

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

July 16, 2019

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was held on Tuesday, July 16, 2019 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 (*via telephone*), Michael Karp (*via telephone*), and Robert A. Dubow (*ex officio*).

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; Marissa Waxman, Office of Budget and Program Evaluation; Christy Brady, Controller’s Office; Nick Hand, Controller’s Office; and Steve Camp-Landis, The Pew Charitable Trusts.

Call to Order

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

Approval of Minutes

Ms. Williams made a motion to approve the minutes from the meeting of June 18, 2019. Mr. Kessler seconded the motion. The motion passed 5-0.

FY2020-2024 Five Year Plan Discussion

Mr. Vaughan thanked the staff for this year’s Staff Report on the Five Year Plan and for providing the Board with the report so early, noting that the staff worked on the 4th of July holiday. Mr. Kessler commented that the report was “very well written and easy to read on such a complex topic.” Mr. Rice thanked the staff for the team effort, especially Dan Esposito, who he is “amazed by every year.”

Mr. Rice provided an overview of the staff’s analysis, stating that PICA staff recommends approval of the Plan on the following basis: reasonable and appropriate projections, revenues exceeding projections consistently, fund balances the highest he has seen in recent years, and a first ever contribution to the Budget Stabilization Reserve Fund. Mr. Rice noted that there are some risks to the Plan, despite the

Pennsylvania Intergovernmental Cooperation Authority

Tuesday, July 16, 2019

Page 2

recommendation to approve, including: the potential for a recession, real estate transfer tax and business income and receipts tax projections, added financial obligations to the now locally controlled School District of Philadelphia, and pension funding.

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. Mr. Kessler also noted the significant increase in spending over the five year period. Mr. Rice stated that this is due to higher staffing levels and School District contributions. Mr. Dubow added pension costs are a significant contributor. Mr. Kessler asked if the School District could reduce any of its administrative costs. Mr. Dubow explained that this was done several years ago, and the School District could not make further cuts without impacting the children; the School District's administrative costs are low compared to similar districts. Mr. Dubow reminded the Board that there is ongoing litigation pertaining to state funding of public schools.

Mr. Kessler asked about real estate tax appeals – considering unfavorable audits, he asked why the City is formulating assumptions on a success rate on appeals using past data. Mr. Dubow added that reforms are designed to make assessments more accurate, which would make the success rate on appeals more predictable.

Ms. Williams noted the low and negative growth rates projected for health benefits in the first two years of the Plan. Mr. Dubow's explanation was that FY2019 actual costs will be much lower than estimated in the Plan, thus the growth will be larger than it appears in the Plan. DC33 health costs also increased health benefits spending by \$17 million. Ms. Williams asked how the City will control the growth of health benefits' costs. Mr. Dubow responded that DC33 is hiring a manager to control its costs, which will help in this effort.

Mr. Kessler asked about the 1.4 percent increase in overtime spending, which he stated is a "hollow victory," as it is still an increase on record high levels of overtime spending. Mr. Dubow explained that actual FY2019 figures will ultimately reveal a 5 percent decrease in overtime spending year-over-year. Mr. Kessler noted that Fire Department overtime has increased from a range of \$25-35 million to over \$50 million this past fiscal year. Mr. Dubow explained that without accounting for the Fire Department, total overtime will have decreased 16 percent year-over-year. Mr. Kessler noted that reasons given for increases in the Fire Department are not unique to this fiscal year. He asked whether the Fire Department had explained the increase to PICA. Mr. Rice reported that a meeting with the Fire Department revealed that the Department is not taking the issue seriously and that "no plans to reduce overtime spending" were provided to PICA staff by the Fire Department. Mr. Kessler requested that the Fire Department explain the costs to the PICA Board, stating that if every City department viewed its overtime spending this way, it would be problematic for the City financially. Mr. Dubow agreed and suggested the Managing Director's Office should also be present at the meeting.

Ms. Williams noted that a chart on page 50 of PICA's report with S&P's index returns showed inaccurate figures. Mr. Rice responded that the figures were from the City's Actuarial Valuation, but

that staff would review the chart. Ms. Williams asked Mr. Dubow to show the Board data on OPEB on an actuarial basis. Mr. Dubow said he would present data on net cash flow yearly and on peer cities.

Mr. Kessler asked Mr. Rice if PICA could do an independent analysis on the pension fund, since it is a “hugely significant” expenditure. He noted that PICA sources the City’s consultant and Pew’s study in its report, but that PICA does not have an independent analysis on this issue through its own consultant. Mr. Rice said he would follow through with an update on PICA’s previous pension report.

Resolution 2020-01 – Consideration of FY2020-2024 Five Year Plan

Mr. Vaughan introduced the resolution to approve the Plan. Mr. Karp made a motion to approve the Plan. Mr. Cawley seconded the motion. The motion passed unanimously.

Resolution 2020-02 – Election of Officers

Mr. Vaughan proposed reinstating the same officers to the PICA Board for the upcoming fiscal year. Mr. Karp made a motion to approve the resolution. Mr. Cawley seconded the motion. The motion passed unanimously.

Mr. Karp exited the meeting at 12:45 p.m.

Resolution 2019-13 – Financial Advisor

Mr. Vaughan explained that there were no questions for the financial advisor RFP process and requested to move the matter forward. Mr. Kessler made the motion. Ms. Williams seconded the motion. The motion passed 4-0.

Resolution 2020-03 – Meeting Schedule

Mr. Vaughan requested a vote on the meeting schedule for fiscal year 2020. Mr. Kessler made the motion. Ms. Williams 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 June revenue report. He summarized that the BRT has been adjudicating appeals at a slow pace, but that he has not had time during the Plan process to inquire about the reason. Mr. Rice also advised the Board that PICA’s audit is underway. Finally, the Board was provided with investment reports in their binders.

Treasurer’s Report

Pennsylvania Intergovernmental Cooperation Authority

Tuesday, July 16, 2019

Page 4

PICA ended FY2019 at 91 percent of the budget.

New Business

None.

Public Comment

None.

Adjournment/Recess

Mr. Kessler made a motion to adjourn. Ms. Williams seconded the motion. The motion passed 4-0. The meeting was adjourned at 1:15 p.m.