

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

August 31, 2016

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Wednesday, August 31, 2016 in the PICA Board Room located at 1500 Walnut Street, 16th Floor, and Philadelphia, Pennsylvania.

Attendees

Board: Kevin Vaughan , Gregory S. Rost, Alan Kessler, Joseph M. McColgan, Michael A. 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, Budget Director (*via telephone*).

Call to Order

Mr. Vaughan called the meeting to order at 11 a.m.

Approval of Minutes

Mr. Rost made a motion to approve the minutes from the meeting of June 21, 2016. Mr. McColgan seconded the motion. The motion passed 4-0.

Executive Director's Report

Mr. Rice informed the Board that PICA staff discussed the City's credit rating with Fitch Ratings and stated that the conversation mostly surrounded questions about the impact on reporting of BIRT figures that are based on the City's budgetary, as opposed to GAAP basis. Mr. Rost asked if the rating agency asked about pension funding. Mr. Rice confirmed that Fitch did ask about pensions and its impact on the City's financial position.

Mr. Rice explained that PICA debt service reached 1.7 percent, and that money above the threshold will go to the City.

The field work for PICA's annual audit is complete, and staff is working with its independent auditor to compile the Annual Report.

Mr. Rice reported that the job vacancy for PICA has been posted, and approximately 60 resumes had been submitted up until the present time.

Treasurer's Report

Mr. Rice stated that PICA operating expenditures for FY16 are 10 percent higher than the previous year due to increased rent, salary and benefits expenditures.

Election of Officers

The Board voted to re-elect officers to remain in the same positions for the new fiscal year. Mr. Rost made the motion, Mr. McColgan seconded the motion, and the motion passed 5-0.

Consideration of Five Year Financial Plan

Mr. Rice stated that PICA staff recommended approval of the Plan because: revenue projections are reasonable; fund balances are higher in this Plan than in the past; there is a \$328 million reserve included in this Plan, which has not been the common practice to date; the City has heard the Board's concerns on overtime and has set target cuts; and the City's demonstrated ability to control costs in the event of a recession.

However, Mr. Rice stated that PICA is concerned about several risk factors, including: labor obligations that may exceed the reserve; the potential for an increase in health care costs; concerns surrounding real estate tax revenue and policy; the risk of an economic recession; and the state of City pensions at 45 percent funded coupled with concerns about a growing MMO, despite the City's inclusion of surplus sales tax proceeds and \$5 million extra above the required contribution.

Mr. Rost expressed a concern that the City's second largest expense is pensions – at 15 percent of obligations, second only to the Police Department. He also mentioned that some assumptions are not updated based on the latest guidance, specifically the mortality assumption. Mr. Karp added that any economic downturn during the Plan period would further drive down the funded ratio because investment performance would suffer.

Mr. Kessler inquired whether the City has ever issued a formal comment on PICA's pension report, based on his reading of the Staff Report on the Plan. Mr. Dubow responded that the City has not issued a formal, comprehensive response to all of PICA's recommendations. Mr. Rost requested that in light of this, the PICA Board would like to have a full board meeting devoted to this topic. The remaining members concurred. Mr. Kessler also asked that the City follow-up on previous discussions to facilitate a meeting between the Board and the City Solicitor regarding the Sweetened Beverage Tax.

Mr. McColgan stated that the City cannot invest its way out of the pension problem, and that other measures must be taken. Mr. Rost said the City needs to continue to try to get rid of the DROP

program. Mr. Dubow explained that the City's goal is to make reforms through collective bargaining and to put additional funds in the MMO with surplus sales tax revenue. Mr. McColgan explained this approach would take many years. He asked what the City's total unfunded debt is. After some back and forth, Mr. Dubow agreed that Mr. McColgan's estimate of approximately \$9 billion is probably accurate.

