COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

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Tuesday, February 14, 2006

10:35 a.m.

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Room 400, City Hall

Philadelphia, Pennsylvania

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RESOLUTION NO. 060019 - Providing for the approval by Council of a Revised Five-Year Financial Plan for the City of Philadelphia covering Fiscal Years 2007 through 2011.

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PRESENT:

ANNA C. VERNA, President
BLONDELL REYNOLDS BROWN
W. WILSON GOODE, JR.
JACK KELLY
JAMES F. KENNEY
JUAN F. RAMOS
FRANK RIZZO
FRANK DiCICCO
JANNIE L. BLACKWELL
MICHAEL A. NUTTER
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PRESIDENT VERNA: Good morning, everyone. We regret the delay, but I guess a couple of my colleagues were a little late because of the weather.

This is the Public Hearing of the Committee of the Whole. And I would ask Mr. McPherson to please read the title of Resolution No. 060019.

MR. McPHERSON: 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 2007 through 2011 and incorporating proposed changes with respect to Fiscal Year 2006.

PRESIDENT VERNA: May we hear from the Administration. Ms. Wilkerson.

MS. JOYCE S. WILKERSON: Good morning. My name is Joyce Wilkerson, I am chief of staff to Mayor John Street.

With me here today with Dianne Reed, Budget Director for the city; Sean McNeeley, who is in my office; and we also have many of the department heads, commissioners, and other

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managers within city government in the room today.

Thank you for this opportunity to present testimony in support of the Administration's proposed FY '07 to '11 Five-Year Financial Plan. We have circulated copies of the Plan and this testimony, so I will try to be brief.

The FY '07 to '11 plan, the city's fifteenth, describes in detail the city's continuing commitments to the following areas: Maintaining fiscal health, implementing neighborhood transformation and blight elimination, promoting economic development, providing high-quality public education and comprehensive coordinated social services, and enhancing public safety and quality of life.

Over the last six years, the Administration has striven to create a Philadelphia that will thrive in the 21st Century, supported by a city government that can live within its means: A smaller government that still provides needed services and safe streets and fosters educational

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opportunity and an improved quality of life.

The priority of this Administration has and will be tackling core city citizen needs, revitalizing neighborhoods in decline, improving public schools, strengthening families, attracting businesses to foster economic growth, ensuring public safety and high quality of life standards in every community, and, to the extent possible, reducing the local tax burden.

I would like to share with you some of the successes that we have had.

Despite the recent upsurge in homicides, improvements in public safety have resulted in significant reduction in Part One offenses, the most serious crimes as defined by the Federal Bureau of Investigation. These crimes have declined by 17 percent from 2000 to 2005.

By the end of 2006, investments in NTI will have resulted in the demolition of more than 6,000 dangerous commercial/residential buildings and the removal of more than 237,000 abandoned

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vehicles from city streets.

By '07, investments made in social services will provide youth development programs to almost 47,000 more children than at the beginning of this Administration, funded primarily with federal and state dollars.

As of December 2005, more than 20,000 vacant lots are receiving some form of stabilization or maintenance, an increase of more than 19,000 since the Mayor took office.

Community groups working with the Pennsylvania Horticultural Society have cleaned approximately 2,500 lots each year for the last two fiscal years, and another 3,000 vacant lots have been given high-level treatment with the installation of grass, trees, and fencing.

Investments made in cleaning and greening vacant lots are having an impact not just on neighborhood aesthetics, but on property values, as well. This is good news for property owners throughout the city.

A study by Professor Susan Wachter

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of the University of Pennsylvania indicated that a 12 percent increase in property value for homes occur within 12 feet -- that occurs where the tree is located within 12 feet of the home; a 13 percent increase occurs for properties adjacent to improved green lots.

Since 2000, the average home in Philadelphia has appreciated in value by approximately 30 percent, when adjusted for inflation.

The vibrancy throughout the city is reflected in our Real Estate Transfer Tax revenues, as well, which has skyrocketed over the last several years, with a 36 percent increase in FY '04 and a 37 percent increase in '05.

Finally, the FY '05 citizen satisfaction survey contained the highest satisfaction levels for many city services in nine years, since the survey was first conducted; including trash collection, library services, police protection, and recreation programs.

The city also continues to

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experience improved financial health. Philadelphia has taken major steps to addressing the financial challenges it faced in the easterly 1990s.

We have reduced taxes to spur economic development. And the strategic investments made in neighborhoods, cultural institutions, the tourism sector and the waterfronts are paying off.

In FY '05, there was a substantial fiscal improvement, with the fund balance growing to a positive $96.2 million. It is estimated the fund balance will increase to approximately $168 million at the end of the current fiscal year.

The attainment of these positive fund balances are the result of record-level tax revenue collections, particularly in the BPT and the Realty Transfer Tax.

Continued improvement and economic profit in corporate profits helped Business Privilege revenues in '05 grow by $70 million above the '04 amount.

Due to the continued strength in the

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local real estate market, with rising home values, a higher volume of real estate sales, real estate transfer tax reached a record high level of $192 million in FY '05, surpassing the FY '04 amount by $51 million. The FY '06 figure is projected to surpass $200 million.

In FY '05, sales revenue grew by 11 percent after three previous years of negative or no growth, and this plan projects positive growth in sales tax throughout the life of the plan.

While the plan projects positive fund balances at the end of each year, the balances are generally decreasing and are small in comparison to the large surpluses achieved during the economic boom of the '90s.

The fund balance is projected to drop by 50 percent, to $84.3 million in '07, and more precipitously in '08 to $4.3 million, before increasing modestly to $47.2 million in '09, $52 million in '10, and $55 million in '11.

The modest fund balance increases are contingent upon PGW's repaying $45

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million -- its $45 million loan in FY '09.

Despite the positive developments mentioned, some basic fiscal challenges remain; the size of the fund balance, strengthening the tax base, lowering the tax burden, and paying for escalating pension, labor, energy, and health costs, with decreasing federal and state support.

In order to address its significant financial challenges, the city has made and will continue to make strategic choices about tax reform, strategic investments, raising revenues, spending, and service delivery.

These decisions include shifting costs, eliminating programs, selling city-owned assets, seeking legislation to increase revenues from other government to more appropriate levels, and right-sizing owned facilities.

The fund balance in '07 to '11 plan remain at less than preferred levels. Many rating agencies cite fund balances in the range of 3 percent to 5 percent of revenues as evidence of fiscal health and stability for

Philadelphia. This means carrying a fund balance of at least $100 million.

The Governmental Finance Officers Association is even more cautious, recommending the governments maintain an unreserved fund balance of 5 to 15 percent of revenues.

Achieving a healthy fund balance will require the city to continue to eliminate the "business as usual" model and identify even more strategies to significantly increase revenues and reduce costs.

We remain committed to reducing burdensome taxes that hamper our city's ability to grow. The city believes that, as financial circumstances permit, it is prudent to continue to make adjustments to business taxes that will improve Philadelphia's economic outlook.

The city, however, cannot continue business tax reductions, make strategic investments in cultural institutions and neighborhood commercial corridors and balance the current Five-Year Plan or, for that

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matter, subsequent plans, with all the currently enacted tax reductions.

The plan, therefore, repeals the low-income wage tax credits scheduled to begin in FY '10, restoring $46 million to the plan and preventing annual losses exceeding $100 million a year in the plan's out years.

The Administration does support, however, affordable, manageable, responsible tax cuts that promote fiscal stability. Thus, the plan includes $15 million in FY '07 in BPT cuts, $5 million more than previously projected. And then I state the millage.

The acceleration in cuts capitalizes on business development momentum witnessed by significant growth in BPT base over the last two years.

The city's budget can simultaneously absorb the scale of this reduction and still provide the quality of services that the 2005 citizen survey shows are priorities for residents.

The Administration supports this reduction schedule because it maintains fiscal

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stability, enables continued flexibility, and addresses the need to improve Philadelphia's tax structure.

Since 1999, the real estate market has seen dramatic increases in many locations throughout Philadelphia. Lower mortgage increase rates increase investor confidence, have contributed to increased property demand and value.

The city's NTI initiative has also contributed to citywide increase in property values through its strategically targeted investments. Property assessments have not kept pace with this trend.

BRT plans to assess properties at 100 percent in the near future. This will make our system more transparent and will closely track trends in the real estate market.

The Administration supports the eventual move towards full valuation. It represents a new element in the city's overall tax policy.

Just to, you know, skim ahead, I

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think Mr. Glancey has testified on previous occasions that the CAMA System will not be ready for the planned implementation that was initially scheduled for the spring.

We look forward to working with BRT and Council in the coming months to create the kinds of buffers and protections that our residents need, but that will also enable us to capture revenue that we don't currently capture as a result of stalled assessments.

The city's economic development blueprint, however, not only underscored the need for tax reform; it also proposes other areas that must be addressed if our economy is to thrive.

Therefore, we will continue to make strategic investments to field this momentum and ensure that we live up to our billing as the next great city without compromising the General Fund.

The FY '07 budget and Five-Year Financial Plan provides for debt service support for borrowing to finance the Administration's investment to preserve our

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arts and cultural institutions and revive commercial corridors.

The arts and culture are major economic development engines in the city and the region.

Recent aunts museum exhibits that have drawn visitors from across the country have only served to reinforce this point.

And, yet, if you take the Art Museum as just one example, it is unable to make basic infrastructure investments.

For example, unless it creates a second loading dock, so priceless works of art are no longer loaded alongside garbage being disposed of, the city will no longer be able to host the magnificent events and will wonder how all of that happened.

We have other organizations, like the Freedom Theater, that's long been recognized as one of the premiere regional theaters in the nation, yet its lights too are becoming dim as a result of inadequate support. We can't allow this to happen.

To this end, the Administration

proposes approximately $61 million of funding to be targeted to the arts, cultural institutions, and the park

As valuable as arts and cultural institutions are to the city's future, so too is the viability of its neighborhoods.

Consistent with the Mayor's economic development blueprint, approximately $65 million will be devoted to the development of neighborhood commercial corridors to assure that the neighborhoods whose property values have improved so greatly over the last few years remain vibrant and healthy into the future.

To help tell the story of great things happening in Philadelphia and to increase tourism, $2.5 million is proposed for investment in '07 and '08 for tourism campaign Promote Philadelphia.

We know that for every dollar spent on promotion, Philadelphia will see approximately $185 in new visitor spending; not to mention new tax revenue, new jobs for city residents.

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It is a moment we must seize, a moment we must invest in, a moment when Philadelphia can take advantage of its success and move up to the next level.

While we celebrate our success, we must at the same time be vigilant in addressing other ills that threaten the fabric and quality of life in the city.

While serious crime may have declined, the recent surge in homicides and gun violence in our city and the fear it has created are unacceptable

As part of Operation Safer Streets, the city will make available $10 million for police overtime to ensure that we provide a level of police protection that people deserve.

Increasingly, the city's youth are becoming the victims of perpetrators of violent crimes.

The city will continue its involvement and support the successful Youth Violence Reduction Partnership and a similar program focused on adolescents at risk of

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involvement in victimization and delinquent activity, the Adolescent Violence Reduction Partnership.

The police and the city agencies, however, cannot do this alone, and they will encourage neighborhoods to become more involved in violence-reduction efforts.

More focused policing, more engaged communities, better coordinated delivery of city services, and reduced availability of handguns are key to the success of these violence-reduction initiatives.

In addition to increasing violence, there has been an increase in the number of homeless people on the streets of our city.

The Mayor's Ten-Year Plan to end homelessness has made a commitment, with the assistance of city department leadership, to provide $10 million towards the first two years of the plan; including, behavioral health services and shelter, prevention, housing subsidies, and assistance from private funding to support the plan's implementation.

The condition of the city's streets,

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the city's infrastructure overall, is a major concern to citizens of Philadelphia.

In April '06, the Streets Department will, therefore, launch Operation Smooth Streets to eliminate the 10,000 potholes and 3,200 ditches that are expected to form during the winter season.

The focus of Operation Smooth Streets will be to aggressively repair potholes and ditches and to establish repair and preventive maintenance standards.

In addition to pothole repair and ditch restoration, employees will be assigned to other preventive maintenance functions; such as, expanding the Crack Sealing Program, which will reduce the number of potholes in future years.

Operation Smooth Streets FY '07 cost is projected at $2.3 million, in addition to a one-time $1.15 million equipment cost in FY '06.

The FY '07 Operating Budget and the Five-Year Financial Plan also proposes addressing problems with the city's pension

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program.

During the 2000 to 2003 economic slowdown, there was a significant loss in equity value that caused the city's pension fund to fall well below its expected annual average earnings, thereby increasing the city's unfunded pension.

In order to continue to support the pension program within the City's financial capacity, the city shifted its funding policy for '04 to '08 plan to the minimum municipal obligation required by state law to meet future unfunded pension liabilities.

At that time, the shift to MMO policy reduced the amount of the city's actuary projected that the General Fund would have to contribute to the pension fund by approximately $245 million from '04 through '08.

Nevertheless, the poor earnings of the past have caused the city's General Fund pension contribution to escalate dramatically. And then I go through the numbers.

To mitigate these issues moving

forward in FY '07, the city is decreasing its earnings rate assumption from 9 percent to 8.75 to better reflect current fund earning experience. This has a $20 million annual cost impact on the plan.

Assumptions of a lower rate of return means larger city contributions to the plan, which has the benefit of ultimately reducing the rate of increase in unfunded liability in later years.

The city is also continuing to improve revenue enhancements. For example, the city is working with a consultant team to develop and further refine its proposal for strategic marketing to maximize the value of private partnerships and increase revenue for city programs.

Partnerships have the potential to take a variety of forms, including sponsorships, exclusivity agreements, and leasing of city assets.

Our preliminary estimates by our consulting team project increased revenues of about $22 million from FY '07 to '11.

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The city also expects to generate $6 million in property sales in '06 and an additional $18 million in property sales throughout FY '08.

The completion of the Unified Land Record System will enable the city to be even more strategic in its approach to surplus property sales in the future.

We continue to work with our state delegation and are strongly advocating two pieces of legislation that can have significant revenue impacts for the city.

The first bill would require both state and federal legislation, would increase reimbursement for social worker salaries from 80 percent to 100 percent. This initiative proposes a risk for the plan.

We also have a second bill that would increase reimbursement for adoption subsidies and legal custodial services from 80 to 100 percent.

We have made some headway on this initiative. It has been approved by the House, the State General Assembly, and we will

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work this year to get it through the state Senate.

Concurrent with our efforts to raise revenue, we will continue many of the cost-saving initiatives discussed in previous years' plans.

For example, beginning in January of '07, the Commonwealth has committed to assume responsibility for patrolling state highways, which would save approximately $5.6 million annually.

The state highways in Philadelphia are currently the only highways in the state not patrolled by State Troopers.

The plan also assumes receipt of $75 million in gaming revenue from '09 to '11.

In addition to revenue enhancements, the city continues to pursue cost-saving initiatives; such as, reduced payroll costs through ongoing work force reductions, targeted position reductions, and overtime control.

The continued strategical use of DROP, allowing most departments to fill only

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one position for every two, has led to reorganized management structures and eliminated duplicative functions and underutilization of staff.

The targeted reduction brought the July 1, 2005, work force number to 22,914, reducing the General Fund position level by over 2,000 positions since FY 2000.

In order to manage with significantly fewer and less experienced staff, the city's embarked upon several initiatives designed to cut costs, simplify administrative processes, and improve service productivity.

In FY '07, the personnel department will begin a process to replace antiquated forms-processing systems with the new citywide human resource information system.

A total of $4.9 million will be invested in this streamline initiative in '07 through a productivity bank loan.

The Records Department is improving services by offering E-recording, E-notarization, resulting in faster and more

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efficient document processing for the public.

In addition, the Records Department will continue to enhance the parcel map in a GIS system in FY '07, producing a seamless electronic map of city parcels to which a variety of information can now be attached.

This will improve the way entities such as NTI, RDA, OHCD assemble/manage land-related information, resulting in more informed decision making

By FY '07, L & I will have completed the major implementation parts of the License & Inspection Concerted Automation Project, and will be completing the final projects of automating the administrative tasks for Appeal Board staff.

In addition, Code Enforcement, Building Permits, and all Inspection activity will have been automated to complement the FY '07 automation achievements in L & I and dangerous building inspections.

As stated earlier, we expect positive but precariously low fund balance throughout the life of the plan. At such low

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fund balance levels, we really cannot afford to increase the size of city government to inefficient levels and cannot afford any additional tax cuts beyond the current cuts in the plan without providing for offsetting revenues. And the challenges are growing.

We are currently analyzing the potential impact to the city of the proposed federal and state budgets, which would have significant direct and indirect negative effects on the General Fund based on changes to Medicaid, CDBG, TANF, and other programs that Philadelphia depends on.

The city has been successful in shifting hundreds of millions of dollars in costs to state and federal sources over the past decade, and the proposed plan assumes further such shifts.

The city expects that critical children and youth prevention programs will receive the necessary state funding in each year of the plan.

Negative outcomes at the federal and state levels would require us to pursue alternate contingencies in order to remain a balanced plan.

Other threats to the budget include future health and medical costs. In our most recent arbitration panel award to the FOP, health benefit costs were determined only in the first year of a four-year contract, with future costs to be determined by a reopening bargaining in '06 to '08 period.

Similar contracts were struck with DC 33 and 47. They have reopeners in '07 and '08 respectively.

We also have lingering on the horizon questions about SEPTA funding.

I want to thank you for this opportunity to present this testimony in support of the proposed Five-Year Financial Plan. I would be happy to answer any questions you might have.

PRESIDENT VERNA: Thank you very much.

I think we ought to agree that, for the first go-around, each Council member will have five minutes to ask questions, and then

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we will have a second go-around.

Ms. Wilkerson, on Page 5 of the plan, you talk about new cultural attractions on the Benjamin Franklin Parkway.

Can you tell us what the status of the move of the Barnes Museum is?

MS. WILKERSON: We are in conversations with the Barnes, actually trying to negotiate the agreement that would convey the parcel.

We are looking for a long-term lease. They want, you know, to buy. We're talking with them about the schedule for the move.

We are also actively working with Councilwoman Blackwell on, you know, trying to pass the final hurdles over approval of the new youth studies facility that is currently planned for West Philadelphia.

And, so, we are negotiating with the Barnes. We look to be off the Parkway by October of 2007. I think that's when the Barnes is interested in taking possession.

PRESIDENT VERNA: Well, what, if

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any, funding is included in the plan for their relocation?

MS. WILKERSON: For the Barnes relocation?

PRESIDENT VERNA: Yes.

MS. WILKERSON: There is none.

PRESIDENT VERNA: Okay. And we all know that parking is going to certainly be a major obstacle on the Parkway for the central library and the Barnes.

How does the Five-Year Plan address the parking requirements for the Parkway, and what city funding is included in the plan?

MS. WILKERSON: I can have Stephanie come up, Stephanie Naidoff, the Commerce Director, and talk about the studies.

There has been a study undertaken. We don't have dollars in the Five-Year Plan beyond money proposed for the new borrowing, which is for some limited infrastructure work along the Parkway.

But Stephanie can talk about the parking study and what's happening.

PRESIDENT VERNA: Good morning.

