



CITY OF PHILADELPHIA

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September 9, 2009

To the Board Members
Pennsylvania Intergovernmental Cooperation Authority
1500 Walnut Street – Suite 1600
Philadelphia, PA 19102

All Board Members:

As you know, on August 20, 2009 the Mayor submitted a revised forecasted General Fund Statement of Operations for fiscal years ending June 30, 2010 to 2014 (Plan C) to you for your consideration and approval. As part of the original approval process PICA requested the City Controller's Office to perform an audit of the Plan submitted June 22, 2009. Our audit was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA).

It is the intent of the PICA Statute that the city must present a plan that is complete and in accordance with standards of the AICPA. Unlike when the city submitted its June 22, 2009 forecasted statement, the city submitted its revised Plan C statements without a discussion of the significant underlying assumptions, a critical component of the forecast, used by city management to prepare the revised forecasted amounts. Attestation standards established by the AICPA do not permit an examination on a forecasted statement that omits this critical information.

However, although this precludes the issuance of an opinion on the revised Five Year Plan Operating Statement, I have identified the following matters that PICA should consider in assessing the plan.

Items of Concern included in Plan C:

Criminal Justice

- 1) Funding for the First Judicial District is eliminated beginning in September 2009, \$74 million in the Plan for fiscal year 2010 and continues to be unfunded in fiscal years 2011 through 2014 -- \$99.1 million per year.**

Balancing the budget by reliance on the elimination of the funding for the First Judicial District cannot be done.

Although the Pennsylvania Supreme Court in two decisions, County of Allegheny v. Commonwealth, 517 Pa. 65,534 A.2d 760 (1987) and Pennsylvania State Ass'n of County Comm'rs v. Commonwealth, 545 Pa.324, 681 A2d 699 (1995) directed the state to pay court costs in all counties, this decision has not been enforced for twenty-two years. There are significant issues of separation of powers involved in implementing this decision, and it is not clear that the Supreme Court will ever issue an order compelling the state legislature to make the appropriations.

On December 12, 2008 the County Commissioners Association of Pennsylvania filed a motion to enforce the mandate of the Court that the state pay for all costs of the courts of common pleas. The City of Philadelphia did not join that motion and therefore is not in a position to have any control over this litigation.

The elimination of the Philadelphia Court system cannot be done. Access to the Courts is paramount to fundamental due process under the United States Constitution. People have a right of access to the courts. No one would suggest that they will be able to stop Police making arrests. However, if there is no court system the Police simply cannot arrest people and hold them without access to the courts.

In light of all these facts, there is no reason to believe that Philadelphia would be allowed to forgo its funding of the First Judicial District. Therefore, there is no basis to rely on this savings totaling \$470 million--\$74 million in FY2010, and \$99 million in each subsequent year-- over the life of the Plan.

Public Safety

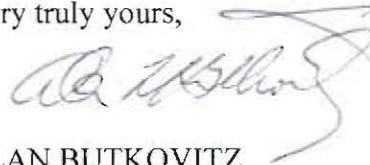
Plan C relies on a substantial dismantling of the entire criminal justice system in Philadelphia. The potential layoff of an estimated 1,000 police personnel (at a savings of \$31 million in FY2010), and a \$21.7 million reduction in the District Attorney's Office, as well as a \$17 million reduction in the Defender's Association (a 75% reduction in funding for both agencies) -- along with the elimination of funding for the Court system not only devastates the core mission of city government but places in jeopardy the very safety of our residents and visitors to our city.

City government has the power to implement these reductions. However in light of the crime emergency, such reductions if implemented would threaten the viability of the city.

PICA has the responsibility to review this plan and measure the cuts against the impact on the City of Philadelphia over the life of the plan and into the future. If these cuts go through, it is very likely that future revenues that the plan anticipates, will be jeopardized as the city will be forced to confront a whole new host of problems – including the potential exodus of a substantial portion of its existing residential and commercial tax base.

Along with the consequences I have outlined above, I am also enclosing other items and inconsistencies I have identified in Plan C for your consideration in assessing the Plan.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Alan Butkovitz", written in a cursive style.

ALAN BUTKOVITZ

/enclosure

APPENDIX
**Controller Letter to Pennsylvania Intergovernmental
Cooperation Authority**
City's Plan C

- 1) The elimination of 279 positions from the Fire Department of which 176 are sworn personnel.
- 2) Two City Health Centers will close eliminating 112 positions.
- 3) The Free Library and the Recreation Departments will cease all operations eliminating over 1000 positions.
- 4) The failure to reduce Fringe Benefits, other than Healthcare, to reflect the layoff of approximately 3000 employees. In fact, FICA/Medicare contributions continue to increase over the life of the Plan. Payroll costs decrease by over \$250 million in fiscal year 2010 yet FICA/Medicare costs increase by over \$18,000. In addition Group Life Insurance, Group Legal, Workers Compensation, and Unemployment Compensation costs do not reflect any savings over the life of the Plan even with the reduced workforce.
- 5) The purchase of only police vehicles in FY 2010 even though we are reducing our sworn personnel by over 700. A review of the Plan revealed no allocation for vehicle purchases other than for police vehicles is included in the Plan
- 6) The funding of most Departments in fiscal years 2012 through 2014 at levels that is equal to what they were in the originally adopted Plan.
- 7) Commerce Department funding is reduced by approximately \$1.7 million in fiscal year 2010, eliminated in fiscal year 2011 and fully funded in fiscal years 2012 through 2014.
- 8) Like the funding for the other Departments, the Plan cuts Purchased Services obligations (\$1.188 billion in fiscal year 2009) by over \$100 million in fiscal year 2010 to \$1.079 billion but then increases over the life of the Plan to a level almost equal to that of fiscal year 2009 by fiscal year 2014 to \$1.179 billion.