Mr. Karp noted that recent New Jersey labor agreements were more conservative than Philadelphia's recent agreements with the IAFF and DC33. Mr. Dubow responded that the New Jersey contracts did not include pension changes that Philadelphia was able to make during the recent negotiations. He elaborated that the Philadelphia agreements made a trade-off between compensation and pensions. The City hopes that forthcoming labor agreements will follow the precedent set by the recent pension changes for DC33.

Mr. Karp asked whether the contracts made any changes to health care, and Mr. Dubow responded that the City is making two lump sum payments, but no other changes to health care were made. Mr. Karp asked what the cost of health care, per member, per month is. Mr. Dubow responded that it is approximately \$1100. Mr. Kessler stated a concern that labor costs will exceed the reserve, as pointed out by both PICA and the City Controller. Mr. Dubow stated that both entities recommended approval of the Plan, and that every Plan contains financial risk. He assured the Board that the City would be able to take corrective action through budget cuts if labor costs exceed the current reserve.

Mr. Kessler asked whether the City provides PICA with a consolidated document outlining all assumptions and methods of estimation contained in the Five Year Plan, per his reading of the Staff Report. Mr. Dubow explained that PICA and the City have discussed this issue, and the City will provide the requested detail for the Plan in one consolidated submission going forward.

Mr. Kessler asked whether the Plan includes economic growth or downturns into its forecasts. Mr. Dubow said that those kinds of forecasts are not included, but that IHS assures the City projections are reasonable. Ms. Adams explained that the City can catch early signs of an economic downturn through detailed observation of incoming revenues and can take corrective action immediately. She echoed that IHS makes conservative projections in an exercise of caution. Mr. Kessler explained the need for advance contingency plans, rather than spur of the moment cuts. Mr. Karp said that the City needs a larger rainy day fund for this reason. Mr. Dubow agreed that the City wants a 6 percent reserve, but that current levels are below that target. Mr. McColgan noted that wage tax revenue projections are more liberal than in the original Plan version. Mr. Dubow explained that this was done on the advice of Mr. Swanson, PICA's consultant. He stated that 3 percent growth is not an aggressive assumption, but acknowledged that the projections do not factor in a recession, as previously discussed.

Mr. Kessler expressed a concern over financial risk arising from AVI implementation. Mr. Dubow said that there will be a commercial reassessment next year and that the implementation of a CAMA system is the central problem, which will take several years to accomplish. The Board is concerned that the City may miss an opportunity to capture the growth in residential real estate values. Mr. Dubow stated that several hundred appeals remain to be heard, outside of the upcoming assessment.

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Mr. Kessler inquired about the status of the City's DNC costs. Mr. Dubow stated that the DNC host committee will pay back \$5 million, and that the City will not owe \$15 million for the loan it extended for the Convention.

Mr. Rice recommended approval of the Five Year Plan. Mr. Karp made a motion to approve, and Mr. Rost seconded the motion. After a roll call vote, the Plan was approved by a qualified majority of 4-1, with Mr. McColgan dissenting.

New Business

Mr. Vaughan opened discussion on the upcoming year's meeting schedule. Mr. Karp proposed removing several meetings from the schedule. Mr. Vaughan said he would keep all meetings on the schedule, but will evaluate them on a case-by-case basis if circumstances call for cancellations. Mr. Karp made a motion to approve the schedule, and Mr. Kessler seconded the motion. The motion passed 5-0.

Mr. Rice stated that the Center for Retirement Research at Boston College had provided PICA with a proposal for the updated DROP study in June. The study would cost approximately \$55,000. Mr. Rost asked whether any of the original authors would be involved in the updated study, and Mr. Rice responded that one person would. Mr. Rost made a motion to approve the proposal. Mr. McColgan seconded the motion. The motion passed 5-0.

Public Comment

There was no public comment.

Adjournment

Mr. Vaughan asked for a motion to adjourn. Mr. Kessler made the motion. Mr. McColgan seconded the motion. The motion passed 5-0.