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MS. STEPHANIE NAIDOFF: I am Stephanie Naidoff. I am the City Representative and Director of Commerce.

We are in the midst of a study of parking on the Parkway under a grant that was given to the city by the Pew Charitable Trusts, and it has two phases.

We have just recently completed the first phase, which was to look at the parking needs of the Barnes and the expanded library.

And that first phase was completed with the recommendation that there are four potential sites where parking might be provided. And we will begin to explore those sites now.

And then we are going to start a second phase, which will look at parking on the entire Parkway.

PRESIDENT VERNA: Thank you.

The Administration has included $2.8 million in revenues for FY '07 and $25.2 million over the life of the plan in reimbursements for patrolling state highways. I know this is one of Councilman Rizzo's favorite subjects.

I thought that the state had agreed to assume the responsibility of patrolling these roads with State Police officers. Why are you including these revenues?

MS. WILKERSON: We don't know which form it will take ultimately. We are proceeding along both tracks.

And Pedro Ramos, Managing Director, can talk in more detail about them.

PRESIDENT VERNA: Good morning.

MR. PEDRO A. RAMOS: Good morning, President Verna. Pedro Ramos, Managing Director.

Following the adoption of the state's budget last year, the State Budget Director called with the commitment that the state intended to change its commitment from providing dollars for patrolling state highways, to providing state troopers to patrol state highways in the city.

He also said that he would like to establish an implementation committee headed by the Colonel in charge of State Police, the

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Police Commissioner, somebody from the Governor's office, and me. We have proceeded along with implementation.

The state reports in those meetings are that they believe that implementation before January 2007 will be difficult.

So we have renewed the discussions on simply receiving the revenue for patrolling state highways, which has some advantages to the state, financially for the state; although, in terms of what's been appropriated at the state, a little bit more difficult.

The commitment that the city got last year was also one that members of the Philadelphia delegation had been very involved in. And in particular, I think Senator Fumo had been very helpful to us.

So we all believe that the commitment, that the state has made a commitment for this fiscal year, and going forward, that it should keep.

And we think ultimately it is more likely that it gets resolved as dollars, instead of state troopers. And that's why it

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is shown as revenue.

COUNCILMAN RIZZO: Point of information.

PRESIDENT VERNA: The Chair recognizes Councilman Rizzo for a point of information.

COUNCILMAN RIZZO: Maybe I didn't understand. Are we going to get any revenue before January of 2007?

MR. RAMOS: Whether we would get any revenue before January 2007?

We believe that the state's commitment is due and owing. It had changed that commitment to be in kind, instead of in cash.

There are now questions about whether the in-kind commitment can be delivered in the time consistent with their commitment, so we are continuing to engage the state in seeking the cash in the interim.

MS. WILKERSON: In the Five-Year Plan, we are only showing it for a part of the year in FY '07.

COUNCILMAN RIZZO: As you know, I

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have been talking about this for a lot of years, and hopefully some day this will happen.

And I thought that the agreement was that we were going to get the cash, instead of displacing our police officers.

Now I am learning that we are back at having the State Police come into the city to do this work.

Have we expressed a preference? What do we prefer?

MR. RAMOS: We would prefer the cash.

COUNCILMAN RIZZO: Okay. Thank you.

PRESIDENT VERNA: Thank you very much.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Two areas of questioning. First around BPT revenue.

To what do you attribute the $70 million in unanticipated BPT revenue?

MS. WILKERSON: Let me ask. Is the Revenue Commissioner here? Dianne can speak to that. The Revenue Commissioner can also give more detail.

MS. NANCY KAMMERDEINER: Good morning. I am Nancy Kammerdeiner, Revenue Commissioner.

Most of the increase in the BPT came from the net income portion of the tax. And we believe that comes from increased revenues of the various companies that file the BPT.

COUNCILMAN GOODE: Corporate profits?

MS. KAMMERDEINER: Yes.

COUNCILMAN GOODE: So you don't intend those corporate profits or that trend, you don't expect that trend will continue in corporate profits over the Five-Year Plan?

MS. KAMMERDEINER: I would expect that we would see some volatility there. And as more and more of the emphasis on the BPT is on the net income portion of the tax, we will be dependent upon what happens in the economy, particularly the economy here in Philadelphia.

And, to be conservative, we can't always expect it to be at the high level.

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COUNCILMAN GOODE: I just find it strange that there was $70 million in unanticipated revenue in one year, but over the Five-Year Plan there is only $10 million total in BPT revenue growth over a five-year period.

MS. KAMMERDEINER: Again, we do our revenue forecasts on a conservative basis, not expecting that the highs continue over a longer period of time.

If businesses are successful and have a higher net income, then we would see the benefit of that over and above what's in the plan.

COUNCILMAN GOODE: So it might not be $70 million a year for five years, which would be $350 million; but it conceivably could be 100, 200 million dollars, rather than just $10 million?

MS. WILKERSON: Yes. I mean, one thing that we can provide Council with is a set of graphs that look at how the taxes have performed historically. And you can see fairly dramatic swings.

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The BPT is one of those taxes, the real estate transfer tax is one of those taxes.

I know during the Rendell years, I think they had a 79 percent drop-off in the real estate transfer tax in just one year.

So you don't want to get too far out there with your revenue assumptions, because a lot of the taxes are volatile. We will make sure that people get those graphs.

We did that because we were also concerned that we were missing opportunities, that we were being too conservative in some of our assumptions. And, so, we will make sure that people get those.

This plan shows substantial additional revenue. And perhaps Dianne can talk about that

COUNCILMAN GOODE: I want to focus more specifically on BPT. And just the fact that, over five years, you would only expect the revenue to grow from $379 million to $389 million. I mean, that's highly conservative.

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MS. DIANNE REED: This is Dianne Reed, Budget Director.

One of the things that happened last year is that we got more revenue in May and June than we ever have before, and that was quite unexpected. And that helped to accelerate the returns substantially.

And we don't know that that's something we can count on. So, as the Revenue Commissioner stated, you know, we are trying to be conservative in our approach.

COUNCILMAN GOODE: Okay. Second of all.

MR. SEAN McNEELEY: Good morning. Sean McNeeley, Director of Policy.

I also wanted to add, we can get you a comparison of the approved '06 plan to this projection.

But I just wanted to make sure that you noted that the BPT projection also reflects an additional proposed gross receipts cut. So the increase in revenue that you are seeing is net of that effect.

So that the increase in the base

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over the life of the plan may be a little bit more than $10 million. But, we will get you something that does that comparison.

COUNCILMAN GOODE: Second question is about the SEPTA subsidy.

Whatever is worked out at the state level, it is thought that it will increase the city's portion.

But aren't we still paying a disproportionate amount of subsidy related to the number of seats we have on the Board?

MS. WILKERSON: Yes.

COUNCILMAN GOODE: And what do we plan to do about that?

MS. WILKERSON: We are following those negotiations.

You know, our position has been that, you know, it has always been, that the city absorbs more than its fair share of the cost of SEPTA; that the entire region benefits from the city's portion; and that we can't afford any substantial cuts in service in the city.

So, you know, we are following those

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negotiations, but I can't give you a fuller report right now on what we're doing.

COUNCILMAN GOODE: Thank you. Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President. Good morning.

On Page III, small I, of the plan, the Administration states, quote, The city managers, municipal union leaders, local elected officials, and members of the media and the public should be skeptical of proposals to make recurring multi-year spending commitments or tax reductions that are not coupled with funding strategies or rely on speculative future revenues or savings." I believe that's correct. That's a correct statement, as far as the quote is concerned.

Based on that statement, can you explain why you have included the following items in the budget and/or the plan. And the first is DHS.

The Administration is strongly advocating for two pieces of legislation that would result in substantial revenue increases for the city.

The first bill, which we requires both federal and state legislation, would increase reimbursements for salaries and benefits of social workers from 80 percent to 100 percent, as you testified.

The plan assumes full reimbursement will begin to FY '09, generating $57.9 million through FY '11.

How does this initiative, which requires both federal and state legislation, which is speculative, in my opinion, at best, get included in the plan, number one.

And, number two, on Page XI, the second bill would increase reimbursements for adoption subsidies and legal custodian services from 80 to 100 percent, as you testified.

The plan assumes 100 percent reimbursement beginning in FY '07, generating

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$22 million in revenues over the life of the plan. Has the Governor included this in his FY '07 budget?

Again I ask, how can you propose this revenue in the budget and plan, which is speculative dollars, and the combination of these two DHS initiatives is approximately $80 million over the life of the plan?

If you are not successful, the plan will not be balanced in the out years. What will we do?

I guess my comment is, is that on one hand, when we talk about tax reductions that should not be recurring over the years because they are speculative, why can we speculate on revenues that are a result of legislation that's not even passed?

MS. WILKERSON: What we have -- I think part of what distinguishes this is that we have discrete strategies, and we also discount the proposals to reflect the fact that there are elements of risk.

I think that with respect to the adoption subsidies, we have been successful in moving that through part of -- you know, one House of the General Assembly.

I think there is risk associated with the other. And that's the kind of thing that we take into account as we put together the budget and the Five-Year Plan.

There are other elements of risk that we have carried traditionally. For example, I think from the very beginning we have carried assumed savings of $12 million annually from government efficiencies

COUNCILMAN KENNEY: I was going to get to that.

MS. WILKERSON: If you look at the plan, those assumptions aren't there any longer for the first three years of the Five-Year Plan.

PICA's position was that we had carried them too long, we can't assume automatically that we will be able to continue finding those.

So we are always looking at the risk; we are always trying to figure out, you know, are we too far out on a limb with the

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revenues, are we too conservative with the revenues, do we think we have a solid basis for proposing something like the adoption reimbursement subsidies.

Is it Philadelphia only? Is it something that the rest of the Commonwealth will likely benefit from? So we take all that into account.

But, you know, those are elements of risk. And, so, we try to limit, you know, how much of that we have in the plan.

COUNCILMAN KENNEY: Let me move into another area of speculation, and that's gaming revenues.

The Administration has included $25 million a year starting in FY '09 as locally generated, nontax revenue. What is the basis of the inclusion of the $75 million in the plan, and why don't you consider this to be speculative?

What expenditures have you included in the plan that has increased city costs associated with gaming? I don't think there is any in the plan that assume that.

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And how can we take a position that the city will experience a net benefit of $25 million per year from gaming?

Then ask at Page B-23 of the plan, the Administration states, quote, Due to uncertainties surrounding the timing of state tax reform made, the plan's revenue projections do not assume any additional wage tax reductions due to state tax reform aid or the corresponding state aid that will make these reductions possible.

If you are uncomfortable in including state gaming funds in the plan, how can you include -- if you are uncomfortable in including the tax cut benefits in the plan, how can you include the $75 million?

MS. WILKERSON: The gaming, we are carefully -- well, two things.

One, we had the Gaming Task Force, and based some of our projections on work done by the Gaming Task Force.

The gaming revenue is something that in this plan is moved back to more carefully coincide with when we think that gaming is

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actually going to come online.

You are right, we don't include any costs in the Five-Year Plan associated with gaming. Part of the reason for that is, we don't know the sites.

If, for example, the sanitation site were to be included, the law department, under Romi Diaz, has negotiated with the developers so that the developer would pick up the costs that one might ordinarily assume, you know, the city would have to bear.

So until we have a better sense of what the sites are, what the costs are likely to be associated with the various sites, we haven't included those costs.

We have moved the revenue back to '09. The dollar value of the revenue we think is a conservative projection on -- you know, based on work done by the Gaming Task Force.

COUNCILMAN KENNEY: I don't understand how the Gaming Task Force's work would give you a number that you could rely on, the $25 million.

MS. WILKERSON: I think that the

number is a projection number.

We worry a lot more about the exact dollar figure the closer in the dollar figure is. That number is still three years out.

You know, as we get closer, as we know where the sites are going to be, as we, you know, know what the city's costs are, we will begin to fold those into the Five-Year Plan.

But we think that they are good working numbers at this point in time.

COUNCILMAN KENNEY: Thank you, Madam President.

PRESIDENT VERNA: The Chair now recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam President.

There is discussion in the operating budget of a number of youth-related initiatives; namely, the Youth Violence Reduction Program, the new Adolescent Violence Reduction Program, and Operation Safe Schools.

Please speak or discuss what types of internal mechanisms are in place for close coordination of those programs, as well as coordination of case referrals.

MS. WILKERSON: I will ask the Managing Director.

MR. RAMOS: Pedro Ramos, Managing Director.

Councilwoman, as you know, YVRP to this point, the Youth Violence Reduction Partnership, has operated through, really, a collaboration without a formal structure.

This year for the first time, with support from the Pennsylvania General Assembly, as well as from the federal government, we have been able to expand the Youth Violence Reduction Program.

We started the implementation of an additional police district at the end of last calendar year and are now in the middle of a second expansion.

And that had to this point been through parole, probation, the police, the D.A., U.S. Attorney, and other partners just getting together on a regular basis.

With the new support, for the first

time we have put some structure in place and have provided for funding out of my office for the coordination of those efforts, and including an executive director.

And then the executive director's job is to formalize and institutionalize the coordination that had really been happening by people's whose first job, you know, John Delaney and Naomi Post, and the leadership team of YVRP, who really had just sort of owned it all along and really kept it going.

Now we have an executive director that will continue to work with the YVRP steering and keep it going.

With AVRP, we are now at the stage of bringing online two pilot police districts. AVRP is different than YVRP, in that it has less formal role for the courts.

Because in YVRP, you have probation and parole. And that's really, you know, the control, the -- you know, the stick in the carrot-and-the-stick approach.

With AVRP, children will not necessarily be under anyone's jurisdiction, under DHS' or the courts', although kids would be identified through other risk factors.

So, at this stage, AVRP will be managed and coordinated out of the Department of Human Services, and there will undoubtedly be a whole lot of coordination with YVRP.

You won't be surprised that we will probably have families where the younger siblings of kids in YVRP are in AVRP; YVRP being a program targeting kids 15 to 24 and AVRP, 10 to 15.

In July we plan to role out AVRP at a greater scale. There is no plan yet to do what we have just did this year with YVRP for AVRP. Right now, it will be coordinated through DHS.

COUNCILWOMAN BROWN: So the executive director reports to the DHS commissioner, and no longer the managing director?

MR. RAMOS: No. Under YVRP, the Youth Violence Reduction Partnership, the director reports to me.

But in my office is the director of

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social services, Julia Danzy, who is, obviously, integral to all of this and who is doing a whole lot of work to integrate social services, as you know.

And I believe that AVRP will have day-to-day contact with YVRP, because it is a lot of the same partners around the table. And YVRP was what -- it was the lessons from YVRP that led us to create this program for younger children.

COUNCILWOMAN BROWN: Okay. Two related questions.

The role of the school district in any of what you just mentioned.

MR. RAMOS: The truancy is a big risk factor and is a trigger in both of these arenas.

So there has to be coordination with the school and regular communication with the school district.

COUNCILWOMAN BROWN: That happens by way of an individual or department, or how?

MR. RAMOS: Right now, AVRP isn't up and running yet. So one of the things that

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our Secretary of Education, Jackie Barnett, her role in this is bringing social services and the school district to the table on how they can efficiently coordinate their efforts.

But truancy is -- you know, it is kids 10 to 15. A lot of the initial issues you are going to see are going to pop up in school attendance or in other school-related activities. So the school district will be a partner there.

And with YVRP, I am less intimately familiar with what the day-to-day contact has been, although truancy has been a big issue.

And, again, YVRP are the hundred young people in that category most likely to kill or be killed. It is not sort of the folks at risk; it is the folks at the very high end of the risk spectrum.

COUNCILWOMAN BROWN: Thank you for your testimony.

Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

The Chair recognizes Councilwoman Tasco.

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COUNCILWOMAN TASCO: Good morning. Ms. Wilkerson, in your testimony on Page 5, you state that the fund balance is projected to drop by 15 percent in 2007, but then increase -- and then drop in 2008 to 4.3 million, but by 2009 go to 47.2.

What causes the increase?

MS. WILKERSON: Let me ask Dianne Reed to step you through the various changes.

MS. REED: Good morning, Councilwoman.

There are several kinds of costs that are restored in '08. We are restoring about $11 million of the $50 million justification requests from the departments in '07, which, of course, carries through to '08.

In addition, there are a number of one-time expenditures that are included in the budget in '07 and '08, which include additional economic stimulus money, the money for Promoting Philadelphia. We also have new debt service for the borrowing. So these add costs, at the same time that our revenues are growing.

But one of the profoundest impacts on the '08 budget is the 4 percent wage increase that was put in place. And it goes back up in '09 and in the following years because some of those one-timers drop out. And we also are not assuming wage increases in the out years.

I should also say, our fixed obligations are growing dramatically, which includes pension, health benefits, debt service, that kind of thing.

COUNCILWOMAN TASCO: When you said something about the $11 million, would you go back over the first comment about justification.

MS. REED: The justification request, yes.

COUNCILWOMAN TASCO: Explain that.

PRESIDENT VERNA: Councilwoman, I am sorry. You are going to have to speak into the microphone, because we can't hear you.

COUNCILWOMAN TASCO: I am sorry. I asked her to explain the justification piece to me.

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MS. REED: For '07, we received $50 million in requests from departments for position restorations and new programs.

The Administration reviewed all these requests and has approved $11 million in increased costs, you know, which includes Operation Smooth Streets.

It also includes additional positions required for maintaining the prison census, including the return of the prisoners; for mandated services in our prevention programs in Department of Human Service.

And in some cases, because we cut so many positions in order to make our budget for '06, we granted restorations beyond what we had assumed because of DROP cuts that are in place as a guideline.

COUNCILWOMAN TASCO: We will see that reflected in the budget, where those positions are and those departments?

MS. REED: Yes. We can give you a table that shows that in detail, if you would like.

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COUNCILWOMAN TASCO: Okay. I want to go to the question that Councilman Kenney asked around some of the assumptions that you have.

On Page XI in the Five-Year Plan, you talk about generating revenue from surplus city properties.

I remember having this discussion before. Have we sold any properties to date that might have generated revenue for the city? If so, do you know those property sales?

And what are the future property sales, and can you identify them?

MS. REED: Councilwoman, we have sold $2.8 million of properties this year. We have about $52 million worth of properties that we have identified for sale. We have Agreements of Sale for some of these. They are all proceeding along.

We do assume that we will sell $6 million of properties in this fiscal year, $10 million in '07, and $6 million in '08.

We can share the lists with you.

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COUNCILWOMAN TASCO: We would like to see that.

And, also, the sale price, is that based on a fair market value or appraisal?

MS. REED: Yes. The city has all the properties that are identified for sale appraised, so that we have a fair market value for them.

MS. WILKERSON: This is an ongoing tension.

We have dollar figures that we put in the Five-Year Plan. You know, frequently, though, there will be demands from CDCs or nonprofit organizations, for example.

I know of one situation where we sold for less than fair market value in order to support affordable housing, you know.

So our starting point is everything gets sold for fair market value. Sometimes we do discount, if it is to support affordable housing.

There have been, I think, schools, you know, that have wanted sites; and, so, we have discounted. But our presumption is fair market value.

Sometimes, you know, we get what the appraisal says. Sometimes we've put it out for RFP and actually done substantially -- or think we will do substantially better than what we thought the appraised value was.

