PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Minutes of the Meeting of the Board

November 15, 2016

The meeting of the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority ("PICA") was held on Tuesday, November 15, 2016 in the PICA Board Room located at 1500 Walnut Street, 16th Floor, and Philadelphia, Pennsylvania.

Attendees

Board: Kevin Vaughan, Alan Kessler, Joseph M. McColgan, Gregory S. Rost *(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; Fran Bielli, Executive Director, Board of Pensions and Retirement; Chris DiFusco, Board of Pensions and Retirement; Bernard Buckley, Board of Pensions and Retirement

Call to Order

Mr. Vaughan called the meeting to order at 12:10 p.m.

Approval of Minutes

Mr. Kessler made a motion to approve the minutes from the meeting of October 18, 2016. Mr. McColgan seconded the motion. The motion passed 3-0.

Executive Director's Report

Mr. Rice gave an update on PICA staff projects. He stated that PICA staff had released its most recent overtime report, will release the October revenue report in the coming days, and is currently working on the first quarterly report of the fiscal year. The PICA annual audit report is complete and will be distributed later this month. PICA has hired a new employee, Gus Tsakos, who will begin in mid-December and is set to attend PICA's conference prior to that.

Mr. Kessler asked city officials how overtime can be better controlled, noting that budgeted costs were exceeded by 26 percent in the most recent fiscal year. Mr. Dubow explained that seven departments have committed to lowering overtime costs and have presented plans to do so to PICA staff. Mr. Kessler then addressed the need to better anticipate hiring needs and the balance between hiring and overtime, as well as the need to better communicate to the public the reasons for increased overtime spending. City officials agreed with that overall assessment.

Treasurer's Report

Mr. Rice stated that expenditures related to professional services are down because invoices have not yet been received by PICA.

Board of Pensions and Retirement Presentation

The PICA Board requested a meeting with the Board of Pensions during its Five Year Plan review process, due to consistent concerns surrounding the low funded ratio and increasing annual costs. The Pension Board's Chair, Rob Dubow, and Executive Director, Fran Bielli delivered a presentation to the PICA Board during this meeting.

Mr. Dubow opened the presentation. He explained that Phialdelphia's funded ratio is 45 percent, well below the national median of 73 percent. Philadelphia's is one of the worst funded pension funds in the country, and costs are continuing to grow "dramatically." Costs have grown by 50 percent over the past 10 years, marginally offset by an 11.5 percent growth in revenues over the same period. Mr. Dubow attributed $5.1 billion of the $5.9 billion liability to the 1967 retirement plan. This means solving the problem will be difficult because members of that pension plan are largely retirees or vested members. Mr. Rice pointed out that despite the existence of Plan 67, the pension system was 78 percent funded in 2001. Mr. Dubow explained that, in part, hiring went down since then due to the Great Recession, which resulted in an imbalance between retirees and new employees, who typically fund the system. Philadelphia has less active enrollees in its pension system than the national average. Simultaneously, MMO payments increased 69 percent between 2003 and 2015. The status of the pension fund has direct bearing on the city's credit ratings, as Mr. Dubow pointed out. Philadelphia has lower credit ratings compared to other big cities. This in turn significantly increases the cost of borrowing. The city is pursuing reforms in collaboration with City Council and the local unions.

Mr. Bielli presented next on the pension fund's investments. He explained that there have been significant changes on the investment side in the past 6-8 months, including: exiting hedge funds, exiting alternative investments, lowering fees, increasing index fund allocation, among others. By re-examining asset allocation, Philadelphia's pension investments are now "less of an outlier" than previously, as explained by Mr. Bielli.

Mr. Dubow concluded the presentation by claiming that, according to Cheiron, the Pension Board's actuary, the pension fund would be 80 percent funded in 12 years, as long as the Board continues to: lower the assumed return on investments, supplement the MMO with sales tax revenue, and implement the stacked hybrid pension plan for all new hires. Mr. McColgan clarified that this would only occur if all of the actuary's assumptions are realized, and Mr. Dubow agreed that actual experience usually deviates from projections.

Mr. McColgan asked how much money was paid out in DROP last fiscal year. Mr. Bielli answered $808 million. He elaborated that DROP costs increase each year. Mr. McColgan asked if overtime would be excluded from the calculation of benefits in the future. Mr. Bielli answered that overtime is not included in the calculation for uniformed employees, and that such a stipulation would have to be negotiated with DC33 and DC47. Mr. McColgan asked if the city would do anything differently in its approach, if all of its assumptions played out. Mr. Dubow responded with less risk in investment strategy. Mr. McColgan expressed his deep concern that solutions seem inadequate in the face of the challenges posed by high costs from DROP, increases in lifespan, a limited ability to tax residents further, and an unlikelihood of investing out of the problem. Mr. Dubow remained optimistic, despite these concerns, that the funded ratio would reach 80 percent in 12 years.

New Business

Mr. McColgan asked city officials how much is currently being spent in reliance on the successful implementation of the sweetened beverage tax. Mr. Dubow responded that currently $17.5 million is committed to associated programs for Pre-K ($13 million), Community Schools ($4 million), and Rebuild ($5 million grant). Revenues will begin to be collected beginning February 20, 2017. Mr. McColgan asked whether the city would be prepared to repay collected revenues from the tax if it is invalidated in court. The city explained that it is not working under the assumption that the court would order a reimbursement if it invalidates the tax.

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 4-0.