



CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller

July 19, 2013

Mr. Stephen K. Camp-Landis
Director of Research and Analysis
Pennsylvania Intergovernmental Cooperation Authority
1500 Walnut Street, Suite 1600
Philadelphia, PA 19102

Dear Mr. Camp-Landis:

In accordance with Section 12720.209(f)(1) of the Pennsylvania Intergovernmental Cooperation Authority Act, my office conducted an examination of the Forecasted General Fund Statements of Operations for each of the fiscal years ending June 30, 2014 through June 30, 2018 (the forecasted statements). The forecasted statements were prepared by the Office of the Director of Finance and submitted to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on July 3, 2013.

My staff conducted its examination of the forecasted statements in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we evaluate the presentation of the statements and whether the assumptions used by the City of Philadelphia's management at the time the plan was submitted provide a reasonable basis for management's forecasted statements. Attached is the independent accountant's report signed by my deputy who is a Certified Public Accountant.

The independent accountant's report indicates that the assumptions used in the plan were reasonable. However, the forecasted statements include several particularly sensitive assumptions which PICA should consider when assessing the plan. These particularly sensitive assumptions include:

- The city has assumed it will realize \$536.6 million of property tax revenue for fiscal year 2014 and \$2.26 billion over the remaining years of the forecast. However, these estimated revenues may not be fully realized, because it is difficult to estimate the extent of tax appeals that may arise as a result of the city's newly implemented Actual Value Initiative and because of the anticipated success of more aggressive tax collection efforts implemented by the city with respect to additional current and prior year property tax receivables.

- The forecasted statements do not include more than \$90 million in fringe benefit costs pertaining to the July 2, 2012 four year interest arbitration award with the International Association of Fire Fighters that covers fiscal years 2010 through 2013. The city has appealed the award and expects a favorable outcome.
- The forecasted statements do not include any additional potential costs above \$36 million, which the city offered to District Council 33 on January 16, 2013 for a contract to run from July 1, 2009 through June 30, 2014. The city has filed an action in the Court of Common Pleas asking for a declaration that it has the right to implement its final offer and expects to prevail.
- The forecasted statements do not include any additional amounts above the city's estimated \$21 million in cost for the most recent offer made to District Council 47 as negotiations still continue.

In addition, I believe there are still significant challenges regarding finances of the beleaguered School District. Anticipated funding from the Commonwealth of Pennsylvania has fallen short of the amount requested and negotiations with School District labor unions are still ongoing. Moreover, expected funding from the city has also fallen short and is contingent upon the Commonwealth's approval of an increase in the cigarette tax. PICA should consider these challenges when reviewing the plan as it could place additional burden on the City of Philadelphia's finances.

I urge PICA to be cautious when using the forecast because of the unpredictability of the assumptions and uncertainties described above, because as with any forecast, events and circumstances frequently do not occur as expected.

In closing, I would like to express our thanks to PICA, and the management and staff of the city's Office of Budget and Program Evaluation within the Office of the Director of Finance for their courtesy and cooperation in the conduct of our examination.

Respectfully submitted,



ALAN BUTKOVITZ
City Controller

cc: Chair and Board Members of the
Pennsylvania Intergovernmental Cooperation Authority
Michael A. Nutter, Mayor
Rob Dubow, Director of Finance
Rebecca Rhynhart, Budget Director