But we are trying to get fair market value. We need these revenues in order to fund the government's operations.

COUNCILWOMAN TASCO: Thank you. I only had one question.

PRESIDENT VERNA: It takes longer to answer.

COUNCILWOMAN TASCO: Make the answers short, please, so I can get more questions.

PRESIDENT VERNA: Your time is up.

Councilwoman Miller.

COUNCILWOMAN MILLER: Thank you, Madam President.

Good morning, Ms. Wilkerson. Did we happen to get a copy of the citizen satisfaction survey?

MS. REED: Yes. Those should have

been circulated to you in the form of the Mayor's report on city services for 2005.

COUNCILWOMAN MILLER: Okay.

MS. REED: Yes, it is also on the website.

COUNCILWOMAN MILLER: It is on the website. Okay. Thank you.

On Page 5 of your testimony, in the second paragraph down, the second full paragraph down. And when you talk about it, "In order to address its significant fiscal challenges, the city has made and will continue to make strategic choices."

And I guess it is the second sentence in, "These decisions include shifting costs and eliminating programs."

And I had a particular question regarding eliminating programs and right-sizing the number of facilities.

What does that exactly mean, and what programs are in jeopardy of being eliminated?

MS. WILKERSON: One of the areas where we have done, you know -- as I said elsewhere in the testimony, we have a lot of our programs currently supported out of federal and state dollars.

You know, if those dollars don't come through as we project, we will be faced with having to eliminate some of the social service preventive programs.

For example, there are other activities, you know, twice-a-day trash pickup, for example, comes to mind. We have standardized the practice. We only pick up trash once across the city.

You know, we are always looking for opportunities to do business differently, do it more efficiently.

You know, it could be something as -- you know, people probably don't know that we used to have full-time staff operating drawbridges. You know, the drawbridges in the city would go up and down on demand.

We have changed how we do that. So now we have to get notice in advance that, you know, somebody wants to bring a boat up the river, and we only staff the drawbridge

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operation as needed. So we are always looking at refining how we do business.

We have, you know, proposed in the past things like changes to rec facilities. We don't have any of those currently on the table for this Five-Year Plan.

But I think the city is going to have to, you know, continue to look at what it does, where its resources are needed, and be more flexible moving forward than we have been in the past with the buildings we operate, the services we provide.

COUNCILWOMAN MILLER: And that's, basically -- your last part of your question was talking about the facilities, right-sizing the number of facilities. I didn't hear you because someone was talking to me. I am sorry.

MS. WILKERSON: We don't have any proposal we are advancing for closing rec facilities, for example, in this current budget.

COUNCILWOMAN MILLER: Well, you know, certainly in reading the testimony, it was very clear that if federal or state funds are cut, that a program would have to be eliminated.

I wasn't clear on what this "eliminating programs" actually meant, other than those types of programs impacted by funding sources.

So that's why I wanted to be clear on what you actually meant in this particular paragraph.

And I have a question. I think the Operation Smooth Street is a really good idea. I think what helps customer satisfaction, or citizen satisfaction, is that potholes are filled in a timely fashion.

It is good to have the project. But if it is going to still take a month or more to fill a pothole, then that continues to be a problem.

MS. WILKERSON: I would like to have the managing director talk about that more. Because they are not just making a commitment to fill them, but they have a whole program associated with that.

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MR. RAMOS: Pedro Ramos, Managing Director.

Councilwoman, we announced Operation Smooth Streets, which has a couple of different components. Let me first start by answering your question directly.

The new service standard for the Streets Department will be to fill potholes, on average, in one day, instead of two or three, and in some cases five now; and ditches, which are caused usually by utility companies, within 30 days, instead of the average time now, which is about 90.

So the way we are implementing this is starting, in fact, this spring, in Fiscal '06, targeted for some time in April, we would first attack the backlog of potholes and ditches over a 100-day period, and try to eliminate as much of the backlog as possible.

Then keep that new higher service standard of repairing potholes on average in about a day and ditches in about 30 days.

So this is about catching up and keeping a higher standard starting this spring.

COUNCILWOMAN MILLER: That's really good. Are you going to hire additional employees or do it with the same work force?

MR. RAMOS: Yes, the budget includes additional staff to do this. In fact, yes, it does.

The impact, I believe, is 2.3 annually.

MS. REED: Yes.

MR. RAMOS: 2.3 annually, with a one-time startup of $1.15 million.

COUNCILWOMAN MILLER: Thank you.

Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Good morning, Ms. Wilkerson and Ms. Reed. I want to go to Page small I in the Five-Year Plan.

There is a statement in the overview which indicates that the priority of this

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Administration has been and will remain tackling core citizen needs, revitalizing neighborhoods in decline, improving public schools, strengthening families, attracting businesses to foster economic growth, ensuring public safety and high quality of life standards in every community, and, to the extent possible, reducing the local tax burden.

Can you lay out for us what the overall strategy is for retaining existing businesses, attracting new businesses, and the various incentives that are offered?

MS. WILKERSON: Stephanie, do you want to talk about that?

MS. NAIDOFF: Good morning, Councilman. Stephanie Naidoff, I am the City Representative and Director of Commerce.

Your question was, what are our strategies with regard to business attraction and retention?

COUNCILMAN NUTTER: Yes. Is there a strategy, and what is it?

MS. NAIDOFF: We have multiple

approaches to that.

In business retention, we have a committee that, as you know, has been meeting for several years now and has been extremely successful in retaining -- I think the number at this moment is about -- 97 out of 98 businesses.

We approach each --

COUNCILMAN NUTTER: These are big businesses with leases?

MS. NAIDOFF: These are companies of varying sizes.

We tend to concentrate on the medium and larger size companies. As their leases are coming due in the next year or two, we begin to work with them and help them identify locations in the city, either in their current building or in other buildings, where they might retain their offices. In some cases they need space to grow, and we work with them.

We work in that capacity with PIDC, the Chamber of Commerce, and Innovation Philadelphia, and the Governor's Business

Action Team. And we have been very successful so far in that effort.

We continue to do that today. There are not as many companies. There was a bulge for a while, and there are not as many companies right now whose leases are coming due. But, we are continuing that effort.

COUNCILMAN NUTTER: And what's the strategy on the small business side, the people who don't usually get that kind of attention?

MS. NAIDOFF: Well, the small businesses get a fair amount of attention, as well.

Much of that work comes through our Mayor's Business Action Team, which is in our department, and works with the small businesses throughout the city on a geographic basis. We have people assigned by geography.

And they go out and they try to relate to the businesses the fact that we have the services within the department that can assist them in working through whatever issues they have with the city.

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So we provide a fair amount of effort in that regard, as well.

COUNCILMAN NUTTER: And what was that number you indicated, 80 out of 90 or --

MS. NAIDOFF: I think the current number is 97 out of 98. I would have to get the number from the chart.

COUNCILMAN NUTTER: And what incentives, if any, were offered to the 97 or the 98?

MS. NAIDOFF: Well, the interesting thing about it is that, in most cases, we have not had to offer incentives.

What many of these companies are looking for is just the assistance and the expression of interest by the city in retaining them, in keeping them here, and helping them grow.

COUNCILMAN NUTTER: We have not offered any incentives?

MS. NAIDOFF: We have. We have offered incentives. But my point is that, in most cases, we have not had to offer incentives.

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COUNCILMAN NUTTER: Well, let's talk about the ones where you have. How many were offered, and what were they?

MS. NAIDOFF: I would have to get the numbers. I don't have that information with me.

COUNCILMAN NUTTER: A little bit, a lot, medium?

MS. NAIDOFF: I don't know how you measure it.

COUNCILMAN NUTTER: Do you have an example?

MS. WILKERSON: We can generate a report identifying the business and the exact dollar amount or other incentive provided.

I know that sometimes the incentive is simply letting people know that we have a job tax credit program. Sometimes the incentive is something that comes out of the renewal community.

But, we will gather all of that together.

COUNCILMAN NUTTER: You will be able to list each business and what the incentive

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was?

MS. NAIDOFF: Yes.

MS. WILKERSON: Yes, we can do that.

COUNCILMAN NUTTER: I guess still, probably, for Ms. Naidoff.

Do you believe that the city's tax burden is in any way an impediment to this city's ability to retain or attract businesses?

MS. NAIDOFF: What we are finding as we talk to businesses is that there are many other factors that they consider to be more important to them than the tax structure.

And high on the list is the quality of life that they believe Philadelphia offers to their employees.

COUNCILMAN NUTTER: What does that mean?

MS. NAIDOFF: They also talk about --

COUNCILMAN NUTTER: What does that mean?

MS. NAIDOFF: The fact that it is an attractive place for them to -- for hiring

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purposes and recruitment purposes; and they are able to find an adequate supply of workers for their businesses.

So they find the city a very attractive place to be.

COUNCILMAN NUTTER: Okay. What else?

MS. NAIDOFF: For some of the companies, they talk about issues of the access to the colleges and universities; they talk about the size of the knowledge worker pool that they can draw on; they talk about issues of disruption; as well as other kinds of things that might not be as positive, but are certainly not related to the tax structure.

And all of those seem to be higher on their list than the tax structure.

COUNCILMAN NUTTER: Really?

MS. NAIDOFF: Uh-huh.

COUNCILMAN NUTTER: And, I mean, this is from interviews or anecdotal reports?

I mean, have they issued a statement saying that they don't care about the tax burden anymore?

MS. NAIDOFF: No, I don't think they would say that they don't care about it.

But I say that there are other issues they find more important in making their decisions about staying in Philadelphia.

PRESIDENT VERNA: Councilman, your time is up. Thank you.

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

Based on that last conversation, I would really like to see something in writing that would quantify what these interviews or polls have been with these businesses.

We don't even need the names of the businesses. I would just like to see something that's been quantified that taxes aren't the major issue in whether they stay or not.

Let me move for a minute to the prison population. On Page XIII, the Administration states that, quote, Based on current trends, the growth rate for the prison census is estimated to be about 4 percent a year from FY '07 to FY '11. A study conducted by Temple University's Crime and Justice Research Center is currently underway to determine strategies for managing the population for early release and other alternatives to incarceration, as appropriate. Recommendations are expected in early FY '07.

But on Page B-6 of the plan, the Administration states, quote, The city is projecting no annual growth in the prison population over the life of the plan.

How is this a realistic assumption? And what funding has been included in the budget and plan for these alternatives to incarceration programs?

MS. REED: Councilman, we are assuming that the city will be able to manage the prison population through alternatives, which will help keep recidivism down --

COUNCILMAN KENNEY: To a 4 percent level? 4 percent coming in and a zero gain?

MS. REED: We are actually assuming that we can keep it level. However --

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COUNCILMAN KENNEY: I am sorry. I just want to make sure the record is clear.

In one part of the plan it says it is estimated to be a 4 percent a year growth rate. But on the other section of the plan, it says the city is projecting no annual growth in the prison population.

So what that means to me is, if we are having a 4 percent growth rate coming in, we are having a 4 percent exit rate coming out into alternative programs; is that another way of saying it?

MS. REED: I think the right way of saying it is that we do not assume that there is growth in the prison population.

COUNCILMAN KENNEY: You have assumed it in part of the plan.

MS. REED: Well, we have --

COUNCILMAN KENNEY: It says an annual 4 percent a year growth rate. And now it says we are projecting no annual growth in the prison population.

So all I can assume is, of the 4 percent you are expecting to come into the system, you are expecting to be able to deal with 4 percent of them exiting the system based on different types of incarceration methods.

MS. WILKERSON: We have some growth for '07. After that, we are not assuming growth.

The city can't continue simply assuming that the population is going to grow. We don't project building more prisons.

One of the reasons why we have put so much energy into the work of the task force -- and Pedro can talk more about that -- is because we think that there are diversional alternatives; for example, looking at the population and making sure that we are not housing scofflaws.

COUNCILMAN KENNEY: Absolutely.

All I want to understand in my mind is, on the part of the plan that says an estimated -- prison census is estimated to grow 4 percent a year from FY '07 to FY '11, but the city is projecting no annual grow in the prison population in the life of the plan.

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I mean, they are two mutually incongruous statements, unless you are willing to say that 4 percent of the in-comers are exiting, and an equal number to the 4 percent exiting as a result of different types of monitoring.

And we have no money. What funding has been included in the budget for these alternative incarceration services, which I assume have some costs associated with them.

MR. RAMOS: Pedro Ramos, Managing Director.

Councilman, if I could address your question, which may be reading this in a very literal way.

Growth is projected in '07. The other part of what you read alluded to a prison population study that's being conducted now not by the prisons, but collectively by the prisons, the courts, including probation, parole, the District Attorney's Office; in essence, the organization -- the group that gets together chaired by the City Solicitor called the Criminal Justice Coordinating

Committee has commissioned this.

Everybody being on the same page to address whether there are things we can do to better manage the prison population, better meet the needs, other than growing prisons, building prison space at a rate of 4 to 5 percent a year in perpetuity; which, if taken also to its literal and mathematical extreme, means we all end up in prison.

COUNCILMAN KENNEY: I thought we were.

MR. RAMOS: So the types of things -- and I don't want to speak for any of the partners around the table. Because you can imagine the achievement of getting all these disparate partners around the table on the common goal of looking at prison population management.

But it may involve that we as a city have to come back and look at what we do differently on our side. It may be presentencing guidelines, and things like that.

COUNCILMAN KENNEY: I agree with all

of those methods.

MR. RAMOS: So beyond '07, what we have said here is, there is this process going on now. We projected for '07. There are classes scheduled within the prisons. And we are not committing that the only solution is to just expand in perpetuity.

COUNCILMAN KENNEY: No one is even talking about that.

I think those alternative programs and pursuing them are critical to managing this whole problem that we have.

But how can you realistically assume that over the life of the plan, with the exception of '07, the prison population has no growth? I mean, that's not realistic, is it?

MR. RAMOS: What's been stated in this financial document, I think, or at least intended, is that, in the out years, we have not conceded that we have to grow the budget in a proportionate way to the population.

It may just be, you know, articulated in a way that's not sufficiently nuanced.

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MS. WILKERSON: I think this is one of those areas where the plan has inherent in it risk. That as we get closer, you know, as we start putting together the next plan, you know, we will have a better opportunity to say, you know, did the study yield anything for us; you know, do we need to go on and begin growing it.

You know, it is one of those areas where you have to be mindful of the risk, but you don't necessarily need to put an exact dollar figure in for it.

COUNCILMAN KENNEY: All right. Thank you.

PRESIDENT VERNA: Thank you.

Ms. Wilkerson, on Page C-4 of the plan, you talk about the FOP contract award for its health and welfare.

What is the status of your appeal?

MS. WILKERSON: For the FOP, that was filed yesterday. The Administration --

PRESIDENT VERNA: The appeal was filed yesterday?

MS. WILKERSON: It was filed

yesterday. The City Solicitor can talk about it.

PRESIDENT VERNA: I am just curious to know.

MR. ROMULO L. DIAZ, JR.: Romulo L. Diaz, Junior, City Solicitor.

President Verna, as the Chief of Staff indicated, we did file that appeal yesterday from the arbitration panel ruling, and we will pursue that. Obviously, we don't have further information about the results.

PRESIDENT VERNA: Well, I am just wondering what the impact to the proposed Five-Year Plan would be if you lost the appeal.

MS. WILKERSON: The award that the FOP got was approximately $45 million over and above what was budgeted in the '06 to '10 Five-Year Plan.

You know, these arbitration awards are an area of enormous risk for the city, enormous risk and exposure.

We are currently in arbitration with the firefighters. And, you know, we will be fighting hard not to have the same magnitude of benefit increase that we saw from the arbitrators in the FOP.

But, you know, they are a source of risk for the plan.

PRESIDENT VERNA: That's a sizable amount of money.

And my question is, how would you propose to bring the plan into balance, if you lose this appeal?

MS. WILKERSON: We will have to get back to you with exactly how we would accomplish that.

You know, as Ms. Reed testified, it is not only the arbitration awards, but it is the reopeners for 33 and 47. And then, you know, it's two years out, I guess, we will be back at it with some of the unions. And this is an area of concern.

The health and welfare components are particularly difficult for the city. The FOP, I guess, got a 15 percent increase in its health and welfare benefits in just one year.

You know, so we are working hard

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trying to better manage those costs and are being aggressive in our arbitration, and have also decided to pursue the awards in the courts.

PRESIDENT VERNA: Okay. I have several other questions, but there are a number of Council Members that would like to be recognized.

So at this time the Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam President.

Two additional followups with regards to the youth-related programs. Where, if any, is all of the after-school programs happening in the city?

Is there a clearinghouse for the location ID of all the after-school programs between DHS, the rec department, and the school district?

MS. WILKERSON: Cheryl Ranson, the DHS Commissioner, will talk about that.

MS. CHERYL RANSON-GARNER: Good morning. I am Cheryl Ranson-Garner,

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Commissioner for DHS.

COUNCILWOMAN BROWN: Good morning.

The managing director spoke in some detail about the number of youth-related programs. And I am curious to know now where is the linkage is with after-school programs?

How are they tied into the Youth Violence Reduction Program, the Adolescent Reduction Violence Program and Operation Safe Schools?

MS. RANSON-GARNER: With regard to the AVRP, the adolescent project, we will be using various DHS youth-development programs for the children that don't meet the level of warranting that type of service.

AVRP will be for children 10 to 15 years old. There will be an operations committee, an intake process and an operations committee, to approve those children for that service.

Those children that are not approved means they are not at as high a risk, and they will use the other DHS programs; such as, after-school beacon programs.

COUNCILWOMAN BROWN: So it would be DHS who principally is responsible for referring those young people to the beacon and after-school programs?

MS. RANSON-GARNER: Yes.

COUNCILWOMAN BROWN: Is DHS the clearinghouse for all after-school programming?

MS. RANSON-GARNER: DHS manages and pays for all the after-school programs.

Safe and Sound does some of the managing of those programs for us, the after-school programs.

COUNCILWOMAN BROWN: When you say DHS manages our after-school programming, that includes those run by the rec department, as well, or housed in recreation centers?

MS. RANSON-GARNER: Yes.

COUNCILWOMAN BROWN: And the school district?

MS. RANSON-GARNER: We have also programs that run in school district buildings.

COUNCILWOMAN BROWN: Managed by DHS?

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MS. RANSON-GARNER: Yes.

COUNCILWOMAN BROWN: Okay. All right.

COUNCILWOMAN TASCO: What does that mean?

MS. RANSON-GARNER: That means we pay the provider to operate the after-school program in a school district building.

COUNCILWOMAN TASCO: You provide the money?

MS. RANSON-GARNER: Yes.

COUNCILWOMAN TASCO: Excuse me.

COUNCILWOMAN BROWN: Go right ahead.

COUNCILWOMAN TASCO: Explain to me the relationship between DHS and Safe and Sound.

MS. RANSON-GARNER: Safe and Sound is a contractor of the Department of Human Services. And it does many services, one of which is, manages the contracts for some of the after-school programs around the city.

COUNCILWOMAN TASCO: Where is the coordination?

MS. RANSON-GARNER: The coordination

comes out of the Department of Human Services.

COUNCILWOMAN TASCO: Who is in charge of that?

MS. RANSON-GARNER: DHS Commissioner, myself, responsible for that contract.

