

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

July 27, 2021

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was held on Tuesday, July 27, 2021 in the PICA board room located at 1500 Walnut Street, 16th Floor, Philadelphia, Pennsylvania.

Attendees

Board: Kevin Vaughan, Alan Kessler, Michael Karp, Courtney Richardson, Roderick Henkels, Rob Dubow (*ex officio*), and Mark Ryan (*ex officio*)

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

Invited Guests: S. William Richter, Esq., Reed Smith, LLP; Marissa Waxman, Office of Budget and Program Evaluation

Call to Order

Mr. Vaughan called the meeting to order at 12:05 p.m.

Approval of Minutes

Mr. Kessler made a motion to approve the minutes from the meeting of May 26, 2021. Mr. Henkels seconded the motion. The motion passed 5-0.

Executive Director’s Report

Mr. Rice stated that since the last meeting, PICA staff released the tax revenue updates for May and June, as well as the monthly obligations updates for May and June. Mr. Rice added that he testified at the City Council Fiscal Stability and Intergovernmental Cooperation Committee hearing.

Mr. Rice advised the Board that PICA staff met with thirteen City departments as part of the Five Year Plan process which was very productive.

Mr. Rice advised the Board that the City’s overtime is \$34 million over the original FY2021 budget allocation, but is 12% lower than last year’s (FY2020) total overtime spending.

Treasurer's Report

Mr. Rice stated that PICA spending is 64% percent of the approved budget.

Resolution 2022-01 – Consideration of FY2022-2026 Five Year Plan

Mr. Rice acknowledged the staff for their hard work and team effort in issuing the Staff Report on this year's Five Year Plan. He thanked Deidre for her contribution in reviewing and editing the report and commended Gus and Dan for their dedication and long hours, including working through the July 4th holiday. Mr. Rice also thanked PICA's consultant, Charles Swanson, for his economic expertise and detailed analysis on revenue projections.

Mr. Rice explained PICA staff's recommendation to the Board to approve the FY2022-FY2026 Five Year Financial Plan ("Plan"). He stated that staff, along with its economic consultant, have found the projections in the Plan to be reasonable and appropriate, in accordance with the PICA Act requirements. Mr. Rice added that most tax revenue came in slightly lower than projected amounts but are within range. Mr. Rice added that although projections are reasonable and appropriate, there are some risks to the Plan that are identified in the report, such as, the economic growth, pending labor costs above the \$200 million reserve, the potential resurgence of COVID-19 due to variants, the leveling off of vaccinations, as well as fund balances lower than GFOA best practices.

Discussion ensued regarding the City's Plan and PICA's Staff Report on the Plan. Mr. Rice and Mr. Dubow responded to questions from the Board members about labor costs, revenues, fund balances, the School District's financial challenges, overtime spending, potential for economic downturn, and debt service, among other topics related to the City's finances.

Mr. Rice also stated that pensions are only 51.9% funded and although a risk, the City has made significant strides in resolving this issue resulting in pensions being funded above 50% for the first time since 2008. Mr. Rice noted that the School District's five year plan shows a potential deficit by FY2026. The Plan also includes speculative revenues and obligations such as the sale of buildings and discontinued operations. The Plan also lacks a contribution to the budget stabilization reserve fund.

Mr. Karp inquired as to the potential outcome if union raises exceed the labor reserve. Mr. Rice answered that, if the reserve is exceeded, the City will submit a revised plan to address this matter.

Mr. Kessler asked that since non-residents are continuing to work remotely, how accurate is the projection of a 15% permanent loss in non-resident wage tax. Mr. Rice answered that PICA's consultant believes that the City's projection of 15% is low considering companies are downsizing office space, which is why our wage tax revenue forecasts are a little lower than the City's.

Mr. Kessler inquired as to the 15% decrease in parking revenue. Mr. Rice answered that PICA's consultant's numbers are higher in parking tax due to the saturation of Uber and Lyfts, the reluctance of commuters to take public transportation, and the reopening of sports and concert venues. Mr. Dubow added that the City's projection is conservative.

Mr. Kessler stated that in light of the \$700 million American Rescue Plan Act funding, the depleted \$34.3 million from the reserve fund is troubling. Mr. Dubow answered that federal guidelines prohibits financing rainy day funds. Mr. Dubow added that the City included \$225 million to the pandemic

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recovery and recession reserve. Mr. Dubow also stated that further review from the federal government is anticipated as well as an audit. Ms. Richardson stated that funds should be made available for future surprises.

