

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

July 16, 2015

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Thursday, July 16, 2015 in the PICA Board Room located at 1500 Walnut Street, 16th Floor, Philadelphia, Pennsylvania.

Attendees

Board: Suzanne Biemiller, Joseph McColgon, Michael A. Karp, Gregory S. Rost, Alan Kessler, Robert A. Dubow (*ex officio*) and Sharon Ward, Director, Governor's Budget Office (*via telephone, ex officio*).

Staff: Harvey M. Rice, Stephen Camp-Landis, Deidre Morgenstern, and Dora Ward.

Invited Guests: Rebecca Rhynhart, Budget Director; Anna Adams, Chief of Staff, Director of Finance; Alan Butkovitz, City Controller; IHS Global Insight.

Call to Order

Mr. Rice called the meeting to order at 12:30 p.m.

Approval of Minutes

Mr. Karp made a motion to approve the minutes from the meeting of June 16, 2015. Mr. McColgon seconded the motion. The motion passed 5-0.

Executive Director's Report

Mr. Rice reported that PICA staff's main task since the previous Board meeting has been the review of the City's Five Year Financial Plan. The 30 day process involved a thorough review of the Plan, communication with City officials for clarification, and a staff report evaluating the Plan.

Mr. Rice also explained that PICA staff met with its newly contracted accounting firm about preparing PICA's financial statements for the annual audit. After the statements are prepared, staff will meet with the accounting firm and the auditor to proceed with the process.

Treasurer's Report

Mr. Rice stated that FY15 expenditures were at 63 percent of budgeted levels.

Election of Officers

Mr. Karp made a motion to nominate Ms. Biemiller as Chair. Mr. Rost seconded the motion. After a roll call vote, members unanimously supported the nomination.

Mr. Rost nominated Mr. Karp as Vice Chair. Mr. McColgon seconded the motion. After a roll call vote, members unanimously supported the nomination.

Ms. Biemiller made a motion to nominate Mr. McColgon as Secretary/Treasurer. Mr. Rost seconded the motion. After a roll call vote, members unanimously supported the nomination.

Ms. Biemiller made a motion to nominate Mr. Rost as Assistant Secretary/Treasurer. Mr. McColgon seconded the nomination. After a roll call vote, members unanimously supported the nomination.

Consideration of Five Year Financial Plan

Mr. Rice stated that the Board had received the PICA staff report on the Five Year Plan. He thanked staff for their work. Mr. Rice explained that PICA staff was recommending approval of the Plan because: revenue projections are reasonable and based on econometric modeling and historical trends; the City projects a contribution to the Budget Stabilization Reserve Fund for the first time in FY20; health costs have been kept stable through the implementation of self-insurance; economic trends remain positive; and obligation projections are reasonable and have historically been followed.

However, Mr. Rice stated that PICA is concerned about several risk factors related to: labor obligations that have not been included in projections; delays in BRT appeals; upcoming changes to School District funding on the state level; indemnity costs that have increased 60 percent since FY08; and pension investment returns, 0.5 percent, currently well below the assumed rate of 7.8 percent.

Ms. Biemiller asked Mr. Dubow what the returns will realistically amount to. Mr. Dubow stated they could come in below 1 percent. Mr. Karp asked what types of investments are performing poorly. Mr. Dubow explained that it has been a bad year for pension funds around the country, and that the Pension Board is reviewing and re-balancing its investment managers. Ms. S. Ward countered that on the state level, SERS and PSERS have achieved good returns of approximately 6 percent and 8 percent, respectively, so far this year. Mr. Karp asked what this success was due to. Ms. S. Ward said that to the best of her knowledge, the Commonwealth has diversified and gotten away from some of its more volatile investments. Mr. Karp stated that pensions pose the greatest risk to the City's finances, and Mr. Dubow agreed. Mr. Karp asked whether the City should conduct an analysis into its investments and strategy. Mr. Dubow agreed that the City ought to do this.

Pennsylvania Intergovernmental Cooperation Authority

Thursday, July 16, 2015

Page 3

Mr. Rost asked Mr. Rice to summarize PICA staff analysis of Plan revenue estimates and respond to the Controller's concerns. Mr. Rice explained that the City Controller may have neglected to account for the Budget Stabilization Reserve Fund contribution in FY20, which would lead to a \$10 mil. surplus, rather than the deficit the Controller had calculated. Additionally, he explained that the Controller's supporting documentation on revenues did not explain how he arrived at lower projections than the City's in terms of wage and earnings, real estate transfer, and BIRT taxes. Furthermore, the Controller's concerns about legislative changes affecting the wage tax were unwarranted and preemptive. Mr. Rice agreed that the Controller's analysis may be correct about a tax base drop in the parking tax but stated that this effect would be minimal because of the total revenue generated by this tax.

Mr. Rost asked Mr. Dubow to explain assumptions surrounding the delays in BRT appeals. Mr. Dubow responded that there is an expected 15 percent reduction in value associated with the delays for commercial and residential properties. Ms. Rhyhart explained that the City assumed a 16 percent reduction in an effort to be more conservative.

Mr. McColgon asked if the City Controller would explain his concerns surrounding revenue projections that led to his recommended disapproval of the Plan. Mr. Butkovitz stated that the City's assumption that obligations will grow at half the rate of revenues for the Plan period is not consistent with historical experience. Exceeding this anticipated growth rate would mean little to no room for expenses related to union wages, which could in turn lead to deficits. Mr. Rice explained that if there is a variance from the projections, the City would have to submit a revised Plan to PICA. Mr. Dubow explained that the City's quarterly reporting process would provide sufficient time to anticipate major changes. Mr. McColgon stated that the City's ability to tax is currently maxed out, and cuts would have to be made in the event of a variance.

Ms. Biemiller made a motion to approve the Five Year Plan. Mr. Karp seconded the motion. After a roll call vote, the Plan was approved by a qualified majority of 4-1, with Mr. McColgon dissenting.

Public Comment

Mr. Foster stated that PICA should issue further recommendations about how the City may remedy its pension funding problem.

Adjournment

Mr. Karp made the motion to adjourn, Mr. McColgon seconded, and the motion passed 5-0.