COUNCILWOMAN TASCO: I am sorry, Councilwoman.

COUNCILWOMAN BROWN: Quite all right.

So with regard to the quality and standards running of those programs, that, too, is the responsibility of DHS?

MS. RANSON-GARNER: Yes.

The contracts do have standards for -- after-school programs have standards, in terms of how they are to operate.

The youth development programs have standards, as well.

COUNCILWOMAN BROWN: All right. Then I would like to thank you, Commissioner. I would like to shift my questioning to behavioral health services for children, if I may.

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PRESIDENT VERNA: Councilwoman, why don't you ask your question.

COUNCILWOMAN BROWN: Forgive me? Proceed?

PRESIDENT VERNA: Proceed, please.

COUNCILWOMAN BROWN: The City saved $45 million in FY '06 by changing how children receive behavioral health treatment services.

Share with us how that happened and what kind of assurances are in place to ensure that quality continues in spite of that savings.

MS. WILKERSON: Which part are you --

COUNCILWOMAN BROWN: For the Five-Year Plan, financial plan, Page XII.

DR. ARTHUR EVANS: I am Dr. Arthur Evans, Director of the Department of Behavioral Health and Mental Retardation Services.

That's referring to the process that we went through with our sister agency, DHS, called MA Realignment.

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Essentially what happened was, the state, the Department of Human Services, has traditionally paid for residential services. 100 percent of those dollars have been state dollars.

In an agreement with the Department of Public Welfare, we, the state, wanted to change the funding streams to a funding stream that would provide federal match.

And so, essentially what we did was to convert those services from services that were 100 percent funded through DHS, to services that were Medicaid-eligible services, which would allow the state to draw down federal revenue.

And so, essentially, the state was able to cost shift and potentially save dollars in that.

COUNCILWOMAN BROWN: So the services remain intact?

DR. EVANS: The services remain intact. And, in fact, the services were enhanced. Because once we made those services Medicaid eligible, we have higher standards

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for those services, higher standards in terms of the amount of treatment that children receive in those facilities; as well as higher standards in terms of the number or the type of qualifications that people have to provide those services.

COUNCILWOMAN BROWN: And, again, what is the tie-in with the school district?

DR. EVANS: Well, it doesn't tie in directly.

I mean, one of the challenges we have in doing this, and in putting children in residential care, is what happens with them once they come out of that care. And, so, we are in the process.

As you know, the Mayor recently appointed a Blue Ribbon commission to look at children's behavioral health.

And one of the issues that we will be looking at is a whole issue of what is the continuum of services that children have to have to be successful in the community once they leave these kind of facilities.

COUNCILWOMAN BROWN: Okay. The bell

has rung. Thank you for your testimony.

PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you.

Let me just stay on that, Dr. Evans. So now the services are -- you work in collaboration with DHS on providing -- or, you provide the services through your department?

DR. EVANS: We fund the services. So we have contractors that we fund the services.

COUNCILWOMAN TASCO: Okay. But if the child is under the supervision of DHS and needs those services, you provide the services? There is a relationship?

DR. EVANS: Pretty much.

Because of the complexity in the funding streams, there are cases where we fund totally those services, there are cases where we have to joint fund those services because of the nature of supports that children need.

But we work very closely with DHS. We actually have staff that are co-located at

DHS to facilitate that process.

COUNCILWOMAN TASCO: Thank you.

Ms. Wilkerson, let me just go back to this whole issue of your assumptions relative to the strategies from Harrisburg.

You talked about the reimbursement for salaries and benefit of social workers from 80 percent to 100 percent.

And do you know if any of that was in the Governor's budget?

MS. WILKERSON: I don't believe it was. We have not -- I don't believe it was.

We have not gotten the analysis of the Governor's budget yet. That's going to be, I think, a huge issue for the city; you know, taking a look at that, figuring out what it means.

Last year that ended up being a big issue for DHS and all the social service agencies in the city, but it is still too early for us to be able to comment on that.

I do not believe the social worker subsidy was in there.

COUNCILWOMAN TASCO: So what are we

doing to kind of assure that this assumption will be a real assumption? What is our strategy from the city side?

MS. WILKERSON: Last year George Burrell testified.

We have a number of lobbyists, both at the state and the federal level, that work with the city on various initiatives.

We managed to get the adoption subsidy through the House. We will continue to work on that.

The DHS, or the social service people, can talk about how they work collaboratively with others. I forget what the name of the organization is, but they work collaboratively across the state with other jurisdictions that have similar issues.

So we will continue to work around the adoption subsidy issue. We will continue to lobby around the social worker issue in order to try to increase the amount of reimbursement we get from the state around these issues.

COUNCILWOMAN TASCO: So how --

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PRESIDENT VERNA: Excuse me, Councilwoman.

Councilman Rizzo, did you want to be recognized?

COUNCILMAN RIZZO: I just have a point of information.

For a long time I have asked the question, who are our lobbyists at the state and federal level. And I have asked Joe Grace, I have asked numerous times for that information.

We have no clue who our lobbyists are. Because there are issues that sometimes we need some assistance with, like the State Police issue, et cetera, and we have no clue who the lobbyists are.

So could you submit to the Chair who lobbies for the state and who lobbies at the federal level, so we know who we are dealing with here?

MS. WILKERSON: Yes, we will do that.

It is also, I think, identified in the budget detail. But we will pull it together, so you can find it easily.

PRESIDENT VERNA: Thank you.

Councilwoman Tasco.

COUNCILMAN RIZZO: Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

COUNCILWOMAN TASCO: So how long have we been in negotiations to get this reimbursement to the 100 percent level?

MS. WILKERSON: I think we have carried this initiative at least two years. I would have to check. At least about two years, I think.

COUNCILWOMAN TASCO: What would be the impediment to the state agreeing to this, and at what point do you drop the assumption?

MS. WILKERSON: I think the impediment is a cost impediment. And, you know, we will have to make a decision at some point.

We got some movement on the adoption subsidy. If we don't get any movement at all, you know, on the social worker reimbursement, we will at some point drop it.

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I think that there is a lot changing with a lot of these issues. You know, when you look between what the President is doing with the federal budget, what's happening with the state budget, I think there is going to be a lot of change in the social service arena. So we are going to have to spend time looking at the state analysis.

We have already begun conversations with the federal lobbyists about what's happening with TANF dollars, what's happening with all the programs that impact the families that we assist.

And, you know, we will get back to Council when we have that information, so we can figure out what to do and what's realistic, what's not likely to happen.

COUNCILWOMAN TASCO: You say the plan assumes a hundred percent reimbursement beginning in '07, generating $22 million in revenue over the life of the plan.

I guess I ask the same question, because I have in my notes underlined here, if that is so tenuous, why would we make that

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part of our assumptions, when, I mean, we have to rely on the federal and the state? I mean, that is really speculative.

MS. WILKERSON: I think the social worker begins in '09 and the adoption, I think, we have as an '07.

I think that was in part because we had been successful in moving it through the House and are working actively on trying to get that passed through the Senate.

COUNCILWOMAN TASCO: So what happens, if none of this happens?

MS. WILKERSON: Then we will have to make adjustments in the Five-Year Plan to reflect that that revenue did not materialize.

There would be reductions proposed in the budget for '07 in the Five-Year Plan for the out years.

COUNCILWOMAN TASCO: Where would you make those deductions, adjustments?

MS. WILKERSON: We will take a look at -- I mean, there are always changes that we don't anticipate.

Sometimes revenue will have come in

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more strongly, you know, either because the taxes are up or because we have sold more properties, or, you know, there are any number of things that can enhance revenues.

Sometimes expenditures don't materialize. You know, things that we thought we were going to have to pay out, don't occur.

And, so, when the time comes, we will look at the Five-Year Plan and make a judgment call about, you know, what to do.

COUNCILWOMAN TASCO: I am done.

MR. McPHERSON: Councilman Kelly.

COUNCILMAN KELLY: Thank you, Mr. McPherson.

Good afternoon.

MS. WILKERSON: Good afternoon.

COMMISSIONER KELLY: I just have a quick question here, and I apologize if you have already answered it.

But I was a little concerned that your fund balance that you are projecting for Years '07 through '11 is contingent upon PGW's repaying $45 million.

What assurances do you have from PGW

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that you are going to ever receive any of this $45 million?

MS. WILKERSON: I think PGW continues to be an enormous challenge and risk for the city.

The company has collections up in excess of 93, I think it is probably much closer to 94, percent.

The company -- or, the state for the first time has appropriated over $20 million for LIHEAP money. We will get a part of that in Philadelphia.

We are lobbying hard for additional LIHEAP funds at the state level, together with a lot of other jurisdictions.

But PGW is an enormous risk for the city. As the cost of natural gas escalates, you know, that's a real problem.

You know, when you ask the people at PGW, they think they probably have the capacity to repay it. What it means is, they will have to borrow off their line of credit.

And, you know, then their costs go up. And that gets passed on to, you know, to the customers.

COUNCILMAN KELLY: So this would definitely have an impact, then, on the Years '10 and '11?

MS. WILKERSON: If that money doesn't come in -- I mean, that's one reason we have to carry balances of at least that amount, at least the 45; so that, if PGW doesn't repay, we will be able to address that.

The other -- you know, PGW has strategies, you know. I know it is not popular, but the L & G facility would offer PGW some, you know, some relief.

You know, we are looking at a number of things that might be of assistance to the company.

COUNCILMAN KELLY: What would you say that -- or what the Administration would be favorable to eventually selling PGW at one point?

MS. WILKERSON: Yes.

COUNCILMAN KELLY: They would be?

MS. WILKERSON: Yes.

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You know, the Mayor has long advocated disposing of PGW. The challenge is finding a buyer that will compensate us fairly for it. But we are always out there looking.

We are in conversations with the Commonwealth and various other members of the state legislature about the possibility of a state authority. So we are leaving no stone unturned with respect to PGW.

It is a huge challenge for --

COUNCILMAN KELLY: It certainly is, with the deficit that they are showing, that they have to do something about that.

MS. WILKERSON: It is a huge challenge that, unless something changes fundamentally, it is going to be just an ongoing and untenable risk for the city.

COUNCILMAN KELLY: I have another question here, Ms. Wilkerson.

On Page 9, you said that the city has been successful in shifting hundreds of millions of dollars in costs to state and federal sources over the past decade. You also assume that further such shifts are contemplated.

Could you be more specific of where you are going to ask the federal and state government to --

MS. WILKERSON: John, do you want to talk about programs that have shifted? Do you want to talk about some of the social service programs that the city historically has funded?

COUNCILMAN KELLY: And you also say that the negative outcomes in any of these, I guess, support from the federal and state level, that you would have to pursue alternate contingencies. I would like to address that, also.

MS. WILKERSON: If you want to talk about some of the shifting, and then we can talk about what we will do, if we don't get some of it. John.

MR. JOHN ZANIER: John Zanier, Finance Director with DHS.

Over the last several years we have taken the opportunity to fund most of our prevention, $80 million of that, by the TANF

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surplus, the federal TANF surplus, that we built up over the state.

We have also sought funding through the medical assistance realignment, where we have used Medicaid dollars to offset children and youth costs which the city would have had to bear.

MS. WILKERSON: I think one of the challenges that we face going forward is this TANF. And Pedro has become a student of the DHS budget.

But one of the challenges -- and I will ask him to come forward -- one of the challenges we face is that, you know, the TANF dollars that had been available, that had built up over time from the federal government, are being reduced.

And those are the dollars that the city has used very creatively to support prevention programs, like our parenting programs, and they go on and on.

If those dollars aren't forthcoming, those aren't mandated services, and we would be forced to look at some of those programs for cut.

And Pedro can go into those in more detail.

COUNCILMAN KELLY: And the alternate contingencies would be cutting some of those programs?

MR. RAMOS: Pedro Ramos, Managing Director.

Councilman Kelly, the background here is that, it starts with the whole Welfare Reform, Welfare To Work efforts at the federal government, where states and local governments, through the states, were getting their dollars bundled.

The city over the last many years really became a leader in using those funds for prevention programs, meaning more than just the mandated services to provide sort of, you know, remedial or reactive assistance to kids; but provide for programs that kept kids from getting into higher levels of need or court supervision.

Those federal dollars, now called TANF dollars, are now drying up. Last year the state in its budget provided for the elimination of TANF dollars with some transition. We talked a lot in here last year about those transition dollars.

And last year, although it wouldn't have been our preferred way of dealing with part of that transition, we ended up conceding with the state that, for last year, some of the city's match would come from behavioral health reinvestment dollars.

The city has been very committed to these prevention programs, and sort of the funding for them continues to go away.

COUNCILMAN KELLY: While it is interesting to know that a lot of these are mandated programs, but not necessarily funded programs by the federal or state governments.

MR. RAMOS: And one of the things that's happened, Philadelphia was affected a little differently than the other counties.

What the other counties were using TANF dollars for was juvenile justice. One of the reasons we don't feel completely alone in this statewide is that other counties were

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using TANF dollars for their juvenile justice needs, so those counties are also feeling this pretty hard.

And although they tend to be on a calendar year fiscal year, on January-December fiscal years, rather than our July-June fiscal years --

COUNCILMAN KELLY: Are these programs that are --

PRESIDENT VERNA: Councilman Kelly, I am sorry, your time has been up.

COUNCILMAN KELLY: I am sorry.

MR. RAMOS: I guess I will try to wrap it up by saying, one of the things that makes this a little different than where Philadelphia usually finds itself in these battles statewide is that, other counties had become equally dependent or very dependent on this source of funding.

COUNCILMAN KELLY: Madam President, I just have one quick question, that's all. It is just a followup.

On the current Governor's budget --

PRESIDENT VERNA: Councilman,

everybody has been abiding by the five-minute rule, so I am not going to break it now. Thank you.

COUNCILMAN KELLY: Thank you.

PRESIDENT VERNA: Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam President. I apologize. I knew I was coming up soon, but I got a call that I had an emergency, my wife was waiting for me upstairs.

When I went upstairs, there were four guys were singing a cappella wishing me, on behalf of my wife -- I am not going to say anything.

But, nevertheless, my heart is still around my knees, but I thank her so much. I feel the same way about her. Anyway...

I agree that we are entering into a new era in Philadelphia. Or at least particularly in the last few weeks, where I have had the opportunity to travel throughout the city, I have run into many of my colleagues in doing so and many people in the Administration.

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It is good signs of good times to come in Philadelphia. And we have seen 30 percent of the average home -- or the appreciation of the average home up by 30 percent, up 37 percent in FY '05.

And when we've torn the Administration, it has done a splendid job of tearing down abandoned properties, and so many other positive things that are happening in the city

And the other projections of further revenue for the City of Philadelphia, the good report of a fund balance growing to a positive $96.2 million and beyond.

But with all these things -- and I am part of selling the City of Philadelphia to all who wants to move into Philadelphia; whether it is a person looking for a new life or a businessperson trying to do business in this city. I see my role as an at-large member of this Council to help open up doors.

Nevertheless, last night I took a look and see where our homicide rate was at. I believe it was at 39. I sure hope it stops there at 39.

When people still come and are looking for a new destination point and hear all the very positive things about Philadelphia, still this 39 number, and this homicide number, is scary.

And I know that this Administration and the members of Council, we are all involved directly in some facet of addressing this problem.

Just yesterday Councilwoman Donna Reed Miller and Marian Tasco held hearings on something called Blueprint For A Safer Philadelphia. It was very, very impressive.

The people involved, the experts that came together, the members of the House, particularly Dwight Evans, and others have come together, the city unveiling its program just a couple of weeks ago, and the new initiative of the police department and the call for citizen involvement.

And in this whole thing we see in the budget that the Administration wants to appropriate $10 million for more police activities, but it is in the area of overtime.

I wanted, I would like the Chief of Staff to -- I know that you have addressed this before, and the Mayor has explained it, and I have heard it. I would like you to do it again, though.

Why are you doing 10 million in overtime, versus $10 million worth of new, of additional police officers?

As a person that worked out in the street as a construction worker, after -- we are always looking for overtime. And it was like an adrenaline rush when your boss would tell you there was OT, you know.

But I do know that, after a while, overtime weighs on your mind and your body.

And what I realize is that, over a period of time, I had to reconsider taking all this overtime because physically it was just draining, it was hurting.

And then after a couple of hours, I'm not as good, you know. And I am not comparing myself to police officers. Their job is -- the strain and the life-and-death

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situations that they live every second that they are out there protecting us is a different environment.

Nevertheless, I think that you might get, in some instances, people that are working overtime that are not at their best.

You know, people are at their best at the start of their shift versus the end or the added time or the additional time that they have to work.

Although most, you know, overwhelming cases people will definitely take the OT any time.

But if you can just explain to me, you know, your rationale in doing overtime, $10 million worth of overtime, versus maybe $10 million of additional police officers.

MS. WILKERSON: I would like to draw on the wisdom of our Managing Director, Pedro Ramos, to address that.

MR. RAMOS: Pedro Ramos, Managing Director.

Councilman, I think there are -- foremost, if you are going to spend an

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additional $10 million on a specific effort, and try to prioritize how -- the impact of that $10 million, let's take, for example, our continuing efforts to prevent and reduce the amount of violence, then simply doing it as overtime gives you a lot more flexibility in using the limited resources you have towards the specific objective that you have laid out; in this case, violence reduction and prevention.

It gives the Commissioner a lot of flexibility in doing that, as opposed to having to spread the $10 million systemwide.

The other is, quite candidly, that if you were to try to scale up every time you -- if you tried to scale up your police department now in huge numbers -- as you know, we are budgeting on a five-year basis, and the impact of that has sort of an exponential effect.

This is a way that we have been able to provide the Commissioner, at least for the fiscal year, a fair amount of support and flexibility.

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And this is something that we monitor not just, you know, annually or quarterly; the Commissioner, the Mayor, and I get together on a scheduled basis every week.

And the Part One crime numbers and other kind of high-level data of the police department is something that I look at first thing every morning after I have looked at the weather forecast.

I know you really like my long answers, and have for many years. The short version of the answer is, it provides greatest flexibility and impact for the fiscal year.

COUNCILMAN RAMOS: It is, essentially, a matter of costs.

And you think that doing it this way, you do not have to then increase the budget of the police department for new hire of police officers, but you also are saying that you can do this effectively with officers working overtime; is that correct?

MR. RAMOS: It is the most effective use of that resource.

It is immediate, because it is

officers now; and it is where you want them and need them and how you need them.

The Commissioner, you know, during the police department's budget, can talk more about it. But it greatly enhances his ability in this safer streets initiative to put resources where he wants them.

PRESIDENT VERNA: Councilman Ramos, I am sorry, your time is up.

COUNCILMAN RAMOS: One quick one.

PRESIDENT VERNA: Sorry.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

I would just like to finish the one question with -- I don't know if Ms. Naidoff is still here -- where I left off, and then I can move into another area.

PRESIDENT VERNA: Just a moment, Councilman.

MS. WILKERSON: Can we take a brief break?

COUNCILMAN NUTTER: This is not

charged to my time, is it?

PRESIDENT VERNA: No.

COUNCILMAN NUTTER: Nice try.

PRESIDENT VERNA: Council will stand in recess for ten minutes.

(Short recess.)

PRESIDENT VERNA: Council is now back in session. Ms. Wilkerson, please approach the witness table.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. I just wanted to finish this particular area.