Mr. Kessler stated that the fund balance is historically low. Mr. Dubow stated that plans in previous years had lower fund balances. Mr. Dubow added that the total reserve funding in FY2025 is 6% and 6.8% in FY2026. The City's internal goal is 6% to 8% in reserve funding.

Mr. Kessler inquired as to reductions in obligations. A discussion ensued regarding these programs. Mr. Dubow stated that the City will be evaluating these programs before committing to ongoing expenditures.

Mr. Kessler stated that personnel and staffing increased by 2,380 employees. Mr. Dubow stated that due to a court order for Prisons, the numbers are inflated and are always lower than the authorized amount. Ms. Waxman added that the City is making a concerted effort to lower Fire Department overtime costs. Mr. Karp asked if having more staff is saving money considering the costs of benefits. Mr. Dubow answered that the additional benefits costs is between 40% to 50%. Mr. Kessler asked that with 924 public safety and 1,400 non-public safety positions, what is a realistic estimate of positions that will be filled. Mr. Kessler also asked where the Fire Department stands now in terms of hiring as opposed to where they would like to be. Ms. Waxman answered that there are vacancy allowances when budgeting. They are recruiting candidates, but the size of the academy has to be taken into consideration. The candidates attend the academy between 6 to 9 months. Ms. Waxman stated that she will provide the size of the classes. Mr. Karp asked if PICA's Fire Study was beneficial. Mr. Dubow answered that at that time, the study was helpful.

Mr. Kessler stated that the capital budget is the highest it's been in two decades and inquired if this spending is wise considering the pandemic. Ms. Waxman answered that it costs more money if assets are left to deteriorate. She added that the capital budget was dialed back. Choices were made to invest additional funds while ensuring that the building infrastructure investment was worth the debt service costs.

Mr. Kessler acknowledged that it is good news that overtime spending is down. However, this is the 11th consecutive year that overtime spending is over budget. Action plans need to be implemented. He added that he understands that the last two years were extremely difficult for budgeting. Mr. Rice stated that PICA staff assessed and analyzed thirteen City departments' overtime plans. However, adhering to the plans is difficult due to the uncertainty caused by the pandemic. Mr. Kessler requested that quarterly overtime budgets for departments be incorporated into the quarterly overtime update. Mr. Henkels stated that he would also like to see a breakdown of employee categories in each department.

Ms. Richardson asked if projections for wage increases of non-represented and exempt employees are available. Mr. Rice answered that non-represented and exempt employees do not receive a contracted negotiated wage increase. He added that he will provide the potential costs of a wage increase associated with this group of employees.

Ms. Richardson made a motion to approve the resolution. Mr. Kessler seconded the motion. The motion passed 5-0 in a voice vote. Mr. Dubow thanked the PICA staff and the Board and committed to continue working together.

Mr. Karp suggested the possibility of recruiting a rainy day fund specialist in the fall and researching other similar cities' rainy day fund initiatives. Mr. Rice stated that the PICA staff will perform research and prepare a report during the month of August.

Resolution 2022-02 – Election of Officers

Mr. Vaughan invited members to make nominations for Board positions.

Mr. Kessler nominated Mr. Vaughan to continue as PICA Board Chair. Ms. Richardson seconded the motion.

Mr. Vaughan nominated Mr. Kessler to be Vice-Chair of the Board. Mr. Henkels seconded the motion.

Mr. Kessler nominated Mr. Karp to be Secretary/Treasurer. Mr. Henkels seconded the motion.

Mr. Henkels nominated Ms. Richardson to be Assistant Secretary/Treasurer. Mr. Vaughan seconded the motion. The motions passed 5-0 in a roll call vote.

Resolution 2022-03 – Meeting Schedule

Mr. Vaughan requested a vote on the meeting schedule for fiscal year 2022. He noted that the September meeting is scheduled for the 14th instead of the 21st as to not conflict with the Jewish holidays. Mr. Henkels made the motion. Ms. Richardson seconded the motion. The motion passed 5-0.

New Business

None

Public Comment

None

Adjournment

Mr. Karp made a motion to adjourn. Mr. Henkels seconded the motion. The motion passed 5-0. The meeting was adjourned at 1:12 p.m.