

# PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

## Minutes of the Meeting of the Board

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March 15, 2016

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The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Tuesday, March 15, 2016 in the PICA Board Room located at 1500 Walnut Street, 16<sup>th</sup> Floor, Philadelphia, Pennsylvania.

### Attendees

Board: Michael A. Karp (*via telephone*), Alan Kessler, Joseph M. McColgan (*via telephone*), Gregory S. Rost, Kevin Vaughan, and Robert A. Dubow (*ex officio*).

Staff: Harvey M. Rice, Stephen Camp-Landis, Daniel Esposito, and Deidre Morgenstern.

Invited Guests: S. William Richter, Esq., Reed Smith, LLP; Anna Adams, Budget Director, City of Philadelphia; and Jacqueline Dunn, Chief of Staff, Office of the Director of Finance, City of Philadelphia.

### Call to Order

Mr. Karp called the meeting to order at 12:17 p.m.

### Approval of Minutes

Mr. Rost made a motion to approve the minutes from the meeting of February 16, 2016. Mr. Kessler seconded the motion. The motion passed 3-0.

### Executive Director's Report

Mr. Rice introduced Daniel Esposito, who recently joined PICA's staff as Research and Policy Analyst. He noted that Daniel had already upgraded PICA's website and completed a report on overtime.

Mr. Rice stated that PICA had issued its staff report on the City's Quarterly City Managers Report for the second quarter of FY16.

He also stated that PICA would be scheduling a meeting with the Office of Property Assessment and the Board of Revision of Taxes to work on resolving discrepancies between the agency databases with respect to the number of outstanding appeal cases.

### **Treasurer's Report**

Mr. Rice stated that PICA operating expenditures for FY16 are below budget. Total expenditures to date are at 63 percent of the budget, including the budget for additional oversight.

Mr. Rost stated that last year the Executive Director had circulated a plan to the Board regarding staff's work plan for reviewing the Five-Year Financial Plan. He asked if that would be done again this year. Mr. Rice stated that it would be circulated.

### **Overview of the Five-Year Financial Plan**

Ms. Adams stated that the Five-Year Financial Plan for FY17-FY21 included four new initiatives that would be paid for with revenue from the proposed tax on sugary beverages. One initiative would expand the number of quality pre-Kindergarten seats in the city. Another initiative would create community schools.

Mr. McColgan joined the meeting via telephone.

### **Election of Chair**

Mr. Karp made a motion that Mr. Vaughan be elected Chair of the Board to replace Suzanne Biemiller. Mr. Rost seconded the motion.

A qualified majority being required for this action, the roll was called. The vote was as follows: Mr. Karp, yes; Mr. Kessler, yes; Mr. McColgan, yes; Mr. Rost, yes; and Mr. Vaughan, yes.

### **Continuation of Overview of the Five-Year Financial Plan**

Ms. Adams stated that the City's third proposed initiative was to invest in community infrastructure. This initiative would be funded through debt issuance, with the debt service to be paid through revenue from the sugary drinks tax. It was anticipated that philanthropic funds would supplement City funds to support this initiative.

Mr. Kessler asked about the timing of the proposals. Ms. Adams stated that pre-Kindergarten and community schools would begin in the first year of the Plan. The first debt issuance to fund infrastructure would occur in 2017.

Mr. Dubow stated that the Administration planned three borrowings for infrastructure, in 2017, 2019, and 2021.

Mr. Kessler stated that he believed based on public statements that there would be legal challenges to the tax on sugary beverages.

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Mr. Dubow stated that the City Solicitor is confident that the tax would survive litigation.

Mr. McColgan asked about the potential impact on the City bond rating if the City issued bonds backed by the new tax, but the tax is held up in court. Mr. Dubow noted that debt service for some City bond issues is decreasing so that the projected debt service including the new infrastructure bonds is not projected to increase as a percentage of total City revenue.

Mr. McColgan stated that the City had noted in the Five-Year Financial Plan that rating agencies had made comments about the City's carrying a large amount of debt. Mr. Dubow stated that the rating agencies are concerned about the state of city infrastructure as well as debt, so there are multiple considerations involved when assessing the debt burden.

Ms. Adams stated the fourth Administration initiative in the Plan is a campaign to reduce energy costs. Two bond issues are proposed to pay for a portion of the energy campaign.

Mr. Rost stated that City officials should contact the University of Pennsylvania regarding energy efficiency. He noted that the University had issued bonds to support energy efficiency projects.

Ms. Adams noted that some of the revenue from the proposed sugary drinks tax would support the City Pension Fund.

Mr. Kessler asked about recent articles suggesting the tax would be higher on fountain beverages. Mr. Dubow replied that one issue was the assumed ratio of syrup to water in fountain beverages. The beverage industry's analysis that had been reported in the press assumed a different ratio than the City had assumed when it drafted the proposed legislation for the tax.

Mr. Kessler asked how the City had arrived at a proposed tax rate of 3 cents per ounce. Mr. Dubow replied that the City had reviewed existing research on the impact of similar taxes. Studies had indicated a possible range of elasticity from 0.8 to 1.2. The City's revenue estimate assumes an elasticity of 1.0. The City's revenue estimate also assumes 10 percent non-compliance.

Mr. Kessler asked about the rationale of only taxing sugary drinks, but not other sugar products. Mr. Dubow stated that the purpose of the tax is to generate revenue. The primary rationale is not based on public health.

Mr. Vaughan stated that other sweet products have some nutritional content.

Ms. Adams noted that in the Five-Year Financial Plan, the General Fund balance rises to \$127 million by FY21. She noted that the Plan has been impacted by lower business tax revenues due to an increase in the level of revenue lost due to credits. The Plan also assumes significant reductions in overtime. Furthermore, the Plan includes new investments in the Community Life Improvement Program and body cameras for police officers, new initiatives to improve tax enforcement, and new costs to enforce the sugary drinks tax. The Plan also includes a reserve to cover future labor contracts.

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Mr. Dubow noted that the Plan also assumes \$410 million in lost revenue due to wage and business tax changes.

Mr. Rost asked whether there were any anticipated pension reforms aside from the dedication of revenue from the sugary drinks tax. Mr. Dubow stated that the Plan also assumed that the Pension Fund would receive revenue from the sales tax.

Mr. Kessler indicated his concern that the appeals process related to legal challenges to the sugary drinks tax could last three to four years.

Mr. McColgan asked why the costs of unemployment compensation doubled. Mr. Dubow indicated that he believes the City is addressing a backlog in unresolved cases.

Mr. McColgan asked why the number of positions is increasing by 1,500. Ms. Adams stated that the City budgets by class, not by the number of positions. The proposed budget does assume additional positions in the First Judicial District, the District Attorney, and prisons. For most agencies, the proposed budget is consistent with the current year's position level.

Mr. Dubow stated that the increases in Licenses and Inspections reflect recommendations of the recent commission reports.

**New Business**

Mr. Rost stated that he would like to express the Board's gratitude to Suzanne Biemiller for her service during her tenure as PICA Board Chair. Mr. Kessler requested that staff prepare a resolution thanking Ms. Biemiller for her work on behalf of PICA.

**Public Comment**

There was no public comment.

**Adjournment**

Mr. Vaughan asked for a motion to adjourn. Mr. Kessler made the motion. Mr. Rost seconded the motion. The motion passed 4-0.