Ms. Naidoff, you mentioned that there were numerous other interests that businesspeople may have outside of the tax area.

And I would certainly agree that the business community is not a monolithic place or that there is only one factor that affects what business does.

On the other hand, I think you participated in more than a couple of hearings here. So why is it that you think that the leading small, medium, and large businesses in Philadelphia keep talking about the need to reduce the tax burden in Philadelphia, if, in your opinion, it is not that high up on the list?

MS. NAIDOFF: Councilman, I can't really address that other than to say that, there are people who are talking about it.

But I think that, in our conversations on the issues of business attraction and business retention, as we have discussed with those businesses the reasons they want to stay here, the reasons they want to grow here, they mention many other things, other than the taxes.

COUNCILMAN NUTTER: So, therefore, why did the Administration put forward another reduction in business taxes?

MS. NAIDOFF: The Mayor is committed to reducing taxes on a reasonable, fiscally responsible basis over the years as the revenues and the financial picture of the city permit. And I think that's a good strategy.

And I think all of the businesses would appreciate that, but I don't think they make their business decisions about location on that basis.

COUNCILMAN NUTTER: Right. Which, of course, would beg the question, if you don't think that that's an important factor, then why would you put forward additional cuts?

I mean, your argument doesn't make any sense.

MS. NAIDOFF: Well, I think what I am saying is that, it is not at the top of the list. It is not the one that they find drives their business decisions.

I think everybody would like taxes reduced, when that's possible and when it doesn't impede the delivery of good quality services.

COUNCILMAN NUTTER: How did you decide on the $5 million figure?

MS. NAIDOFF: I'm sorry?

COUNCILMAN NUTTER: How did you decide on the $5 million figure?

MS. WILKERSON: We thought that's what the city could afford; that, on top of what was already scheduled.

You know, the Mayor's approach has been one of tax reductions, strategic investments, you know, quality city services.

And we were able to craft together a Five-Year Financial Plan that we think allowed us to do more in terms of, you know, this one-time acceleration of the tax reduction.

In part because of the fund balance, you know, what's happening with the real estate transfer tax.

COUNCILMAN NUTTER: So you do think it is important.

Well, the fund balance is not only up because of the real estate transfer tax; right?

MS. WILKERSON: The fund balance is due to a whole host of factors.

COUNCILMAN NUTTER: One of which would be increased Business Privilege Tax receipts?

MS. WILKERSON: That, the real

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estate transfer tax, expenses that are less than projected. I mean, there are a whole host of reasons for the fund balance.

COUNCILMAN NUTTER: So lastly in this area, it continues to be true -- and we went through this last budget cycle -- that even with continued cuts in Business Privilege Tax, part of the reason that the fund balance is up is because we have had increased receipts from the Business Privilege Tax; is that correct?

MS. WILKERSON: Probably that, the real estate transfer tax. Most of our tax revenues I think are up; it is not just one tax.

COUNCILMAN NUTTER: I am reading from Page II. "Continued improvements in economic growth in corporate profits helped FY '05 Business Privilege Tax revenue grow by $70 million above the FY '04 amount."

MS. WILKERSON: Uh-huh.

COUNCILMAN NUTTER: That's from the plan.

MS. WILKERSON: Yes.

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COUNCILMAN NUTTER: So we have been cutting Business Privilege Taxes, but one of the reasons we have so much money is because Business Privilege Tax receipts have grown.

MS. WILKERSON: It is one of the reasons.

COUNCILMAN NUTTER: So it has not created, as has been characterized in the past, that somehow reducing these taxes will cause a cataclysmic demise of the government?

MS. WILKERSON: I think that, you know, you reduce taxes, I don't know that we have a correlation between reducing the taxes and growing the -- let me have Sean track this.

MR. McNEELEY: Councilman, good afternoon. Sean McNeeley, Director of Policy in the Mayor's Office.

Councilman, there are several factors involved in your question. One is that, you are talking about the rate of growth in the tax base and you are talking about the magnitude of the tax reduction.

To date, the size of the tax

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reductions has been fairly modest, compared to some of the reductions that are scheduled for future years.

And economic growth has been such in most years that the BPT has grown. It declined in '03. It declined in '98.

So it is not true that, in an absolute sense, tax reductions have never impeded revenues.

COUNCILMAN NUTTER: Well, I think, one, I didn't necessarily say that.

But, two, I think your own revenue figures show that, with the exception of a couple of anomalies, you have not had this proportionate decrease in revenues, even though the rates were going down.

But I am sure we will have more fun with that one during the Operating Budget process. I will come back, Madam Chair. Thank you. But, I am finished for now.

PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam

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President.

Let me go back to prison for a minute. On Page XI of the Five-Year Plan, it says, "Obtaining medical reimbursements for hospitalization of inmates. One of the fastest-growing areas in the city's budget is the cost of medical care for inmates in the Philadelphia Prison System. The prison system's health contract has increased from less than $24 million in FY 2000, to more than $50 million in FY '06, a 13 percent annual increase over the six-year period.

"One of the costs in the contract that is the most difficult to control is that for hospitalization of inmates. The U.S. Department of Health and Human Services issued a letter indicating hospitalization costs for inmates may be eligible for MA reimbursement, as long as it is not precluded by state law.

"In order to pursue getting these costs reimbursed through MA, the city has requested an opinion from the Commonwealth to confirm its understanding of state law and is working with the Commonwealth to implement this initiative; however, the plan assumes no revenue from this initiative at this time."

Could you give us an update as to what we're doing to try to get reimbursed for medical assistance.

And, also, as the Commonwealth of Pennsylvania has, and as the State of New Jersey does, have we considered any type of modest co-payment for services in the system?

I know that, like I said, Commonwealth of Pennsylvania does it, New Jersey does it, and everybody in the general population does it.

And I recognize the inability to get a large co-pay from people who are incarcerated. But I understand that the co-pays in both Pennsylvania and New Jersey are modest, 1, 2, 3 dollars for doctor's visits and prescriptions.

And they have found, my understanding is they have found, that it reduces the number of inmate calls daily to the doctor's office in the facility.

Is that a way to manage costs? And

can we look at those other states and see what they have done, and try to mirror what they have done?

MS. WILKERSON: Romi Diaz will talk about where we are in negotiating with the state for reimbursement, and then the Managing Director will talk about what we are doing in the prisons.

COUNCILMAN KENNEY: Have you looked at modest co-payment?

MR. RAMOS: I can answer that question very quickly.

It is something we are actually examining right now. So we don't have an answer about whether we will recommend going forward with co-pay, but we are looking at it.

COUNCILMAN KENNEY: Are there projections on what it would save?

MR. RAMOS: Not yet, Councilman. We will be able to come back to you.

COUNCILMAN KENNEY: What are you crunching at this point?

Because I would make a formal request. I made a request through the system.

And I am waiting. I assume I am going to get an affirmative response to my request.

But I would like to make a formal budget request now relative to the number of inmate sick calls or visits monthly, the number of prescriptions prescribed on a monthly basis, the number of inmates taking prescription medication, and the cost of sick-call visits monthly, and the cost of prescriptions monthly.

Now, I recognize that HIPAA is an issue here. But I am not looking for names. I am not looking for what he is prescribed. I just need raw numbers on what is --

MR. RAMOS: I am hoping that somebody captured the list or I can get it from you.

COUNCILMAN KENNEY: You can respond to me as a result of the normal budget request, information request.

And, Mr. Diaz, if you can give me an update on the MA reimbursement issues.

MR. DIAZ: Actually, I would like to address two points in connection with your question.

The first is that, there was a recent court decision by Commonwealth Court which, I think, is a potential basis for reducing costs to the city with regard to detainees and others who might receive emergency services.

The court decision basically determined that there is a responsibility inherent in emergency service providers, such as hospitals, that is independent of any responsibility of the city. So we want to take a closer look at that and the implications for the budget.

With regard to the MA realignment and the other related social services budget issues, we have got three budget years currently in negotiation with regard to the state; that's FY '05, '06, and '07.

We have administrative appeals pending with regard to the first two years, and we have then the process underway in connection with '07.

We don't have a clear answer yet,

but I would be pleased to provide a response for the record giving a clearer picture of when we will have expectations of determinations on that.

MR. RAMOS: Councilman, I can supplement the answer, at least to the part of your question with inpatient -- reimbursement for inpatient hospitalization in the prison.

Spring of 2004 or 2005? Spring of 2004, we met with the Secretary of DPW and Governor's senior policy and government officials, and had a discussion about a new idea for -- that Philadelphia -- that hadn't been explored in this area; which was whether our inmates, when they received inpatient care at a hospital, are eligible for MA. The law department had researched the issue before that meeting.

When we met with the Secretary of DPW, it was her impression that any impediment to that would be an issue of federal law, but that the state plan would permit it.

We went back and we believed that inpatient hospitalization is eligible for MA

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reimbursement, and that the state plan permits it.

We have been looking with the state at what proportion of our population that would affect and what the dollars would be.

For the state, it is sort of just a matter of, you know, one pocket -- for the state it has implications, because they are the payor for those non-federally eligible.

We are finding that there may be more federally-eligible people than we had done in our initial sample.

This discussion has been going on a very long time with the state. And what I think that language is referring to that you quoted is that, we think it is time for the state to give us a definitive answer.

They have not said no. The law department -- nobody has disputed our law department's conclusions about the law and what's eligible for MA reimbursement, so we are hoping to at least bring that issue to closure.

We think that, with the law

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department's advice, that there is some opportunity there.

Along the way, we have also seen some financial benefit, which is one of the things that's come out of the discussions with DPW; is, we now have more information through DPW on hospital rates.

And, so, we are at a little bit less of a disadvantage in negotiating hospital rates when we are negotiating on behalf of the prisons.

The issue has been out there for a long time. We are, actually, seeking to bring it to a head.

COUNCILMAN KENNEY: Thank you.

I am done. My bell rung.

PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you, Madam President. I only have two questions.

My first one is, we notice on Page B-7, about the impact of tax cuts, that there is reference on the last line to repeal the low-income tax wage credits.

And our question is, we're trying to reconcile how we cut the taxes for the working poor, and yet we accelerate business of reductions at the other end for businesses.

So we wonder if you will respond to that.

MS. WILKERSON: I think there are a couple of reasons.

One, we simply can't afford the low-income tax credits. It has a $46 million impact on this Five-Year Plan.

I believe next year the one-year impact will be -- in FY '12, the single-year impact will be another $46 million. You

Know, the year after that, I think it is up to $62 million, and then an additional $78 million.

These are annual costs, additional costs, to the Five-Year Plan that we can't afford.

The second is, I think, the Administration believes there are more effective -- that the business tax cuts will

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have a more positive impact on job creation.

The other thing that we have in the offering are additional wage tax cuts that are going to come as a result of what happens at the state level.

So there will be some additional relief for wage earners as a result of the state budget. Not as a result of the state budget, but as a result of gaming revenue that will be applied to wage tax reductions.

COUNCILWOMAN BLACKWELL: As my colleague just said, people who receive this credit reinvest it in the economy.

So it is not that we feel -- since this is generally those at the lower end of the scale, it is not that they use it and go to overseas or something; but, they really invest in our local economy. And we are concerned about this versus tax reductions in other areas.

My second question is --

PRESIDENT VERNA: Councilwoman, can I just piggyback on that, please?

COUNCILWOMAN BLACKWELL: Please,

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Madam President.

PRESIDENT VERNA: What adjustments to the plan will the Administration be offering, if this ordinance is not repealed?

MS. WILKERSON: I would have to get back to you on that. I don't know exactly what we would end up proposing for -- what change we would propose.

PRESIDENT VERNA: Okay.

Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you.

Also on Page B-26, there is a statement, quote, BRT expects to have full valuation estimates developed in late summer '06. And I read further in the statement that the Administration supports full valuation.

You know, how are people supposed to -- this even connects with the issue of wage tax reductions.

And then full valuation the entire Council has not supported because there is no way people can afford it, nor do we want our constituents to think that we want it.

We realize that on paper it looks

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like we are establishing some fair system. But as long as there is a criteria that's created outside of this body, we don't understand how full valuation is going to create anything but additional taxes for the majority of the people, those at the bottom rung of the ladder we represent.

Can you respond to the Administration's position on this whole issue of full tax valuation?

MS. WILKERSON: Yes. The Administration believes that we need simplification in the area of property taxes; that we need to get rid of all the ratios, you know, the predetermined ratio, and then the 70 percent of actual value; that we need to create a system that is clearer. And we think that the full valuation project does that.

We also think that over the years people have not been assessed equally. Some people are paying more than they should be paying, while some people are paying less than they ought to be paying.

We think that full valuation,

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actually going out and assessing every property at its full value, gives us the opportunity to get rid of the unfairness.

At the same time, I think what we have to do is make sure we put protections in.

The growth in our real estate market, if we were simply to go to full valuation and not put any protections in, too many people would be hurt.

We have senior citizens on fixed income, we have neighborhoods that were depressed that are now thriving. People will be faced with increased property taxes.

But we think we have the capacity, in going to full valuation and capturing more value in the neighborhoods, we think it will throw off enough revenue so that we can create the kind of protections that we need.

You know, we need to have something for gentrifying neighborhoods. We need to have something for senior citizens that are on a fixed income. We need to have some kind of buffering mechanism so people who have the capacity to pay step up to the higher tax rates.

I think what we would like to do is wait. Let's wait and see, get the numbers from Glancey, so we can all sit down and figure out what makes sense. Figure out, you know, who is really having to pay a lot more.

You know, we have opinions about that, but we ought to wait and actually see the numbers. Because nobody really knows for sure who is paying too much, who is paying less than they ought to pay.

And once we get that information, we can all sit down and make a considered judgment about how to proceed.

But I think -- I mean, we will wait and see.

COUNCILWOMAN BLACKWELL: Will you make a commitment to us that nothing will happen in this regard until we have a discussion?

I remember a few months ago I talked about SEPTA. And I have had 26 businesses close for the Market Street Elevated Program, and how those people are barely surviving now.

And we are asking -- you know, we have talked to the City Solicitor about what we can do for those people.

Can we expect that you will not do anything until we have had a full discussion?

MS. WILKERSON: We wouldn't support doing anything until we have had a full discussion.

This is something that is controlled out of the BRT. We can't, the Administration can't, do anything unilaterally.

But, you know, we wouldn't support moving to full valuation until we are all on, you know -- or until a majority of Council and the Administration are on the same page with this.

You know, as we testified previously during the full valuation hearings, we think we ought to be looking at things like the homestead exemption. We think we ought to be looking at buffering strategies.

And all of those require, you know, collaboration with City Council; they require legislation out of Harrisburg. You know,

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there is no one party that can implement any aspect of this unilaterally.

COUNCILWOMAN BLACKWELL: Thank you, Madam President. I know the bell rang.

PRESIDENT VERNA: Thank you.

Ms. Wilkerson, I would like to get a question in here and there, if I may.

In FY '09, the Administration is assuming that the city will no longer bear any obligation to fund the Convention Center.

What is the basis for this assumption? Have you received correspondence from the Governor's office that they intend to pick up the cost in FY '09?

MS. WILKERSON: I will ask the City Solicitor to respond, he has been more directly involved.

PRESIDENT VERNA: Thank you.

MR. DIAZ: Romulo L. Diaz, Junior, City Solicitor.

Council President, the budget assumes that the gaming facilities will be licensed and operational by FY '09. And, consistent with the gaming legislation which

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provides for a 5 percent economic development fund from the gaming tax, that's received by the state, there are a list of items which are exclusively the purposes for which the economic development fund may be spent in the first years of gaming in Pennsylvania.

One of them is in connection with the payment of debt service and the prior year's operating deficits for the Convention Center.

The Mayor and the Administration have been in contact directly with the Governor and his staff to continue to emphasize the need for the debt service expenses currently undertaken by the city to be relieved as part not only of the budget process, but also to meet the priorities established in the gaming legislation.

PRESIDENT VERNA: Under the current state law, the state may assume these costs under the gaming legislation, not that they must. They shall, but it doesn't say they must.

Am I correct?

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MR. DIAZ: I don't have the legislation before me.

But my clear recollection is that there is an exclusive list of expenses which may be undertaken through the 5 percent Economic Development Fund.

On that list for Philadelphia is the listing of the two items that I mentioned relative to the Pennsylvania Convention Center.

So I think there is a need for clarity with regard to the Governor's commitment in this connection.

But the Administration has been in close contact with the governor and his staff, making clear our expectation and desire with regard to the FY '09 budget needs going forward.

And we have not heard anything to indicate that that expectation would not be met.

PRESIDENT VERNA: I don't quite understand.

Under the current state legislation,

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isn't the city required to put up a minimum contribution of 25 percent of the cost for the expansion of the Convention Center?

And I would ask you, is this match included in the Five-Year Plan? And, if not, why not?

MR. DIAZ: My recollection of that particular provision is not that it is a city match, but it is a -- it is to be matched by other sources, which are not enumerated.

Again, we have made clear that --

PRESIDENT VERNA: Do we know what other sources?

MR. DIAZ: The best of my information, President Verna, is that there are other funding opportunities that the state could use with regard to the remainder that you referenced.

That is part of the ongoing discussion with the Governor and his staff. We do not yet have a clear commitment as to how that will be handled.

But that is the expectation that the Mayor has put forth in his correspondence to

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the Governor and in the conversations that we have had with -- including myself, with the Governor's staff.

We are still working on that.

PRESIDENT VERNA: When will we know what we are doing?

MR. DIAZ: I believe with -- although the question may be somewhat rhetorical, let me respond.

That I believe that we are looking forward to working out an important economic interest of the Commonwealth, not just of the City of Philadelphia.

It seems only fair that the expectations of the city with regard to the impact on its budget, where so much of the economic opportunities are received throughout the Commonwealth, and certainly by the folks in Harrisburg, that those expectations will receive a favorable response.

PRESIDENT VERNA: Thank you.

Councilwoman Miller is next. Is she in the room? No.

Councilwoman Tasco.

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COUNCILWOMAN TASCO: Thank you.

Just a quick question. We will probably get to this later. But on Page 9 of your testimony, Ms. Wilkerson, you talk about the Youth Violence Reduction Partnership and a similar program focused on adolescents at risk called the Adolescent Violent Reduction Partnership.

How do you plan to fund that?

MS. RANSON-GARNER: Good afternoon. I am Cheryl Ranson-Garner, Commissioner for DHS.

COUNCILWOMAN TASCO: The funding for the Adolescent Violent Reduction Program, where does the funding come from?

MS. RANSON-GARNER: We have put that in our needs-based budget with the state. And we have asked the state to fund it, which would be city funded and state funded.

COUNCILWOMAN TASCO: So what would the program cost?

MS. RANSON-GARNER: We are looking at -- we have asked the state for $8.2 million for FY '07. We are looking at a $12 million

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cost using -- doing some redirecting of other programs for the other $4 million.

COUNCILWOMAN TASCO: What does that mean?

MS. RANSON-GARNER: Pardon me?

COUNCILWOMAN TASCO: The redirecting of other funding from other programs.

MS. RANSON-GARNER: We have some delinquency-prevention programs that are currently serving high-risk youth.

We want them to redirect some of their programming, or the way they provide services, to adopt the AVRP model.

