

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

July 25, 2018

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Tuesday, July 25, 2018 in the PICA board room located at 1500 Walnut Street, 16th Floor, Philadelphia, Pennsylvania.

Attendees

Board: Kevin Vaughan, Alan Kessler, James Cawley, Tina Byles Williams (*via telephone*), Michael Karp (*via telephone*), and Robert A. Dubow (*ex officio*); Chelsea Guzowski (*ex officio, alt. for Randy Albright*).

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

Invited Guests: S. William Richter, Esq., Reed Smith, LLP; Anna Adams, Office of Budget and Program Evaluation; Jackie Dunn, Office of the Director of Finance.

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 June 19, 2018. Mr. Kessler seconded the motion. The motion passed 4-0.

Executive Director's Report

Mr. Rice explained that PICA staff has mostly been focusing on the review of the City's Five Year Plan since the last Board meeting.

He also stated that PICA staff has issued the following reports, included in the Board's binders: the overtime report for FY2018 showing a preliminary \$40 million over budget; the appeals report, which only shows 500 appeals for FY2019 so far (more appeals will be reflected by October); and PICA's investment report, showing a 2.35 percent yield.

Treasurer's Report

Mr. Rice stated that PICA's expenditures ended FY2018 at 74 percent of the budget. Mr. Cawley asked how this occurred. Mr. Rice responded that PICA spent less than budgeted for outside contracts. He clarified that operating costs were at 91 percent of the budget because of savings on printing and personnel.

Bank Reconciliation Update from City

Mr. Dubow provided an update on the City's bank reconciliation efforts. He stated that the outside auditing firm is going through the City's policies and procedures, as well as the backlog in reconciliations. The work is on track to produce recommendations in September and a final report in December. Mr. Dubow explained 72 of 77 bank accounts have been reconciled, and that the five remaining accounts are up to date until June 2017.

Mr. Kessler asked if PICA will be getting the monthly reconciliation reports that are being provided to City Council, and Mr. Rice replied in the affirmative. Mr. Kessler also asked if the immediate hiring that was needed has occurred yet. Mr. Dubow responded that yes, the staff that was needed has been added and cross training has been completed. Mr. Kessler asked when the Task Force's recommendations would be handed down. Mr. Dubow responded that they would coincide with the outside auditor's recommendations.

Mr. Cawley asked what would happen if recommendations from the two entities conflicted, and Mr. Dubow explained that meetings on reconciliations are bi-weekly and that the City would know if this is the case almost immediately and would correct their course in that event. Mr. Kessler asked about the City's slow and cumbersome hiring process and its impact on this situation. Mr. Dubow explained this is outside of the purview of the Task Force. Mr. Kessler stated that he hopes the City will not wait until December to receive recommendations to hire more staff, knowing that the process could take nine months or more.

FY2019-2023 Five Year Plan Discussion

Mr. Vaughan thanked the staff for this year's Staff Report on the Five Year Plan. Mr. Vaughan stated that the Board received it early, with plenty of time to review it. He complimented the report on being "extensive" and "well thought-out." Mr. Kessler requested that Mr. Rice let everyone know who was involved in writing the report as it was an "incredible effort." Mr. Rice explained that there were several hurdles the staff overcame in issuing a timely report, including three events that required last minute changes and additions, namely the Local 810 contract, the Water Rate Board decision on fire safety appropriations, and the Pennsylvania Supreme Court decision on the beverage tax.

Mr. Rice provided an overview of the staff's analysis, stating that PICA staff recommends approval of the Plan on the following basis: revenues exceeding projections over the past three years, fund balances exceeding projections in the past two years, all labor contracts being resolved, and positive fund

balances for the Plan period. Mr. Rice noted that there are some risks to the Plan, despite the recommendation to approve, including: the potential for a recession, the bank reconciliation issue, the added financial obligations to the now locally controlled School District of Philadelphia, real estate transfer tax projections based on a high base year, pension funding, and revenue and obligation growth that goes hand-in-hand rather than money being set aside in reserve.

Mr. Kessler asked whether PICA gets midyear progress reports from the City on recommendations and risks noted by PICA in this report. Mr. Rice stated PICA receives quarterly reports from the City. Mr. Cawley clarified that PICA receives quarterly financial reports from the City, but that it does not receive quarterly reports on PICA's recommendations. Mr. Kessler and Mr. Cawley each individually explained that PICA and the City are on the same team when it comes to addressing financial challenges and that PICA is charged with asking difficult questions surrounding these topics. They emphasized a willingness to work cooperatively to meet these challenges and that questions should not be perceived as criticism.

