

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Annual Meeting of the Board

July 21, 2014

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was held on Monday, July 21, 2014 in the PICA Board Room located at 1500 Walnut Street, 16th Floor, Philadelphia, Pennsylvania.

Attendees

Board: Joseph A. DiAngelo, Robert Dubow (*ex officio*), Michael A. Karp, Gregory S. Rost, Lawrence Tabas, and Rhonda Hill Wilson.

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

Invited Guests: S. William Richter, Esq., Reed Smith, LLP; Rebecca Rhyhart, Budget Director, City of Philadelphia.

Call to Order

Mr. Karp called the meeting to order at 12:20 p.m.

Approval of Minutes

Mr. Karp asked for a motion to approve the minutes from the meeting of June 17. Mr. Karp made the motion. Mr. Rost seconded the motion. The motion passed 3-0, with Mr. Tabas abstaining.

Treasurer’s Report

Mr. Rice noted that PICA ended Fiscal Year 2014 with operating expenditures below the budget. Spending was 2 percent higher than in the previous year due to higher costs for rent and employee benefits.

Executive Director’s Report

Mr. Rice stated that new Internet and phone service would be installed in the offices. He also noted that the revenue report for May and the PICA report on the City’s *Quarterly City Managers Report* for the third quarter of FY14 had been released.

The annual financial and arbitrage audits were underway. In addition, the staff had completed training on the State's new financial management system, which has impacted the process for the weekly transfer of PICA tax proceeds to the City.

He noted that current and prior Board members had been advised to preserve all documents related to bond issues, due to a request from attorneys handling the City and PICA litigation related to the LIBOR benchmark interest rate. He also noted that the staff had completed its review of the Five-Year Financial Plan.

Mr. Rost asked how the new process of departmental meetings helped in the staff's review of the Plan. Mr. Rice indicated that this year's meetings were more focused due to the staff's providing a standard list of written questions to all agencies in advance of the meetings. Mr. Rost asked whether this year's process would be a model for next year. Mr. Rice indicated that it would.

Resolution 2015-01: Fiscal Year 2015 Meeting Schedule

Mr. Karp asked for a motion to adopt Resolution 2015-01, concerning the schedule of dates of regular Board meetings for Fiscal Year 2015 and the annual meeting for Fiscal Year 2016. Mr. Rost made the motion. Mr. Tabas seconded the motion. The motion passed 4-0.

Consideration of Five-Year Financial Plan

Mr. Karp stated that the staff had done a good job in reviewing the Plan. He asked whether other Board members had questions.

Mr. Rost asked whether City officials had requested departments to provide potential cost cutting scenarios as part of the budget process. Mr. Dubow stated that for the last several years, budget officials had requested departments to describe potential expenditure cuts that would result in 2, 4, and 5 percent reductions in spending. The purpose of this process was to determine what departments would propose to cut if reductions in spending were necessary.

Mr. Rost questioned why the Plan included \$700 million as the amount of potential net revenue from the sale of the Philadelphia Gas Works (PGW). Mr. Dubow stated that when the Plan was created, officials did not have a precise estimate of the net proceeds from the PGW sale. They believed the amount would be between \$420 million and \$650 million. For purposes of the Plan, \$700 million was chosen as an estimate. However, the choice of the higher amount has no net impact on the Plan's fund balance, since the amount is shown both as a revenue and expenditure.

Mr. Rost asked about concerns PICA staff had expressed about the Revenue Department based on its meetings with the departments. Mr. Rice stated that he would like to issue a report in the fall on performance of city agencies, and that would address concerns with respect to the Revenue Department. Mr. Rice stated that he had been under the impression that when Mr. Tom Knudsen was

hired by the City to address revenue collection issues that he would produce a plan for improvement. Mr. Dubow stated that the Revenue Department has such a plan, and that he would provide it to PICA.