COUNCILWOMAN TASCO: Okay. Would this program be contracted to one organization, several organizations, or would individual groups apply for the funding? How does it work?

MS. RANSON-GARNER: We plan to do an RFP for the AVRP services to begin in July, so we are looking at March to issue the RFP.

COUNCILWOMAN TASCO: Okay. So let's just go back to the city's portion of the funding.

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Explain to me again how that works.

MS. RANSON-GARNER: This service would be 80 percent funded by the state and 20 percent funded by the city.

COUNCILWOMAN TASCO: Do you have funding from the state committed?

MS. RANSON-GARNER: The state has given us numbers. We will meet with them around March 13 to talk about exactly how much funding will be allocated to AVRP.

However, the city is committed to doing the program, so we will look at how to redirect current funding, if necessary.

COUNCILWOMAN TASCO: What does that mean?

MS. RANSON-GARNER: That means there may be programs that are not working, that are not as effective as we want them to be, and we may have to utilize funding from those programs for AVRP.

COUNCILWOMAN TASCO: So who makes that assessment and evaluation of the effectiveness of the program?

Is there something in place that

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allows you to evaluate the performance?

MS. RANSON-GARNER: Yes. We do performance evaluations on an annual basis, so we do have evaluation information on the programs.

We use the month of February to evaluate many of the programs that are up for reconsideration for the next upcoming fiscal year.

COUNCILWOMAN TASCO: Okay. When you come back in your department, we are going to revisit this.

MS. RANSON-GARNER: Okay.

COUNCILWOMAN TASCO: Let me ask -- thank you.

Let me ask you a question, Ms. Wilkerson. In your B-3 of the Five-Year Plan of your revenue projections, it appears that you're foregoing the $18 million from PGW from '09 through '11.

MS. WILKERSON: That's correct.

COUNCILWOMAN TASCO: This represents a major change from prior plans that had this payment resuming in '09.

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Will the Administration be submitting and amount to the PFMC permit to forego these payments?

MS. WILKERSON: We will be following the practice that we got. You know, as those payments become due, we will be seeking --

COUNCILWOMAN TASCO: Well, when do you plan to come back and do that? Because this Administration won't be here anymore.

Are you making this assumption -- this is for '09. This Administration leaves in '08. Why are you making that assumption now? Why are you making that decision?

MS. WILKERSON: This is a projection.

You know, it appeared prudent to us not to -- you know, at a time when customers are having to pay, you know inordinately high gas bills, it did not seem prudent to, you know, resaddle the gas company with this cost.

You know, this is a proposal. As we get closer to '09, we would finalize -- you know, make a final decision, a firm decision, about that and seek --

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COUNCILWOMAN TASCO: You all don't have an answer for this, do you? You don't really have an answer, do you?

MS. WILKERSON: No. Part of it is that it doesn't make sense to ask the company -- the company was borrowing money to pay the city $18 million. That didn't make any sense. The company already is strapped with enough debt.

At a time when, you know, the company has problems covering its capital costs, at a time when the customer rates are already high, it doesn't make a lot of sense to ask the company to begin -- you know, forecast that the company will begin repaying.

It is also an issue about which PICA has had concerns. The rating agencies have had concerns about it. It didn't make sense to try to force the issue.

We would come back to Council. Didn't have any present plans to come back to Council to seek an amendment.

But I understand what we went through last year around this issue, and

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understand that the Council expectation is that we will seek an amendment of the plan, if we are going to actually forego the dollars.

COUNCILWOMAN TASCO: At what point would you do that?

MS. WILKERSON: I hadn't thought about it.

My initial reaction would be closer to the time of actually foregoing the money. When we were looking at a budget year and we didn't intend to collect the money, that we would do it at that time. So it would be in '09.

And I understand your point. How can you lock in a future Administration. But because it is simply a proposal, I think it is not inappropriate.

COUNCILWOMAN TASCO: Thank you.

I have some more questions. Can I go on?

PRESIDENT VERNA: Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. Just a couple of quick items here.

Madam Chair, you asked a question

about gaming earlier, and I wanted to have the solicitor back up.

Mr. Solicitor, it is my understanding that, subsequent to the various companies or applicants filing their documents with the Pennsylvania Gaming Control Board -- I think is the official name of the entity -- that there are local impact reports; and that the companies were required to file them with both the state and, I guess, the municipality that would be, quote, unquote, the host municipality.

Is that correct?

MR. DIAZ: Romulo L. Diaz, Junior, City Solicitor.

That is correct, under the Gaming Control Board regulations.

COUNCILMAN NUTTER: And what will happen to those reports at the local level here?

MR. DIAZ: We are currently having conversations with the Mayor's Office with regard to what will happen next locally.

But, in connection with the reports,

we are also talking directly with the Gaming Control Board staff, so that we are coordinating closely with them about their expectations.

I will stop there and respond to further questions.

COUNCILMAN NUTTER: And will you circulate those reports to us?

MR. DIAZ: Our conversations with the Gaming Control Board staff have suggested that, when they deem complete the applications that have been filed with the state, it is their intention to publicly make available the documents in each of those dockets. And that would include, it is my understanding, the local impact reports.

They have requested at the staff level of the Gaming Control Board that, until that time, the city continue to work closely with them and not make those reports publicly available, and we have accommodated that request.

But I would expect, perhaps, within the next month that those reports would be

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publicly available, either through the state or through the city or both.

COUNCILMAN NUTTER: Okay. Well, for the moment, I mean, certainly I think they should be public, but I wasn't necessarily asking about public release.

What I was asking was, some of us face the prospect of potential a gaming facility in certain areas of the city. And it would be helpful to have these reports as a part of any education or information in that process.

So more narrowly I am asking, will you release them to members of City Council?

MR. DIAZ: I would be pleased to have that conversation directly with you and members of Council. I am not prepared to go beyond that at this point.

But I understand the point. I will take the question onboard. I understand that Councilman DiCicco is beginning a series of public sessions on these gaming facilities tomorrow.

And we, obviously, intend to support

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your office and his and others who may be affected by the need to share this information. So, we will talk directly to you.

COUNCILMAN NUTTER: Okay. I mean, you understand that it is a little difficult to try to provide the appropriate representation, if you don't know what the information is?

MR. DIAZ: I fully appreciate your concern.

I will tell you this: That there is a great deal of disparity in the level of information and details associated with those reports.

But, having said that, I understand your question, your need, and we will work directly with you to try to accommodate your needs.

COUNCILMAN NUTTER: Now, where is the city's preference for these gaming facilities?

MR. DIAZ: I don't believe that the city has heretofore indicated a particular preference.

I think that, looking at various factors, there are some that would provide greater revenues, there are others that would be more in character with the neighborhoods involved, with transportation availability, et cetera.

So I think the city has not, through either the Mayor's Advisory Task Force on Gaming, nor the city as a policy choice, indicated that it had a preference as to particular locations.

And I think the statements previously made by the Gaming Advisory Task Force have been to the effect that each of the potential locations has pluses and minuses; and a particularly good application in a challenged location might be a desirable result; and a bad application in a very good location could be a bad result.

And I believe that each of those locations has to be evaluated with a particular facility and developer in mind.

COUNCILMAN NUTTER: Well, I

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understand that.

But, I mean, I thought, at least based on news accounts and public statements either by the Mayor or yourself, that, I mean, the city seemingly has given an indication of a preference for a particular site, because you voted for one.

MR. DIAZ: If you are referring to the Penn's Landing site, Councilman, I think the Penn's Landing Board majority vote reflected a desire to make a particular site available in advance of the December 28 filing deadline before the Gaming Control Board.

It was not indicated either as a final decision of the city or the Penn's Landing Corporation Board that that was the best site in the city for a gaming facility.

That decision is not, obviously, within the purview of the city. That's a Gaming Control Board decision, which hopefully the city and its residents will have a clear opportunity to effect.

COUNCILMAN NUTTER: Well, I got that.

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But, I mean, my recollection is -- I don't remember what the numbers were, you may -- I mean, it seems to me that the closest of the vote in that particular matter, if the Board had voted against it, the site would not have been available for consideration in the first place.

I mean, you clearly made a decision, at least, that there was a preference for that site in at least making it available by the nature of a vote for that site; correct?

MR. DIAZ: Well, I can tell you --

COUNCILMAN NUTTER: I mean, if the vote went the other way, the site wouldn't be available; right?

MR. DIAZ: I can tell you from personal experience and from the conversations I have had within the Administration, that was not the decision that I understood was taken.

It was not a vote indicating that this was the preferential site within the city; it was a vote, supported by the Administration, to make this site available as part of a comprehensive review by the Gaming

Control Board of sites that might be available for consideration before the December 28 filing deadline with the Gaming Control Board.

COUNCILMAN NUTTER: Okay. If the vote had gone the other way, the site wouldn't be available for consideration; is that at least correct?

MR. DIAZ: I am sorry?

COUNCILMAN NUTTER: I know you were talking.

If the Board had voted in a different fashion, that site would not have been available to even be considered by the Gaming Control Board for a facility; correct?

MR. DIAZ: First, I think that is correct.

But let me point out that the site was made available by the Penn's Landing Corporation Board as part of a competitive process that started many months before the ultimate decision to allow it for consideration --

COUNCILMAN NUTTER: I understand.

MR. DIAZ: -- as a site.

It was a Request for Proposals. And in response to the Requests for Proposals and the application that was provide to the Penn's Landing Corporation Board, the Board decided to at least make it available for consideration by the Gaming Control Board; with no predisposition, as I understand it, that this was a preferential site within the City of Philadelphia for one of the two licenses.

COUNCILMAN NUTTER: All right. I am just trying to understand, if you had already decided on one location, have you decided on the other location, and just where this was all going.

MR. DIAZ: I am sorry?

COUNCILMAN NUTTER: The last point before I get snatched is that, if you had already made a decision about one site, I wanted to understand if you had made a decision about the second site, because there had actually been action by city officials with regard to one location.

MR. DIAZ: Well, I suppose,

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Councilman, we are just going to have to agree to disagree, because I would not accept that characterization.

And I think I have already explained that I did not agree with your suggestion that somehow the city had decided this was a preferential site subject to a second preferential site to be decided.

I think the Administration has been clear that the more competition we have with regard to available sites within the city, the more likely that we are going to have developers who are going to be responsive to the concerns not only of the Administration and Council, but also to residents.

I think the most harmful situation relative to the city's interests with regard to gaming in the future is if we were to have only two or less than two applications. Because at that point you really have almost no incentive for the developer to be responsive to the community.

I think with five competing applications before the Gaming Control Board,

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the actions by this Council to engage with developers and the community and that of the Administration, I believe all of those efforts will be much more effective in getting applicants and developers to design and to develop facilities that are going to be in the best interests of the city.

COUNCILMAN NUTTER: I don't disagree with the philosophy. I think, in that situation, having more competition is better for the city. That is not my point.

I am not ascribing -- I don't know what your intention was with regard to the vote.

I think we have at least agreed that, if that site were not available, and it only became available based on the Penn's Landing Board vote, some of whose appointees are from the Administration, if the site were not available, it just wouldn't be in competition. That's the only --

MR. DIAZ: That is absolutely accurate. And you and I can agree on that point, sir.

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COUNCILMAN NUTTER: Always looking for agreement.

PRESIDENT VERNA: Councilman Nutter, thank you, your time is up.

Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam President.

I would like to do a quick followup to Councilwoman Jannie Blackwell's questions regarding the full evaluation.

That is for sure a complex and, I will call, very convoluted issue, which has a legitimate goal of getting to some level of equity with regard to how citizens are taxed.

As the Administration moves to, to use your word, make sense, moves towards figuring out what makes sense, and in addition to Jannie, Councilwoman Blackwell's question, to keep us informed, is there not some value in making sure citizens are well informed along the way?

And, so, my question is, has any discussion been given to a thoughtful roll-out of the issues, so that citizens across the board are informed of the ultimate goal, as well?

MS. WILKERSON: I know the BRT has undertaken -- it has gone to a lot of community meetings, has the Power Point they present, but I think clearly there is a lot more work that needs to be done and -- you know, so that people understand.

It's complex, but I think we can probably simplify it so that folks can follow the various threads; and that we don't need to undertake it until we have, you know, done that education work that you are talking about.

You know, they did it in Pittsburgh without enough preparation, and --

COUNCILWOMAN BROWN: It was a nightmare.

MS. WILKERSON: Yes, and it was a nightmare.

And I think everybody is interested in trying to avoid that. And I know Glancey has been going around to, you know, basically, anybody that would listen to him, trying to explain.

But as we get closer, you know, as we begin to get some real information, know where -- what the real impacts are likely to be, we need to mount an education campaign that explains to people what the problem is, once we begin figuring out what some of the remedies might be to some of the problems we are likely to encounter.

You know, we really do need to spend a lot of time educating people about what's going on.

Hearing from people; making sure that the protections that we think are adequate are, in fact, adequate to the problems that will arise.

COUNCILWOMAN BROWN: The work that Mr. Glancey has done, I believe, is the first layer or the first lap around this.

And you go precisely to what I am suggesting, is that we need to. But is there a commitment? And can the Administration impose on the BRT that it be very, very strategic in how it informs and educates citizens about this?

MS. WILKERSON: I think we can work with Dave Glancey. I think he is willing to work with us. I think he has shown a willingness to work with Council in the past.

I think we can all develop, you know, a strategy for rolling this out in a way that makes sense.

I'm comfortable that he would be willing to do that.

COUNCILWOMAN BROWN: Okay. My final question. Page 8 of your testimony, you discuss the arts and culture proposed $61 million, I believe it is.

And I should go on the record and say I am excited, too, about the prospect of this infusion of dollars for the arts and cultural and parks community.

Can you speak to how those dollars will be -- can you delineate how those dollars will be spent with regards to the institutions, and which institutions will ultimately win the prize of added needed funding?

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MS. WILKERSON: We want to set up a mechanism to decide exactly how those dollars would be allocated.

We envision the dollars as infrastructure dollars. We are going to be talking with other parties that commit funds to arts organizations, you know, other parties that are in a better position to fund operating support, so that we can try to coordinate the resources that we are putting on the table.

I think we have talked publicly about the Art Museum. And the Capital Budget has funding for the Art Museum that would reflect spending dollars raised pursuant to the bond issue.

We think we talked publicly about the Art Museum in part because it represents such a clear example of the need to fund the arts. It was part of the economic development blueprint.

I think we all celebrate when the big shows come to Philadelphia. And I think it very graphically tells the story of our --

if we continue to fail to invest in the arts, we are going to turn around and find that the wonderful events -- the last show generated something like 50-some-odd million dollars for the local economy. We won't even be able to host those because we haven't dealt with infrastructure problems.

But, you know, we look to putting forward a process to make sure that we identify those organizations that do need the support; that we don't just work off of information we have, but gather additional information to get to additional organizations.

And, importantly, that we work collaboratively with the corporations and foundations that also support the arts, so that we can craft a package that has the various kinds of assistance that they need, because it is not all capital support.

COUNCILWOMAN BROWN: Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

The Chair recognizes Councilman

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Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

On Page 50 of the City of Philadelphia Notes to the Financial Statements for the Fiscal Year Ended June 30, 2005, Exhibit 8, Roman numeral 13, Roman numeral 2, Section 1, Budgetary Information.

"The city's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles."

On Page II the Five-Year Plan, the Administration has a chart showing the city's General Fund balances. The chart reflects that the only year the city had a deficit was 2004. It further reflects a General Fund surplus of $96.2 million in FY 2005.

The city's financial year ended June 30, 2005. Annual financial report states on Page 22, "The General Fund's budgetary unreserved fund balance surplus of $96.1 million differs from the General Fund's financial statement deficit of $36.4 million

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by $132,588,000 due to the Business Privilege Tax receipts which are received prior to being earned, but have no effect on budgeted cash receipts."

The annual report states on Page 50, "The city's budgetary process accounts for certain transactions on the basis other than Generally Accepted Accounting Principles."

Will someone explain for the record what these statements mean and why we should not be concerned about them?

Does the Administration have a City Solicitor's opinion that we in fact have a balanced budget, since the city has different fund balances depending on the accounting methodology used?

If we're not following Generally Acceptable Accounting Standards, and we are imposing different standards, how do we know that what we are reading, that we have a balanced budget or a fund balance, in fact is accurate?

MS. WILKERSON: Mr. Jannetti will address that.

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

MR. VINCENT JANNETTI: Vince Jannetti, Acting Finance Director.

Councilman, the $96 million fund balance is as a result of the legal statements, which are the budgetary statements.

And the Generally Accepted Accounting Principle statements, which have the accrual for the Business Privilege Tax, has the $36 million deficit.

COUNCILMAN KENNEY: Which one is right?

MR. JANNETTI: Which one is right?

COUNCILMAN KENNEY: Which one is accurate?

MR. JANNETTI: They are both accurate.

COUNCILMAN KENNEY: How could that be?

MR. JANNETTI: They are just two different bases of accounting.

The BPT comes in in April, but it is

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for the whole calendar year. So a portion of that is applicable to, you know, the July-December time frame, which is --

COUNCILMAN KENNEY: This is confusing, to say the least.

MR. JANNETTI: Well, on the legal statements, it is like cash. It's revenue when it comes in.

On the GAAP statements, it's broken up, and a portion of it is attributable to the following year.

COUNCILMAN KENNEY: Are there any other entities, either -- I assume these are only public entities that do that.

Are there private entities that operate with two separate sets of books? I mean, are you aware of entities that operate with, basically -- I mean, if these are the Generally Accepted Accounting Principles, why don't we determine all of our fiscal situation based on those? What's the need for the other set of books?

MR. JANNETTI: I am going to ask the accounting manager of the city to explain that to you. It is Mike Kauffman.

COUNCILMAN KENNEY: I didn't do that well in accounting at La Salle, so you have to do it slow.

MR. MICHAEL KAUFFMAN: Good afternoon. Michael Kauffman, Director of Accounting.

Actually, Councilman, there are three bases of accounting that we report on.

COUNCILMAN KENNEY: Thank you.

MS. WILKERSON: That's why we brought him up here.

COUNCILMAN KENNEY: The offshore account books, yes.

MR. KAUFFMAN: We are required by the Government Accounting Standards Board to report on two bases of accounting.

We have a full accrual entitywide statement, which takes in all funds of the city.

Then we have the governmental fund types, General Fund, which we do on a modified accrual basis.

And then the third thing we have is

our budgetary basis.

The issue with the Business Privilege Tax is that, as Vince mentioned, when the people are required to make a mandatory prepayment of next year's taxes, according to GAAP, we can only record as revenue on a GAAP basis the first six months of that year, of the current calendar year, and we record that as GAAP.

The other, on the legal basis, when you are doing your budget, you can include that as cash basis.

So the legal basis is modified accrual, but in this particular instance we take that as cash. This is the only instance because of the way that's recorded.

COUNCILMAN KENNEY: In some ways are we taking six months of the tax receipts and applying it to a year where it is not being earned?

MR. KAUFFMAN: Well, on the cash basis we have, actually, received that cash.

COUNCILMAN KENNEY: But it is for the prepayment of next year's taxes.

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So why wouldn't it be counted as earnings in the next year, as opposed to earnings in this year, because there is no validity -- I mean, it is cash in your hand, but there is no validity to its earning in that particular year, in that particular budgetary year. It is actually earnings for the next year, because it is prepaid.

