

CITY OF PHILADELPHIA

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MICHAEL A. NUTTER
Mayor

September 15, 2011

Alan Butkovitz
City Controller
12th Floor, Municipal Services Building
Philadelphia, Pa. 19102

Dear Controller  Butkovitz:

Thank you for your letter concerning the recent action by the State Equalization Board (STEB) and its impact on the FY12 budget and the FY12-FY16 Five Year Plan. As you point out, STEB has set the common level ratio at 18.1% after years of it being set at 32%.

We are in discussions with STEB and believe the common level ratio will be modified upwards. We should also know the number of property tax appeals within a few weeks. Any impact on the Five Year Plan should be nowhere near the \$200 million magnitude mentioned in your letter. We will of course inform you as soon as we learn what STEB's decision will be.

Despite our optimism regarding our current discussions with STEB, we do, however, have concerns about the current state of the economy and its effect on the City's finances.

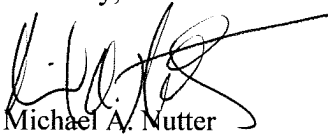
On the national level, economic data is showing a slowdown in the recovery. Economists are adjusting growth expectations downward and some are pointing to the possibility of a double dip recession. Philadelphia does not appear to be immune from the slowdown that is occurring in the national economy, as evidenced by the city's unemployment rate, which has increased from 10.2% in May to 10.5% in June 2011 and 10.8% in July 2011. And, after a year of revenue growth consistent with a modest economic recovery, economically sensitive City tax revenues, including wage and sales taxes, are showing weakness in the last few months consistent with national trends of the recovery stalling. Wage tax revenues were growing at a modest 3% rate over the last year; however during July and August wage tax growth has slowed, coming in more than \$5 million below monthly budgeted figures. In July through September 2011, sales tax revenues are below the same months last year. If these trends continue throughout the year, the fiscal 2012 budget could be over \$60 million short, leading to a negative fund balance and to substantial gaps in the Five Year Plan if no action is taken.

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In addition to shrinking the City's tax revenues, the economic slowdown has created turbulence in the financial markets, which has meant that the pension fund's earnings have shrunk. The City may have to increase its contributions to the pension fund to offset those losses, potentially adding tens of millions of dollars to the City's general fund's costs over the Five Year Plan period and exacerbating the City's financial challenges.

It will take several more months to understand fully the extent of the slowdown in the local economy and resulting impact on tax revenues and pension costs. However, the trends do raise concerns, and we wanted to inform you that we are paying close attention to our revenue collections and are beginning to consider possible operational remedies should current trends continue.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Nutter", with a long horizontal flourish extending to the right.

Michael A. Nutter
Mayor

CC:

Members of City Council
Suzanne Biemiller, Chief of Staff
Rob Dubow, Finance Director
Rebecca Rhyhart, Budget Director
Uri Z. Monson, Executive Director PICA