



# ***COMMITTEE of the WHOLE***

## ***CITY COUNCIL***

### **MINUTES**

### **October 19, 2015**

### **Budget Review**

### **Following the Capital & Zoning Public Hearings**

#### **COUNCIL MEMBERS PRESENT:**

J. Waltman, S. Marmarou, D. Sterner, D. Reed, 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, G. Mann

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

The meeting was called to order by Ms. Goodman-Hinnershitz. Everyone thanked Mr. Johnson for purchasing pizza for the meeting.

#### **I. African American Museum Capital Project**

Ms. Kelleher stated that she did not hear back from Mrs. Gilyard about the request to attend the meeting. She stated that she did speak with Rep. Caltagirone who stated that the RCAP grant is still in place with a matching fund requirement. The RCAP grant was originally earmarked by Gov. Rendell, then Corbett and Wolfe. He stated that the amount of the grant was not reduced.

Ms. Kelleher stated that she spoke with Mr. Olsen, who was assisting with the project and he conveyed that the size of the project was reduced to lower the overall cost of the project by about half. He expressed the belief that CPAAM has not yet completed the required fundraising to raise the matching funds. Ms. Kelleher explained that the City's contribution of \$500K can be considered part of the match and the remaining sum can come from federal or private funds.

Ms. Kelleher stated that the project has been funded since 2007 and the City's \$500K can only be used for demolition or site preparation. The funding cannot be used for acquisition.

Mr. Zale explained that the \$500K is cash held within a separate account. He stated that the money to fund the 2016 projects is projected income from the EIT. He stated that the \$500K cash can be moved into the capital projects account or into the General Fund budget.

» Mr. Waltman stated that the project will be moved to the pending projects area of the CIP and Council will decide in two (2) weeks where the \$500K allocation will be made.

Ms. Reed expressed the belief that the funding should remain in the capital area as there are so many critical needs that have been overlooked for so many years.

## **II. Prior Meeting Follow Up**

Mr. Zale displayed the parking lot items.

Ms. Kelleher reviewed her notes from the October 14<sup>th</sup> meeting. The follow up items are as follows:

- » Review unfilled PMI positions and eliminate those that are no longer needed
- » Review Act 511 to determine if Per Capita can be charged to college students
- » Repeal Per Capita Tax unless the administration can offer an approach with improved billing and collection
- » Obtain EIT worksheet from Mr. Mann – attached to the agenda
- » Restore the eliminated PT Parks worker at a cost of \$18K

## **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*