MR. KAUFFMAN: On a cash basis, we take what's received by June 30. So, that portion has been received by June 30.

On the modified accrual, we have to break that off and say, well, we haven't earned that for the next year.

COUNCILMAN KENNEY: But all of the money is next year's money, is earnings for next year.

Well, if it is prepayment for the next year, then it is next year's money. It is next year's -- what was due and owing for next year.

And they are forced to prepay it. So, therefore, that puts cash in our hands, which we, obviously, need to operate.

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But in the end, when the bottom line of whether it is a surplus or deficit or a break-even, that money was actually earned, even though collected, was earned next year, or the year after the year you accounted for.

MR. KAUFFMAN: We are working a fiscal year, so that's why we take half of it and then push half into the next year.

COUNCILMAN KENNEY: I just want to make sure that what we are being told now is not misrepresented based on accounting maneuver or accounting principles that give a false indication of what may be there.

MR. KAUFFMAN: No, I don't think we are.

The budgetary basis of accounting, according to all the pronouncements, the accounting pronouncements, can be what you want it to be. So we use modified accrual, and this portion comes in as cash.

COUNCILMAN KENNEY: That's why I didn't do well in freshman year at Accounting 101 at La Salle. Thank you.

Thank you, Madam President.

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PRESIDENT VERNA: You are welcome.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Let him ask another question. I will come back.

PRESIDENT VERNA: The Councilwoman would like you to ask another question.

COUNCILMAN KENNEY: Is anyone else in line?

PRESIDENT VERNA: Councilman Nutter, but he walked out of the room.

COUNCILMAN KENNEY: Let me go back to Roman numeral 5 of the plan, where there is mention made of New River City.

The Administration states, quote, that the Delaware and Schuylkill Rivers, which provide more than 40 miles of river frontage, one-sixth the total size of the city, are booming, end quote.

If this is correct, why are you proposing to spend $125 million of water fund reserves, paid for by our water customers, for water infrastructure along the river, when this is normally the cost of development?

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If this is a booming area, why do we need to supplement or subsidize their water infrastructure, that they are going to build anyway based on the ten-year tax abatement?

What additional water revenues are included in the plan as a result of these expenditures?

If no benefit is reflected in the plan as a result of the expenditure of these funds, then why should we approve their expenditure? And what is the justification, if it is not to benefit the city financially?

What is the revenue loss to the General Fund, interest on water fund reserves that go to the General Fund as a result of the expenditure of these funds as reflected in the Five-Year Plan, and how are these amounts calculated?

I think you need an accountant up there for part of this one, no offense.

Let me ask the first part. If the river is booming and the tax abatement is working, why do we need to borrow money to entice people to build?

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MS. NAIDOFF: I would say to you that one of the reasons that the riverfront is booming is that the Mayor made this announcement two years ago, and we have been focusing on it.

And we have been promising that there would be a River City infrastructure program, and that's what this is all about.

COUNCILMAN KENNEY: With all due respect, come on.

I know you try to take some credit with NTI for things and River City. The ten-year tax abatement is what made this thing run. Frank DiCicco is not here, but deserves all the credit.

I can't see how New River City or NTI has anything to do with the residential development on the waterfront. Now, certainly we will disagree.

I don't mind the Administration taking credit for things that maybe they had some hand in, but I don't think they had anything to do with what's going on on that riverfront.

So I don't see any reason why we need to entice them more, because they are looking for land every day to build on.

MS. NAIDOFF: I agree that the ten-year tax abatement has played a large role in this.

But I think that the commitment that the Mayor and the Administration has made over the past two years to provide the infrastructure needs at the Navy Yard, at the Schuylkill River Developments, at the residential developments on the North Delaware are a large part of also attracting the developers to these sites.

And now we are going to deliver on that promise with the $125 million of infrastructure that will support the developments that they are already engaged in.

MS. WILKERSON: I think that one of the other things that we're asking developers to do is to dedicate land along the river so that we can create along the Delaware the same kind of thing that's been created along the Schuylkill River.

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There's public access, there are improvements to the public access. We would like to see the same thing along the Delaware.

You know, so, we are asking developers to give up land. And some of what we want to do is to have resources that will enable us to get the land dedicated, so that we don't ever see the day when people can't have access down to the river.

COUNCILMAN KENNEY: See, part of the problem is that in this plan, from my perspective, in certain instances we recognize the expenditure we have to make, and then identify the result in revenues in the out years.

So, for example, we talk about Promote Philadelphia. It is two and a half million dollars in that initiative. We talk about River City.

We talk about some other issues that require an expenditure of money, and then we count it down the road at some point in time as a return in revenue.

If we are projecting revenues for

some of these initiatives, why aren't we projecting revenues for River City?

I don't see any indication of revenues generated as a result of this investment, when we have numbers that tell us that, you know, every dollar spent on media generates $185 of visitor spending, $13 of state and local taxes, $41 dollars in additional wages.

And all these investments that we are making should have some at least guess at quantitative benefit down the road. I don't see where that is. It is nowhere in the Five-Year Plan.

Do you have any projections of revenues for River City?

MS. WILKERSON: With River City, what we had presented previously was a leveraging, what we expected to leverage in terms of private investments. And I can get you what it is that we provided previously for that.

On the investment for the arts, there have been any number of studies that

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were done that, you know, that --

COUNCILMAN KENNEY: I didn't get to the arts yet. I just want to talk about the River City issue.

Because, I mean, it is clear to anyone who looks that the investments are being made. There is no need to jump-start this economy when it comes to riverfront development.

And why would we then go into debt to provide incentive for developers who don't seem to need incentive?

MS. WILKERSON: Some of the investments are being made.

I think one of the challenges with the naval yard over time has been the fact that it doesn't have the infrastructure; that it had its own utility systems down there. Those things still need to be replaced. It has flooding problems.

You know, if we are ever going to maximize development opportunities at the Navy Yard, there are some investments that have to be made that outstrip what it is anyone

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expects the private sector to make.

COUNCILMAN KENNEY: And have these been identified? Is there a plan on how to spend this money?

MS. WILKERSON: When we come to City Council with the legislation, some of that will be itemized. We have detail on what's projected as needed at the naval yard, and we will make that available to you.

COUNCILMAN KENNEY: When will that be available? When is the legislation coming?

MS. WILKERSON: My goal is to have it here by the end of this month.

COUNCILMAN KENNEY: And we will have the analysis of it at the same time?

MS. WILKERSON: We will have the information. We can make available the information about the Navy Yard.

There has been a lot of work about the infrastructure needs at the Navy Yard, and we will make that available.

COUNCILMAN KENNEY: Thank you, Madam President. I am done.

PRESIDENT VERNA: Councilwoman

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Tasco.

COUNCILWOMAN TASCO: Okay. Ms. Wilkerson, according to Page 11 of your testimony, you make reference to a consulting team that will develop a strategic marketing plan to raise revenue, approximately $22.5 million from Fiscal '07 to Fiscal Year '11.

Who is this consulting team? And how is it different from the previous proposal to sell city assets that has failed to raise revenue and has cost the city approximately $168,000 in consulting fees?

MS. WILKERSON: Well, the city has sold assets. I mean, that's separate. The strategic marketing is an initiative. Sean McNeeley can talk about it.

We did a solicitation, put out an RFP, interviewed a number of firms, and have identified a firm that we are working with.

The proposal was broken into two phases. The first face Sean can talk about, and then we will tell you where we are.

MR. McNEELEY: I think, actually, we talked about this a little bit here this time

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last year.

We did an RFP. We received six proposals. We selected a committee that included the Fairmount Park Commission president, members of different departments, Managing Director's Office, the Mayor's Office, and City Council staff, selected one vendor.

We went with that vendor. That team is led by a combination of firms. One is called Civic Entertainment Group, based out of New York.

And the other firm that they are partnering with is Octagon, which is an international sports marketing, sports representation firm that negotiated New York City's Snapple deal.

You might have heard of the multi-million dollar agreement for Snapple to be the official drink of the City of New York, and to have vending machines in schools and city buildings there. The special product, especially for the schools, low in sugar, and in order to support athletic programs.

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So those firms lead the team that's been working for us. They have developed a draft report. We are still providing them feedback on that draft report. But they have identified revenue-generating opportunities in about six major categories; some things that we're doing now that we could do better, and some things that we're not really doing now.

And the revenue that they have projected as potential from those opportunities actually significantly exceeds what we had assumed in the plan. So we hope we are being conservative there.

At this point we are, as I said, getting feedback from departments on their draft plan. And we will finalize that, and are looking to move forward with them so that they will go out and be our -- kind of our designated marketing agent.

Rather than do some of that work in-house, we will outsource it to people who have expertise and who have national corporate connections and relationships, so that they will be the ones trying to broker these deals and arrange sponsorships, official products, licensing agreements, different ideas like that.

COUNCILWOMAN TASCO: That will be another team separate from this?

MR. McNEELEY: No; it is the same team.

COUNCILWOMAN TASCO: They are developing a plan?

MR. McNEELEY: We are discussing with them. And that's the second phase of the RFP.

COUNCILWOMAN TASCO: That they would go out and sell the idea, develop the partnerships?

MR. McNEELEY: Yes.

COUNCILWOMAN TASCO: So it is still in the planning stage right now?

MR. McNEELEY: Well, it is -- it is still somewhat in the planning stages.

One of the main categories in the draft report or draft plan is out-of-home advertising, which includes street furniture.

You would most prominently think of

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that with the bus shelters that we have now. We have advertising on bus shelters.

We think that we can expand that program, have more shelters, which really provides more service.

As someone who is from Cleveland, I know I huddled in bus shelters a lot in the Cleveland winters, and it always struck me that there were not as many here as what I am used to.

So I think it would be both a service, but also a way for us to generate additional revenue for other city services.

So we are developing an RFP to go out on the street and try to get more bus shelters and other kinds of street furniture, and have a more comprehensive approach in the city.

And we think that we can generate additional revenue, significant additional revenue, based on that.

Many of our peers have signed new contracts in the last few years with substantially higher revenue than ours.

Most recently Washington, D.C., which signed a new contract that nearly doubled their number of shelters and provided significant revenue, a $24 million up-front payment, $2 million a year guaranteed after that, another $20 million payment in the tenth year.

And D.C., you know, has half our population, half our square miles, similar bus ridership, you know, maybe a little bit different demographics, maybe a little bit different advertising inventory.

But we hope that we can do something like that that provides both better service and more revenue.

COUNCILWOMAN TASCO: Thank you very much.

COUNCILWOMAN BLACKWELL: Madam President.

PRESIDENT VERNA: Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: May I follow up on the question with regard to bus shelters? I am sorry I missed my colleague's question.

But we are having a problem with bus shelters in my area. As if we don't have enough problems with this West Philadelphia Elevated project, now SEPTA has come along and decided to start in my area to far-side bus stops.

And far-side bus stops mean, in addition to them withdrawing four stops completely, which we've talked -- Congressman Brady even helped us have them returned.

Far-side stops is why they have been demonstrating and shutting down the 52 bus on 52nd Street.

Then they pick 52nd Street, where my businesses are closing, 52nd and 60th. And they took the far-side stops and decided to stop buses across the street from where they are now and skip some that would save SEPTA time and they thought weren't necessary.

Having said that, they created a mess. Because some stops, one was across from a park, and they put it in front of a daycare, you know. And one they put in front of a pizza shop, on a bad corner. The drug addicts are mixed in saying, "I am waiting for the bus."

But the issue with bus shelters is that they remove bus shelters. First they took some buses, moved them across the street; and then you had a bus shelter on one side, and then a bus stopping on another side; and they just took bus shelters out.

I mean, no conversation. No -- you know, they just did it. I don't know how that helps the city revenue or advertising, if they are just removing bus shelters.

And then we had a meeting where one gentleman was complaining how dare they decide they are going to put a bus shelter, if that's what they are doing, in front of my house. And we had a blind man who is all involved. Just all kinds of problems, as always.

I think SEPTA just has decided that, you know, we are just not their cup of tea.

But my point of it is, with these bus shelters, I would really, really like to know under whose authority are they removed

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and changed. And that seems -- obviously, it has to negatively impact.

And how can they put a bus shelter in front of property, without permission, you know, and dig up the sidewalk, and just do all kinds of things where they don't include me, they don't include the community, and they just continue to the wreak havoc.

Could you tell us this whole policy of how bus shelter sites are chosen? When are the community and when are the officials included in any of this discussion?

MR. McNEELEY: I'm not sure if the solicitor is aware of the particular issues you are discussing.

The shelters, as far as I know, are our property, and they are our responsibility and right to assign. So it is a little surprising to me if SEPTA is moving them.

As far as how they have been placed, at this point we're kind of living at the end of an old contract with a finite number of shelters that the vendor maintains for us.

And we have -- I know that people in

our transportation office have been working with your office, and the solicitor has worked with you.

COUNCILWOMAN BLACKWELL: I wish. I wish they had been working with me.

You know, we have had people shutting down the Route 52 on 52nd Street, threatening to shut down the whole bus system.

Like I said, I went up to Congressman Brady to get four bus stops returned. I could name them now. But, you know, they just removed bus stops.

First people were going across the street to wait for a bus, and the bus shelter was on the other side.

Now they just decided, you know -- at our last meeting one man said, "I served my country. I was in the Service for 25 years. How can they treat me like this?"

One woman said they changed, went to the far side, and a blind man stood out there for hours waiting. I mean, the things that they do.

And then to just move bus shelters,

you know, at will. Nobody has talked to me.

Everybody here knows how much I fight every year on this whole SEPTA issue, and here comes another one.

They just keep continuing to harass my community any way they can. And, you know, we are beginning to think it is personal.

Nobody talked to me. You know, now I have got to go to meetings where I am kind of -- I don't want to get out and demonstrate. I will, if I have to.

But, come on, that's what the press has been reporting demonstrations about the 52 bus line. All that is about this, too. All that is about far-side stops and bus shelters being returned.

MR. DIAZ: Councilwoman, if I may. Romulo L. Diaz, Junior, City Solicitor.

I was not aware of this particular issue that you just raised in connection with the bus shelters not being used or moved.

I will say this: In connection with the effort to prepare for the continuation of the lease/lease-back, under a settlement agreement the city reached with SEPTA last year, we are working closely on the operational issues and service issues.

I will definitely put this high on the agenda for our discussions with SEPTA.

I would like to address the issue related to the additional bus shelters.

As Mr. McNeeley indicated, given the fact that we had a policy decision that we could have the most impact in terms of revenues generated for the city if we bundled together these marketing opportunities strategically, as the Chief of Staff testified to earlier, we determined that it was best to have only a short-term extension of the bus shelter contract that would end December 31 of this year. We're going through the RFP development process currently.

As part of that effort, however, I can assure you that we pushed hard to have the advertising agency with whom we had the contract to add additional bus shelters. Not a large amount, because it was a short period and a short rate-of-return opportunity. But

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they added about a dozen additional bus shelters at their cost.

And what we tried to do through the city's transportation office is to review all of the requests that we had received, including from your office and other councilmanic offices, for additional bus shelters.

Clearly, with a limited pool of additional shelters, we tried to cover as much of the requests as possible.

We intend to push to have a larger number of bus shelters under the future contract.

And we will be happy to work with your office and other Council offices to make sure that, when these service and operational issues come up, they clearly should be addressed on a bilateral basis between the city and SEPTA, so that residents are not affected in the way that you have testified to.

PRESIDENT VERNA: Councilwoman, I just want to get something clear in my own mind.

Because I know that there was a bus shelter removed in my district maybe two and a half or three years ago. And we have been begging, pleading, and imploring that it be replaced, to no avail.

Do we write a letter to you with that request?

MR. DIAZ: You don't even have to go through that effort.

We will be happy to call your office, find out where that location is, and see what we can do to get it replaced.

PRESIDENT VERNA: I would appreciate that. Thank you.

COUNCILWOMAN BLACKWELL: Madam President, I am talking about, if anybody knows West Philly, between Baltimore and Jefferson Street in Councilman Nutter's area. So it runs almost the length of my district, the whole 52 line.

You know, certainly I support the city, I support shelters, I support advertising, and all of that.

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But to take them all down? All of them. They took all mine on the 52 line, they just removed these bus shelters.

And then we have people arguing, saying they said they're going to put one on my house, in front of my house.

And if we're at the end of a contract, I just have no idea how this happens. I don't know why SEPTA insists on just picking on my people.

MR. DIAZ: Councilwoman, as I said, we will definitely be addressing this issue with SEPTA.

But I also would just simply note that you will have an opportunity to ask that question directly of SEPTA in the upcoming budget hearing.

COUNCILWOMAN BLACKWELL: And I will be happy. I will send you the documentation.

As I said, we have been working with our Congressman, who is trying to help us.

You know, it is very frustrating when you go to meetings and you have handicapped people saying, "I stood outside waiting all day." They changed the bus route and didn't advertise properly. And now they take the bus shelters and just move them at will.

Who do these people think they are? It is very frustrating year in and year out to continue to be the victims of all that they do to disrespect people in neighborhoods, charge us the highest fare, and then treat us any kind of way they want.

That's why people want to demonstrate. It is not the worst thing they are doing. The worst thing was probably urinating on people's lawns. But it is just kind of the straw that broke the camel's back.

And it is hard to make people think that we are responsible, we are trying to do our job, when they continue to just do whatever they want at will. It is just very, very, very frustrating.

So, obviously, I am not angry with you. And I support advertising, I support bus shelters. But, my goodness, they just can't continue to treat us any kind of way.

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Thank you, Madam President.

PRESIDENT VERNA: You are welcome.

COUNCILWOMAN TASCO: Madam President.

PRESIDENT VERNA: Councilwoman Tasco.

COUNCILWOMAN TASCO: Are the bus shelters owned by the city?

MR. DIAZ: My recollection is that they are owned by the city. They are installed at the advertising contractor's expense. And we have currently, I believe, about 200. Sean knows the number better than I.

MR. McNEELEY: We have 330. About 270 generate revenue, the others don't have...

COUNCILWOMAN TASCO: How would the removal of the bus shelters in Councilwoman Blackwell's district on 52nd Street fit in with the overall study that you are doing on bus shelters, I mean, and advertising?

MR. McNEELEY: We will have to look into that.

I mean, our focus, we want to

maintain service right now. Our focus on expanding the number of shelters is really on the next contract and getting out the improved contract.

Clearly the existing contract, that only has a little bit longer to go, we need to work on that.

MS. WILKERSON: We need to get the information on who is removing the shelters, why they are being removed. You know, we are trying to move in the opposite direction.

I think part of the solution will be what Romi is talking about, you know, trying to get the SEPTA relationship back on track.

But we will gather the information from Council members and pursue this.

COUNCILWOMAN TASCO: Madam President, while the young man is here talking about this, I raised the issue, two questions.

One, in the contract for the advertising, is it a long-term contract? And if it is more than a year, do you have to bring it back to City Council?

And some of the other advertising

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that would go on those shelters, would you have to bring it back to Council?

And what are some of the local zoning ordinances with these not only shelters, but any other advertising venues? Would it be to go before the Zoning Board?