Mr. Kessler asked how the City can ensure that it will contribute to the Budget Stabilization Reserve (BSR) during this current time of economic growth. Mr. Dubow responded that this Plan could not make a contribution to the BSR, despite its 6-8 percent target for fund balance as a percentage of expenditures, because the City made a choice to invest in the School District and a reserve for potential federal funding cuts. Mr. Kessler explained that PICA is in the awkward position of issuing this strong recommendation for the BSR each year, while being told that it cannot be done.

Mr. Kessler asked several questions about the beverage tax, especially about the cost of programs projected to exceed beverage tax revenues in the Plan. Mr. Dubow explained that the cost of the programs by the fifth year was always stated to exceed beverage tax revenues and that the City has adjusted some of the programs to lower spending.

Mr. Kessler asked what the City's Plan B scenario is in the event of a recession. Mr. Dubow said that the City does not yet know if and when a recession is coming and what that recession would look like, but he stated that the City would adjust spending appropriately to meet the situation. The City knows the process it must engage in from past experience. Mr. Karp explained that the City would cut costs as needed, as has occurred in the past, but he expressed concern that this exercise is only done when there is a recession underway. Mr. Karp explained that this should be done not only in the event of an emergency, but that the City needs a rainy day fund and needs to address the pension funding ratio, which has hovered around 45 percent for years. Mr. Karp also cited the huge pension liability. He stated that investment returns have not been promising and that there is "no prospect of measurably changing the numbers" surrounding the pension system's funded status. Mr. Dubow explained a lot has been done in the area of pension reforms, including in labor negotiations and with respect to actuarial assumptions, which in particular serve to increase the MMO and decrease the appearance of the funded ratio. He also explained supplemental amounts of money are being paid above the MMO to decrease the unfunded liability. Mr. Cawley clarified that the labor negotiations resulting in additional employee contributions will result in lower costs in the future but will not address the existing unfunded liability.

Ms. Williams entered the meeting at 1:10pm.

There was some discussion on wage tax rate incremental reductions, where Mr. Kessler asked whether the miniscule, symbolic reductions are worth continuing in the face of growing obligations attributable to the School District and pensions. Mr. Dubow explained that the incremental reductions make a difference over time and that they are a good public policy. Mr. Kessler asked whether PICA could request financial documents from the School District now that the City has re-established local control. Mr. Rice responded that yes PICA can request such documentation.

Mr. Kessler asked about overtime costs coming in at \$40 million over budget this fiscal year. Ms. Adams explained the process for calculating overtime projections and what needs to be done in this area with individual departments going forward. Mr. Kessler said that despite new events like protests, these costs should now become incorporated into projections since we know of them. He also asked whose ultimate responsibility it is to be accountable for overtime expenditures. Ms. Adams explained the process with the departments but that the process needs to be refined on a quarterly basis. Mr. Kessler asked for a briefing on overtime at a future board meeting, and Mr. Rice agreed he would arrange it.

Mr. Kessler inquired about a 46.8 percent growth in Sheriff's Office obligations between FY2014 and FY2018. Mr. Dubow and Ms. Adams explained this is an independent office.

Resolution 1 – Consideration of FY2019-2023 Five Year Plan

Mr. Vaughan introduced the resolution to approve the Plan. Mr. Karp said the Board has vetted and discussed the Plan thoroughly. Mr. Kessler made a motion to approve the Plan. Mr. Cawley seconded the motion. The motion passed unanimously in a voice vote.

Resolution 2 – Selection of Officers

Mr. Vaughan proposed reinstating the same officers to the PICA Board for the upcoming fiscal year. The Board agreed with this course of action. Mr. Cawley made a motion to approve the resolution. Mr. Kessler seconded the motion. The motion passed unanimously in a voice vote.

Resolution 3 – Meeting Schedule

Mr. Vaughan proposed the Board meeting schedule for the upcoming fiscal year. After some discussion, Mr. Cawley made a motion to approve the schedule, Mr. Kessler seconded the motion, and the motion passed unanimously in a voice vote.

New Business

None.

Public Comment

None.

Adjournment/Recess

Mr. Kessler made a motion to adjourn. Mr. Cawley seconded the motion. The motion passed 4-0.