

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

January 16, 2018

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Tuesday, January 16, 2018 in the PICA board room located at 1500 Walnut Street, 16th Floor, Philadelphia, Pennsylvania.

Attendees

Board: Kevin Vaughan, Alan Kessler, Tina Byles Williams, James Cawley, Michael Karp (*via telephone*), and Robert A. Dubow (*ex officio*).

Staff: Harvey M. Rice, Dora Ward, Daniel Esposito, and Deidre Morgenstern.

Invited Guests: S. William Richter, Esq., Reed Smith, LLP; Anna Adams, Office of Budget and Program Evaluation; Paul Levy, President & CEO, Center City District.

Call to Order

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

Approval of Minutes

Mr. Cawley made a motion to approve the minutes from the meeting of November 21, 2017. Ms. Williams seconded the motion. The motion passed 3-0.

Mr. Kessler entered the meeting at 12:25 p.m.

Executive Director's Report

Mr. Rice stated that since the last Board meeting in November, PICA has released several reports: the DROP study, a Quarterly Report and two Monthly Revenue Reports. PICA staff also completed a harassment training during this time.

Mr. Rice also provided the Board members with an investment report through November, a BRT report, an Overtime report as of December 31, 2017, and ethics forms which are due in May, in their folders.

Pennsylvania Intergovernmental Cooperation Authority

Tuesday, January 16, 2018

Page 2

Mr. Rice also notified the Board of PICA's annual economist meeting at the Federal Reserve Bank on February 14th. He invited members to attend the meeting, which is conducted annually in preparation for the Five Year Plan revenue projections.

Treasurer's Report

Mr. Rice explained that PICA's expenditures are up, year over year, due to increased salaries, benefits, and rent. PICA staff also spent money on upgrading computer hardware before the end of the year.

Paul Levy, Center City District Presentation

Mr. Levy, President and CEO of Center City District was invited by the PICA Board to present on the Levy-Sweeney tax reform proposal. Mr. Levy's presentation included the following points:

- Philadelphia is being outperformed in job growth by the national economy and by most major cities.
- Philadelphia has 27 percent less jobs today than it had in 1970. Many major cities have outpaced their 1970s jobs numbers.
- Philadelphia has the highest poverty rate of the 10 largest cities in America and one of the highest unemployment rates in the northeast.
- Taxes are depressing job growth. Philadelphia's tax structure is heavily reliant (60 percent) on the wage tax, and in this way is only comparable to Detroit.
- BIRT has no counterpart anywhere else in the country, as only Philadelphia taxes both gross receipts and net profits.
- Both Tax Commissions have recommended shifting the burden from the wage and earnings and BIRT taxes to real estate.
- Without cutting municipal government programs or raising the real estate tax, the way to accomplish this is through amending the Uniformity Clause of the Pennsylvania Constitution by increasing the commercial real estate portion by 15 percent. The resulting revenue would be used to fund the reduction of the wage and BIRT taxes.
- The goal would be to reduce the wage tax below 3 percent in 10 years and to cut the net income portion of the BIRT in half.
- Mr. Levy gave an example of how this would work through a \$90 million increase in commercial real estate revenue.
- The process to accomplish this would require passage of the legislation through two sessions of the Commonwealth legislature (it has already passed one), followed by enabling legislation passed by Philadelphia City Council.

Mr. Karp joined the meeting via telephone at 12:40 p.m.

Mr. Karp took issue with the example Mr. Levy provided in his presentation, and told him that coming to a Board meeting without real numbers was "insulting." Mr. Karp tried to test Mr. Levy's example during questioning after the presentation was concluded, and Mr. Levy restated he provided an

Pennsylvania Intergovernmental Cooperation Authority

Tuesday, January 16, 2018

Page 3

example and numbers would have to be calculated in person, and not over conversation. Mr. Kessler requested that Mr. Levy provide real numbers to the Board for his estimates.

Mr. Kessler asked that since the wage tax has been incrementally reduced by an overall 1 percent by City Council since 1996, and simultaneously there has been a loss of jobs, would further reductions necessarily lead to more job growth? Mr. Levy responded that in line with regional comparisons, which saw job growth over this period, we have to conclude that that growth could have also occurred in the city.

Ms. Byles Williams asked about factors apart from taxes that impact job growth in the city, and whether Mr. Levy has considered to what degree they account for the situation with slow growth. Mr. Levy responded that the city as a county status is another obstacle to growth because the city has increased obligations through this structure in ways that other major cities do not. He also added the high poverty as a significant contributing factor. Mr. Byles Williams further inquired as to what the dependent variable is that is causing the slow job growth. Mr. Levy stated that Prof. Inman of the University of Pennsylvania published work analyzing the dependent variables. Ms. Byles Williams clarified that poverty is a derivative of other underlying issues and concluded there are other factors contributing to slow job growth.

Mr. Cawley entered the discussion by further emphasizing to Ms. Byles Williams' point that there is another significant contributing factor not mentioned, which is the education system in the city, in addition to poverty. He asked a question on another topic, whether the underlying intent of this tax reform is to attract businesses despite the current picture and taking factors such as poverty and the school system as a given, while simultaneously attempting to attract businesses by increasing property taxes. Mr. Cawley indicated that this might not be the most effective approach. Mr. Levy responded that unlike the property tax, the wage and BIRT taxes are the taxes that make businesses less competitive.

New Business

Mr. Kessler expressed a desire to discuss the recent DROP study issued by PICA and related methods to reform the benefit. Mr. Vaughan stated that because the previous discussion and presentation ran long, it would be most beneficial to discuss DROP at the next board meeting, while involving the City Solicitor in the discussion. Ms. Byles Williams asked whether it would be appropriate to invite the city's actuary to the meeting. Ms. Dubow offered that the actuary that was in place at the time DROP was instituted was different from the current actuary. He explained that the actuary at the time conducted a cost analysis and provided the Pension Board with an estimate, but that the Pension Board decided to implement the program nonetheless, saying the cost was immaterial.

Public Comment

None.

Pennsylvania Intergovernmental Cooperation Authority

Tuesday, January 16, 2018

Page 4

Adjournment/Recess

Mr. Karp made a motion to adjourn. Mr. Cawley seconded the motion. The motion passed 5-0.