And I agree with Councilwoman Blackwell. We are in these neighborhoods, and we are in constant contact with people we represent. And where is the input from those of us who talk directly to these people?

MR. DIAZ: With regard to the question about will you have an opportunity to review these long-term contracts? The answer is, yes.

In fact, the current bus shelter contract has been previously approved by City Council.

COUNCILMAN KENNEY: Point of information.

PRESIDENT VERNA: The Chair recognizes Councilman Kenney for a point of information.

COUNCILMAN KENNEY: The City

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Solicitor artfully said we will have an opportunity to review the contracts.

Will we have an opportunity to vote on the contracts?

MR. DIAZ: I did not mean to suggest you would not be voting on it.

COUNCILMAN KENNEY: I just wanted to make sure the record is clear, that we will be voting, not just reviewing.

MR. DIAZ: Thank you for the helpful question.

It would be coming to City Council for approval, as the current bus shelter contract previously did.

And in connection with the issue that you raised on zoning, the current contract provides for a tiered revenue structure based upon the type of advertising which is allowed.

We have made it very clear that tobacco advertising is not allowed. And with regard to alcoholic beverages, that those, even though it is part of a tiered revenue structure, we have come to an informal agreement throughout the period of this remaining contract, through the end of this calendar year, that there will not be alcoholic beverage advertising within a certain distance of schools and churches and other institutions, without affecting the revenue stream to the city.

And I will be happy to give you more details on that distance. I don't recall it right now.

COUNCILWOMAN TASCO: Thank you.

PRESIDENT VERNA: Thank you.

I know Councilman Nutter is next, but I would just like to ask two questions.

Ms. Wilkerson, on Page B-17 you state that the city --

COUNCILWOMAN BLACKWELL: Point of information.

May I make one final comment on those whole bus shelter issues? And that is, may we request, then, from the Administration and every branch that, if there are any discussions with regard to SEPTA, that we be contacted?

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Because they go to community meetings and they say, the city agreed with this.

I had a meeting where I had to tell two people from the Streets Department, I had to tell my audience, when SEPTA got up and said the city agreed with this, and said, no, these people at this point, I'm elected, you deal with me. But they use the city against us.

So I am making a request to everybody in the Administration that, with regard to SEPTA, any discussions that are made, that the District Council person is contacted before anything happens.

I don't care what it is, if they talk about a streetlight or light out. May I make that request and have a commitment that it will be honored?

PRESIDENT VERNA: I think you have already made it. It has been heard. And I am sure it will be given consideration.

COUNCILWOMAN BLACKWELL: Thank you, Madam President.

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PRESIDENT VERNA: Ms. Wilkerson, on Page B-17, you state that the city's General Fund Work Force as of January 30, 2005, was 23,190; while in Appendix 5, Page 6, you show 22,889.

Which number is correct?

MS. WILKERSON: I will have to ask the budget director.

PRESIDENT VERNA: My five minutes is going to be up.

MS. REED: The June 30, 2005, employee head count number is 23,243.

PRESIDENT VERNA: Sorry. What is it? As of --

MS. REED: Total General Fund is 2,243.

PRESIDENT VERNA: 2000? I am referring to Page B-17, and Appendix 5, Page 6.

There seems to be a difference in the numbers of the work force. So my question is, what number is correct?

MS. REED: The appendix number is correct.

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PRESIDENT VERNA: So it is 22,889?

MS. REED: Yes.

PRESIDENT VERNA: Thank you.

We also received a revised Mayor's budget and brief for FY '06 with the notation, "As approved by Council, June 5, 2005." And in that document it reflects 22,914 positions for FY '06.

Can you tell us why that differs from 23,020 that appears in the proposed plan?

MS. REED: We allowed some departments to adjust their budgeted number of positions based on the dollar commitment for that department.

PRESIDENT VERNA: Why would that be different, if you updated it from June 5?

Do you want to see the page as we have it, that was submitted to us? Do you want to see it?

MS. WILKERSON: Yes, please. Ms. VanBelle will explain what's going on.

PRESIDENT VERNA: Good afternoon.

MS. MARGARET VanBELLE: Good afternoon, Council President. I am Peggy

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VanBelle, Deputy Budget Director.

After we had finalized the FY '06 budget, we were still undergoing negotiations with a number of departments, particularly some of the other independently elected officials, and we allowed them to adjust their adopted budget number.

PRESIDENT VERNA: Well, maybe you would like to stay at the table, because I have another question that you may be able to answer.

Another item of interest is the positions reflected for the prisons. Both schedules have 2,058 for FY '06, and the plan from last year shows them at that number through FY '10.

The plan before us increases their position level by 242 positions, to a total of 2,300.

What has caused you to increase their position level by 12 percent in FY '07, and why was this not reflected in last year's plan?

MS. VanBELLE: We allowed the

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prisons to adjust their --

PRESIDENT VERNA: I knew you would be able to answer, that's why I asked you to sit there.

MS. VanBELLE: We allowed them to adjust their position number for two reasons.

One -- and maybe the prison Commissioner will want to speak about this -- the prisons has undergone a proposal that allows them to hire full-time people in return for reducing their overtime.

And the second, or more important part, of the increase --

PRESIDENT VERNA: Wait a minute. We could do that for prisons, but we can't do it for the police department?

MS. VanBELLE: Well, there are some instances where that works, particularly in that type of environment where you have fluctuations in the population.

But the second part of the answer is that, in FY '07, prisons is going to be moving inmates out of Delaware County, out of county, and back in-house

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PRESIDENT VERNA: I am sorry. Would you mind repeating.

MS. VanBELLE: Yes. I am the saying the other part of the increase to the 2,300 has to do with having a higher in-house prison population and a lower out-of-county prison population.

While the prison population we project will remain at 8,500, with the inability to place prisoners in Delaware County, as we used to in the past, we will have our Class 200 costs reduced and have an additional need to hire additional correctional officers.

PRESIDENT VERNA: Thank you.

I believe, Councilman Nutter, you are next. You could try.

COUNCILMAN NUTTER: Let's just give peace a chance.

Ms. VanBelle, you said that because of the fluctuation --

PRESIDENT VERNA: Ms. VanBelle.

COUNCILMAN NUTTER: I'm sorry.

Your previous response was, because

of the fluctuation in the prison population, it is better to have more personnel, which you are allowing the departments to hire if they reduce their overtime.

But in the earlier conversation, which I think was raised by Councilman Ramos, which has now got the managing director jumping up, the response was, we don't need more police officers, even if crime increases, because we need the flexibility.

Could you -- what do they call that? -- reconcile the nuance --

MR. RAMOS: There is no nuance here, Councilman.

COUNCILMAN NUTTER: -- of this discussion.

MR. RAMOS: Pedro Ramos, Managing Director.

Talking about two different operations and two different circumstances.

With prisons, what you are hearing is that there has been consistent overtime over a period of time that's predictable, that it makes sense -- and, in fact, it was a very close call, and not obvious -- that the better thing to do is to turn those into full-time positions, instead of overtime.

But in terms of the workload and some of the other issues that the prisons face, such as turnover, that managerially was the better -- was the decision made for the prisons, given their operation.

Reminding you that the operation is one where the job is to pretty consistently, one, you know -- I don't want to -- it is an oversimplification, but it is mostly operating at certain ratios in the function of guarding prisoners.

With police, you have -- what the purpose of the $10 million is, is to focus it very intensively on violence prevention and reduction.

It gives us the ability to more immediately respond with flexibility to the current needs.

And we're not ready to say that that elevated level is the right level in perpetuity or that, when you compare overtime

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to staffing, that you reach the same conclusion.

COUNCILMAN NUTTER: Madam Chair, I am sure we will have further conversation on these issues.

I would like to make a recommendation, if I might, if you would take this into consideration: That in the future, that the five-minute rule is attached to the length of time that the member speaks, and the time of the answer is deducted, kept separate, is isolated, and handled in a different fashion, which might result in me having a fun balance of time.

So, okay. We will go back through that on the police side.

Let me ask this question: With regard to Page Roman numeral 4, the $150 million borrowing, the plan seems to indicate that $65 million is going to a variety of horticultural institutions, another 65 is going to neighborhood/commercial corridors.

First, what happens to the other 20?

MS. WILKERSON: I should have said

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approximately 65. That's my error in the Five-Year Plan. Approximately 65, approximately 65.

We do know that there are transaction costs that I believe will be about $5 million. But the intent was to say approximately 65, and approximately. We plan on dividing it in half.

COUNCILMAN NUTTER: You mean the net revenues from --

MS. WILKERSON: Net of the revenue.

COUNCILMAN NUTTER: And this is a borrowing. Who is doing the borrowing?

MS. WILKERSON: We are working through that with bond counsel.

It would be probably either PAID or -- PAID would appear to have the legal authority, and we are looking towards PAID at this point.

COUNCILMAN NUTTER: And who will decide how the two 65s, the net proceeds, are distributed?

MS. WILKERSON: We have circulated a Power Point for the Restore Commercial

Corridor Program that identifies various categories of spending.

We would look to, you know, work with Council to refine that, much in the way we did with NTI.

There are certain kinds of activities, like the streetscape activities. We do look to do a mortgage -- a loan guarantee program with some of the proceeds.

But in terms of refining the actual categories for expenditure, I think we would end up developing it much the way we developed the categories of NTI borrowing.

We envision it being used for, you know, capital costs. And to the extent that the program needs operating support, we are looking at taking funds --

COUNCILMAN NUTTER: Just keep talking.

MS. WILKERSON: We are looking at taking, reprogramming some of the CDBG funds and targeting those to support, you know -- I know, for example, Councilwoman Tasco is always talking about the need to have people

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working on the corridors.

You know, we would look to use some of the CDBG funds or other dollars we have coming in to provide operating support in connection with the Restore Commercial Corridor funding.

COUNCILMAN NUTTER: So will there be a list that shows how the art and culture money is being spent, and we would have a role in that, or has that already been decided?

Will the 65 be on the commercial corridor splitup, such that there is some relatively equitable spending of that?

MS. WILKERSON: Let me start with commercial corridors.

We don't know that it would end up being equitable. Commercial corridors aren't equitably spread across the city.

Some districts have more commercial corridors, some districts have commercial corridors that have greater needs than other districts. Some of the programs we would propose to have citywide.

There is no reason to have a

district-based lending program. There is no -- you know, some of these activities don't really fit into a district model.

But we would come to Council with a proposed budget. Like with NTI, for example, we came with an acquisition, a disposition, you know, kind of budget.

Eventually we ended up breaking that out based on some formula by district. And, you know, we may get to point.

But, we would come to Council. It is something that will require authorization from City Council. And, so, there will be, you know, opportunity to have at it.

We would propose the same kind of, you know, mechanism or a mechanism setup that spells out criteria for the arts borrowing.

It is our view that it is not appropriate to fund operating needs out of the borrowing. There are capital projects that we think ought to be funded, and we would come to Council for them.

COUNCILMAN NUTTER: Your planning, did I get that -- I'm sorry. My hearing was affected.

PRESIDENT VERNA: Hearing bells?

COUNCILMAN NUTTER: No, actually, I'm not. I think that's the problem.

PRESIDENT VERNA: I think Councilman Rizzo has a question.

COUNCILMAN RIZZO: I only have a quick question. I will give you one minute.

COUNCILMAN NUTTER: Thank you. Thank you.

PRESIDENT VERNA: So patient. Thank you.

COUNCILMAN NUTTER: He is a great man.

What's the anticipated additional cost you would expect in the course of this plan?

What are you anticipating related to our legal costs involved in the federal corruption investigation?

MS. WILKERSON: I will ask Mr. Romulo Diaz to comment on that.

MR. DIAZ: Romulo L. Diaz, Junior, City Solicitor.

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I assume, Councilman, you are referring to the amount of the outside costs related -- outside Council costs related to the FY '07 budget?

COUNCILMAN NUTTER: FY '07 and on out.

I mean, what have you anticipated for future costs through the Five-Year Plan?

MR. DIAZ: I have only focused in connection with the '07 dollars. The --

COUNCILMAN NUTTER: What is that number?

MR. DIAZ: To the best of my recollection -- these are round numbers, and I -- well, I would prefer to provide those numbers to you, if I may, for the record. But, they are less than the numbers -- I don't have them. I would rather not put out a number that's incorrect.

But they are less than the numbers that we are projecting for FY 06. And I would hope that we would not be seeing for FY '07 through '11 a need to build into our base outside counsel dollars for payment of outside

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counsel in connection with the federal investigation.

But I will give you those numbers for the record shortly after this hearing.

COUNCILMAN NUTTER: Okay. Thank you.

Thank you, Councilman.

PRESIDENT VERNA: Thank you.

Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam President.

When we talk about the sale of city assets, is there a list? I have looked through here, and I can't spot what I am looking for.

Is there a list of assets that are on the block?

MS. WILKERSON: Yes.

COUNCILMAN RIZZO: Could you review what's on the block and what's not?

MS. WILKERSON: We will provide a list of all the properties, I think there are about 50 properties on the list, that have been declared surplus. And we will share the

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list with Council.

COUNCILMAN RIZZO: That's fine. I would appreciate that.

But you talked earlier about PGW and that, if the right deal could be put together, that works, that that would be an asset of the city that would be sold.

Tell me, is there any conversation about any other major department? As an example, the Water Department?

MS. WILKERSON: We have no active conversations about selling the Water Department.

COUNCILMAN RIZZO: There are no active conversations about the sale of the Water Department?

MS. WILKERSON: Correct.

Pedro, we're not actively marketing the Water Department? I want to make sure I am not missing anything.

We are not actively.

COUNCILMAN RIZZO: You know, we might chuckle about that, but --

MS. WILKERSON: No, I know. Other

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cities have looked at that.

Atlanta looked at disposing of its Water Department. Other jurisdictions have done that. We are not actively doing that.

COUNCILMAN RIZZO: I think you would sell the Water Department before PGW.

I was just concerned. I just wanted to make sure the Police and Fire Department weren't on there. Thank you.

Thank you, Madam Chair.

PRESIDENT VERNA: Thank you.

Ms. VanBelle, do you mind approaching the witness table again, please. I just would like some clarification regarding the prisons.

Appendix 2, Page 4, the prisons' budget does not seem to reflect a decrease in Class 200 to fund the additional hires.

MS. VanBELLE: No; that's correct.

You wouldn't actually see a decline in 200 because the savings associated with no longer housing prisoners in Delaware County is reprogrammed to pay for cost increases in prison maintenance or prison health.

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So we didn't actually reduce the Class 200 in their budget; we reprogrammed those savings for other expenses that they had in Class 200.

PRESIDENT VERNA: I am sorry. I don't quite understand that.

MS. VanBELLE: I think when you see the budget detail for the prisons, which is being delivered today, I think you will understand what I am talking about.

You will see that the contracts for Delaware County go away, but the dollars associated with those contracts are reprogrammed into other Class 200 expenses.

PRESIDENT VERNA: Such as?

MS. VanBELLE: Such as maintenance or medical costs, things like that.

PRESIDENT VERNA: You say we will get the detailed budget when?

MS. VanBELLE: Today.

PRESIDENT VERNA: Today. Okay. We will look at it then.

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam

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President.

One of the themes of this whole Five-Year Plan that seems to me to be pretty prevalent is this kind of urgency to borrow.

We are borrowing for River City. We are borrowing for arts and culture. We are borrowing for numbers of other things.

And on Page 35 of the plan, the Administration states, "The city's ratio of debt service to revenue will continue to restrict its ability to issue general obligation debt. A relatively high ratio of debt service to revenue will not only crowd out other operating expenditures; but, if the ratio gets too high, it can also result in the reduction of the city's bond rating, increasing the costs of borrowing."

In your opinion, is there a difference as far as our debt ratios are concerned from issuing GO debt or debt through an authority?

MS. WILKERSON: I think there are technical differences.

I think the whole question about

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have we borrowed too much from either directly or through PAID is one that, you know, PAID raised recently, and is something that we are very mindful of.

I think that we believe that, in order to grow the city, we have to look at a whole host of factors, not just, you know, the level of borrowing. We also have to look at things like, you know, the tax rate.

We believe that the city yields benefit from strategic investments. And, so, we take all that into consideration.

The level of debt for the city is, I think, as PICA pointed out, something we need to be concerned about.

COUNCILMAN KENNEY: Is that a justification, based on the city's high debt burden, to issue another $150 million worth of new debt?

MS. WILKERSON: It is --

COUNCILMAN KENNEY: And if the city's 2007 capital budget is only $52 million of new GO debt, this proposed borrowing is almost three times as much as what we are proposing to do now.

Why would we have more interest, three times as much interest, in going into debt on items that are somewhat speculative, although well-intentioned, when we have one-third of new debt to take care of the items and maintenance we already have?

MS. WILKERSON: I think that these -- you know, one of the things that I have said repeatedly is that these are for capital kinds of costs, curbs and sidewalks.

Curbs and sidewalks, streetscapes, and commercial corridors are the kind of investment that we need in order to continue to grow the activity happening in our neighborhoods.

COUNCILMAN KENNEY: But is it potentially unfair to the next Administration, in the event that all of these either revenue speculations and this definitely concrete borrowing debt that you are asking us to go into, is it fair at this stage of the Administration to saddle the next Administration with potential speculation on revenue and definite clear debt that's required to be paid over the next generation or so?

MS. WILKERSON: You know, I do not -- I mean, the level of debt service that carries forward is something that we look at all the time.

And I think that we keep an eye -- you know, we try to make sure that we don't just get through during our Administration; but also, you know, leave the next Administration a fair chance.

I think that there are a lot of opportunities out there for the city. I think that there is additional revenue that we're leaving on the table from the property tax.

You know, so I think that we need to be careful about the level of borrowing. But I think that there -- you know, there is enough opportunity out there, enough revenue on the horizon, that it is not --

COUNCILMAN KENNEY: It just seems these are the types of items that would be in the front end of the first term of an

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Administration or the second term of an Administration, as opposed to the end of one; where, you know, in the end, two years from now, you're not going to be here to have to deal with it, and the next group is going to have to be here and deal with it.

And hopefully some of us will still be here, that we won't have to deal with any crises.

But the speculative nature of the revenues and the debt that we're increasing, to me, has some serious concern.

And, Madam President, I would appreciate if we could make a formal request, Madam President, to PICA now.

I know they don't like to come here during the course of the testimony, because they will be asked question after question.

But I would really like for them to digest all of this and come over and give them some time to give their opinion.

Because I think as it relates to the Five-Year Plan, that is exactly the purpose of their existence, is to come here and tell us

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are the questions I am asking wrong, are the answers I am getting wrong or right, and are we going to proceed with some enlightened view of where we are going to be financially in the next three, five, seven, even ten years.

So I don't know whether or not they were scheduled to discuss specifically this plan, but I would like them to do it within the context of finishing up the Administration.

PRESIDENT VERNA: We will write them a letter. We will certainly do that.

COUNCILMAN KENNEY: Thank you.

PRESIDENT VERNA: Are there any other questions or comments from members?

Seeing none, this committee will stand in recess until 10 o'clock tomorrow morning.

Thank you.

(Hearing adjourned at 2:45 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Tuesday, February 14, 2006, were reported fully and accurately by me, and that this is a correct transcript of same.

RE: COMMITTEE OF THE WHOLE

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DEBRA A. WHITEHEAD