COMMITTEE of the WHOLE

CITY COUNCIL

MINUTES
October 20, 2015
Budget Review
Following the Gen. Fund Public Hearing

COUNCIL MEMBERS PRESENT:
J. Waltman, S. Marmarou, C. Daubert M. Goodman-Hinnershitz, J. Slifko

OTHERS PRESENT:
L. Kelleher, C. Younger, D. Cituk, R. Johnson, C. Snyder, V. Spencer, D. Pottiger, W. Stoudt, C. Zale, H. Tangredi

Note: The symbol "»" shows follow up/parking lot items.

The meeting was called to order by Ms. Goodman-Hinnershitz.

I. Follow up Items

Ms. Snyder stated that the request for a special meeting was sent to the Police Pension Board.

Ms. Kelleher distributed Chapter 3 of the State Municipal Pension Act that shows the City's obligation to pay the amount approved by the pension board. Failure to make the required payment will result in penalties. She noted that the City was penalized with a deduction from the State's pension contribution in the past for misreporting the number of active employees accurately.

Ms. Goodman-Hinnershitz inquired if the pension board meetings include a public comment period. Mr. Cituk replied that the pension board meetings are public meetings with a public comment period. However, he noted that Council can provide input but they cannot vote at the meetings.

Ms. Goodman-Hinnershitz suggested that Council attend the pension board meetings and provide comment that can include a request to use the smoothed actuarial method recommended by the actuary, rather than the tabular method.

Ms. Waltman expressed the belief that the pension boards have a fiduciary responsibility to protect the funds and to avoid creating distress for the program. He questioned why the Fire pension board voted to retain the tabular actuarial approach with the smoothed approach was recommended by the actuary.

Chief Stoudt, a member of the Fire pension board, volunteered a response. He expressed the belief that the Fire pension board considered all material and facts and made a responsible decision. He stated that the board wants to avoid a combined investment fund due to the poor management of DROP funds in the past.

Ms. Snyder stated that she attended the Fire and O & E pension board meetings when the actuarial reports were reviewed and discussed. She stated that the boards listened and considered her input on the impacts of both actuarial approaches and she expressed the belief that both boards made thoughtful and prudent decisions.

II. PILOT Skyline View/Episcopal House

Ms. Kelleher introduced Attorney William Kerr, who represents HDC Midlantic of Lancadter.

Mr. Kerr stated that HDC took over as the general partner at this high rise. He stated that the property is dated and requires renovation. The renovation project is made possible due to the tax credit program, which provides funding through a for profit partner who invests in the project. The insertion of a for profit investment partner will make the facility a taxable property during the period of time the tax credit program is in place (approximately 10 years).

Mr. Kerr stated that the tax credit program is offered through PHFA (PA Housing and Finance Agency) and during the program the PHFA places strict requirements on rent increases and the project budget to keep expenses down. He stated that the property is currently tax exempt and realizing that the temporary elimination of the exemption would require HDC to pay property tax on the building, HDC decided to offer a PILOT of $50K which would be split based on the milage rates of the City, County and School District. He stated that the PILOT will include an escalator for the term of the tax credit program if a profit is made on the project. The escalator is based on a 5% gross shelter value rate with an annual 2% increase in rental rates.

Ms. Goodman-Hinnershitz noted that PILOTs are usually made at tax exempt properties, not taxable properties. She questioned is using a PILOT is the proper arrangement.

Mr. Kerr explained that with the tax credit process for an $8M project requires the developer to put up $7.2M and a tax credit of $80K is paid back to the developer over a 10 year period. Banks that finance tax credit projects do so to use their required Federal Community Reinvestment funds.

During the tax credit period, HDC becomes a limited partner with a 1% ownership interest. At the end of the 10 year period the private developer has the option to end the limited partnership. If the limited partnership ends HDC will be able to return to a nonprofit exempt status for the property.

Ms. Snyder stated that the City currently receives no tax revenue from this property.

In response to a question from Mr. Waltman on the anticipated value of the project at completion, Mr. Kerr distributed the project budget. He explained that he discussed the project and the anticipated value with Mr. Stock, Solicitor to the County Assessment Board, who predicted that the assessed rate would be based on 140 units valued at $18K per unit with a $25K fair market value. Mr. Cituk did the calculation and announced that the anticipated City tax would be $44,576 annually.

In response to a question Mr. Kerr stated that types of properties operated by HDC range from workforce housing and low income housing to over 55. He stated that this particular project is 55+ housing. He stated that HDC is offering a $50K PILOT payment to be shared by the City, School District and County.

Ms. Goodman-Hinnershitz noted that the School District and County would be minimally impacted and affected by a 55+ housing project; however, there would be an increased demand for City Police, Fire and EMS services.

In response to a question, Mr. Kerr stated that the City needs to make a decision by the end of 2015. Mr. Waltman asked Ms. Snyder and Mr. Kerr to work out the arrangements and make a final presentation to Council.

