grants that are available for cities to deal with the issue of brown fields. Have we -- is the Administration looking at that?

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What do we do with some of these abandoned buildings?

And is that in this? I haven't read it, so I don't know if it's in here or not.

MR. ROST: Councilwoman, the answer to your question is yes. On Page 159 of the Plan, under the Managing Director's Office, you'll see the activities of the Environmental Cabinet. I believe also in the economic development chapter, there's a discussion of the City's efforts in terms of brown fields as well.

COUNCILWOMAN TASCO: Like the court issue, because we do have so many abandoned factories which could create some economic income for us, what -- I mean, are you really putting on a full court press on this? Is a lot of energy going into trying to find a way to get money to clean up the sites and then maybe stimulate small business development in these areas?

MR. ROST: Yes, ma'am. If you turn to Page 74 of the Plan, under the Commerce Department, you will see that the City has actually obtained a number of grants from both the federal and State governments. There's a $200,000 federal pilot grant that was paired with State dollars, an Industrial Site Through Use Grant.

And down at the bottom, you'll see that in November 1998, HUD announced the award of a Brown Field Economic Development Initiative Grant totaling $2 million for two very important projects in Philadelphia. And those two projects are the Jump Street USA project and the West Parkside Retail Center.

We'd be happy to alert the City's economic development folks that you have an interest in this. And when they come in, they can explain it more fully.

COUNCILWOMAN TASCO: Okay, thank you.

COUNCIL PRESIDENT VERNA: Are there any other questions from members of the committee? Councilwoman Clark?

COUNCILWOMAN CLARK: I accept the answer that you've given. . . (Off-mike, inaudible).

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Since there are no other questions, I assume this will conclude our public meeting.

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To any of the commissioners here, would any of them like to say anything for the record?

(No response.)

COUNCIL PRESIDENT VERNA: I guess not. Thank you, thank you.

(Laughter.)

MR. ROST: On behalf of our commissioners, thank you very much.

(Laughter.)

COUNCIL PRESIDENT VERNA: Okay. This committee will stand in recess until March the 9th, at 9:00 a.m. I thank you all for your patience. Thank you.

(Adjourned at 12:20 p.m.)

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C E R T I F I C A T E

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Monday, February 8, 1999, were reported fully and accurately by me, and that this is a correct transcript of same.

RE: COUNCIL COMMITTEE ON FISCAL STABILITY
& INTERGOVERNMENTAL COOPERATION
RESOLUTION NO. 990038

_____________________________________,
JOSEPHINE CARDILLO,
Registered Professional Reporter