Mr. Rost requested an update on real estate assessment appeals. Mr. Dubow stated that there were two components to the process. First Level Reviews conducted by the Office of Property Assessment had led to a reduction in assessed value of \$1.5 billion. For appeals heard by the Board of Revision of Taxes, there had been an average reduction in assessed value of 10 percent, for those cases heard so far. If reductions continue at this rate, the total reduction in assessed value will be in line with the City's projections.

Mr. Rost asked about the status of union labor contracts. Mr. Dubow stated that, for District Council 33, the City is seeking court approval to impose the terms of its final contract offer. Hearings were held last week. With respect to the Police and Fire contracts, arbitration hearings are over, and the cases are being considered by the arbitration panels. He anticipated awards within a matter of months.

Mr. Rost asked about the financial status of the School District of Philadelphia. Mr. Dubow stated that there is a \$93 million budget deficit left to fill. The proposed cigarette tax would provide \$83 million in the first year. If this passes, it would close some of the gap. However, even if the gap is closed, the District would only provide services at the level of last year. Ultimately, the District would benefit from a new state funding formula.

Mr. Rost asked about the changed actuarial assumptions recently adopted by the Board of Pensions and Retirement. Ms. Rhynhart stated that the new assumptions would result in a \$20 million annual increase in pension costs.

Mr. Rost stated that the City is still facing some significant financial issues, and that these are a source of concern. However, he also stated that the City's financial team is strong, and that he hopes they can resolve the issues.

Mr. Karp asked whether there should be additional belt-tightening to enable the City to reserve more funds in a rainy day fund. Mr. Dubow stated that there has recently been a good deal of belt-tightening. He also noted that, in his opinion, further belt-tightening would create a tradeoff in terms of reduced services that would not be beneficial to the city.

Mr. Tabas noted the concern about the timing of approval of the proposed cigarette tax, and asked whether there was a possibility that the School District would come back to the City and request additional assistance to fill any budget gap. Mr. Dubow stated that he did not think the District would request additional funds from the City.

Mr. Tabas asked when the PGW sale was expected to occur. Mr. Dubow indicated that it was expected to take place in the fall.

Mr. Tabas noted that, even if the City prevailed in court with respect to the District Council 33 contract, it would still need to negotiate a new contract with that union. He asked whether the City was incorporating expected improvements in the economy into the Plan. Ms. Rhyhart indicated that City officials had worked with a consultant to develop revenue projections.

Mr. Tabas asked about the impact of population growth on City finances. He asked whether City officials had been able to determine the proportion of in-migrants who are contributing positively to the tax base. Ms. Rhyhart indicated that they did not have data on that issue.

Mr. Tabas stated that he thought PICA staff did a good job on their report on the Plan, and that the report presented the issues fairly.

Ms. Wilson arrived at the meeting.

Resolution 2015-02: Approval of Five-Year Financial Plan

Mr. Karp asked for a motion to consider Resolution 2015-02, concerning approval of the *Five-Year Financial Plan* for Fiscal Years 2015 through Fiscal Year 2019. Dr. DiAngelo made the motion. Mr. Rost seconded the motion. Since the resolution required a qualified majority, the roll was called. The vote was as follows: Dr. DiAngelo, yes; Mr. Karp, yes; Mr. Rost, yes; Mr. Tabas, yes; Ms. Wilson, yes.

Resolution 2015-03: Election of Officers

Mr. Karp stated that the vote on Resolution 2015-03, concerning election of PICA officers for Fiscal Year 2015, would be postponed until the next Board meeting.

Public Comment

Mr. Jim Foster of Germantown Newspapers indicated that PICA had contracted for an actuarial audit of the City pension system. He asked who conducted the audit. Mr. Rice stated that Boomershine Consulting Group had conducted the audit. Mr. Rost indicated that the firm had made a presentation about its engagement at a PICA Board meeting.

Mr. Foster asked when Boomershine would return to present their findings. Mr. Rice indicated that he expected they would return at a Board meeting in the fall.

Adjournment

Mr. Karp asked for a motion to adjourn. A motion was made by Ms. Wilson. The motion was seconded by Mr. Rost. The motion passed 5-0.