Ms. Goodman-Hinnershitz noted that similar deals may reoccur as HDC owns several properties within Reading.

Ms. Kelleher inquired if in negotiations, the City could require the PILOT payment to continue after the tax credit period ends. Mr. Kerr stated that those terms could be negotiated.

III. Pension Expense

Ms. Snyder distributed worksheets on the three (3) pension programs – police, fire and officers and employees (O & E). She explained that the top sheet shows the pension funding/payments with both a tabular methodology and a smoothed methodology to determine if the plans are under or over funded. She explained that the term "AVA" stands for Actuarial Value Asset.

Ms. Snyder stated that last year the actuary recommended that the three (3) pension boards abandon the tabular method and use the smoothed method. The smoothed approach is based on the market value and eliminates wild swings in the market.

Ms. Snyder stated that that the O & E pension board adopted the smoothed approach; however, the Police pension board has not adopted the new approach. She stated that recently the Fire pension board voted to remain with the tabular approach, which reduced the amount of the City's MMO (Municipal Minimum Obligation) payment to $2.8M. She noted that the Police will not vote on this issue until November.

» Ms. Snyder and Mr. Pottiger were asked to attempt to convene a special Police pension board meeting so the vote can occur in October.

Ms. Snyder stated that the use of the smoothed approach will more accurately show that the pensions are underfunded. She explained that under Act 205 pension funds that fall below 90% funded are considered distressed. The funds considered moderately distressed are those falling funded at between 50-69% and those considered severely distressed are less than 50% funded. Minimally distressed plans are funded at between 70 and 90%. She stated that the tabular approach improperly shows that the pension funds are in better funding condition than they actually are. The smoothed approach provides a better reflection of reality. The City's three (3) pension funds all fall within the 70-79% range. Which is the moderately distressed level.

Mr. Waltman questioned the formula used with the tabular approach. Mr. Cituk explained that the formula is a complicated hybrid formula that uses a 20% plus/minus assumptions.

Mr. Waltman inquired why the three individual pension boards can dictate the amount of the City's MMO without any consideration from the governing body. Ms. Snyder and Mr. Cituk explained the makeup of the pension boards: an active employee, a retired employee, the mayor, the auditor and the director of Administrative Services.

Mr. Waltman expressed the belief that the administration and governing body should decide on the amount of the annual contribution after considering the recommendation of the three (3) individual pension boards. Ms. Snyder explained that the payment is called Minimal Municipal Obligation which means that the City can consider making the recommended payment or a larger amount. She stressed the word "obligation".

» Mr. Waltman requested that the administration ask the actuary if the City can make a payment that falls below the amount approved by the pension boards. He stated that this is another flawed process created by the State. He noted that the State also limits the allocation of funds into various assets and markets. He noted the need for radical pension reform. He described the work of Auditor General DePasquale to drive pension reform.

Mr. Cituk and Mr. Waltman discussed the City's obligation versus the impacts.

Mr. Marmarou described the 1960s when the police pension was severely underfunded and the police, through litigation, got the matter resolved.

Ms. Reed noted that the City is being held hostage with its obligation to cover pension costs when the City's infrastructure and services are crumbling.

Ms. Goodman-Hinnershitz stated that this problem is one that is being experienced by many municipalities across the state.

Ms. Snyder explained that if a municipality's funding falls below the 70% mark, the municipality must create one omnibus pension board that intermingles those serving on the three (3) individual pension boards. She stated that the funds are merged for investment purposes only and administrative costs are greatly reduced. She stated that pension boards usually do not favor this omnibus approach as they believe they lose autonomy; however, the three (3) individual boards still exist.

Mr. Waltman expressed the belief that the City should choose which MMO payment to make - either the tabular or smoothed. Ms. Snyder stated that if the City undercuts that payment the City's contribution from the State will be reduced. She added that the City may also be penalized for intentionally underfunding the pensions.

Ms. Snyder explained that if the City avoids becoming moderately distressed this year, the City will definitely qualify in two (2) years. She stated that Act 205 on distressed pensions allows municipalities in moderate distress to charge a special property tax or earned income tax. The earned income tax can be charged to both residents and commuters. She stated that the tax also extends after the distress is resolved. She noted that the earned income tax must be equally applied to both the residents and the commuters.

However, Mr. Mann stated that Reading cannot take the approach used in Easton, where officials there eliminated the resident EIT and re-started it so it applies equally to both residents and commuters.

» Mr. Waltman requested information on the three (3) pension funds' performance for years 1, 3, 5 and 10.

Mr. Mann noted that even if State laws change the City's liability will still climb at least $1.3M per year. There is no cure for this problem.

The meeting concluded at approximately 6:50 pm.

Respectfully Submitted by
Linda A. Kelleher, CMC, City Clerk