

**Pennsylvania Intergovernmental
Cooperation Authority**

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October 16, 2006

Anna C. Verna, President City Council
Jannie Blackwell, Chair City Council Finance Committee
Philadelphia City Council
City Hall
Philadelphia, PA 19107

Dear Council President Verna and Councilwoman Blackwell:

I am writing to express PICA's opposition to the Administration's proposed \$150 million borrowing through a bond issue, which is the subject of Tuesday's finance committee hearing. The Administration proposes to use the borrowing for arts and culture, commercial corridors, and administrative costs, the bulk of which is to be spent within the next year. PICA believes in the importance of investing in arts and culture and commercial corridors. The proposed borrowing, however, would exacerbate the City's long-term obligations challenge and make it more difficult for the City to invest in its infrastructure.

For the past year, PICA has consistently emphasized that the City must address a series of long-term fiscal challenges that threaten to undermine its financial health. Two of the key challenges are slowing the rapid growth in long-term obligations and reversing the trend of substantially under investing in the City's core infrastructure.

In order to explain why PICA believes that it would not be fiscally prudent to commit to this borrowing, it is important to explain why the City's growing long-term obligations and underinvestment in infrastructure are such big issues.

The City's increase in long-term obligations has been substantial. The FY07 budget for the Sinking Fund is just under \$192 million. In FY01, the Sinking Fund's expenditures were just under \$131 million -- \$61 million lower. That means the City will have to put \$61 million more into paying debt service in FY07 than it did just six years ago. The problem is expected to intensify further as the projected Sinking Fund expenditures for FY11 are nearly \$220 million, which means that by FY11 the City will be paying almost \$90 million more in debt service than it did in FY01. To put that \$90 million increase in context, it is more than the combined amount the City will be spending in FY11 on the Free Library, the Recreation Department and the Fairmount Park Commission.

Unfortunately, the ballooning debt service costs come at the same time as the City is providing less than half the amount that the City Planning Commission says is necessary to appropriately maintain City facilities including police stations, fire stations, health

centers and city streets. The City Planning Commission recommended that the City invest \$185 million annually in its facilities. The most the FY07-FY12 Capital Program invests in infrastructure in any single year is just under \$71 million.

The dramatic underinvestment -- \$110 million in the year with the heaviest investment -- makes it inevitable that City facilities will continue to deteriorate and will need more, not less, investment in the future.

The proposed \$150 million borrowing would not meaningfully address that dramatic underinvestment, but it would exacerbate the City's debt problem. The FY07 budget assumes that the City will begin paying debt service on the new borrowing during this fiscal year. The FY07-FY11 Plan assumes that by next fiscal year, those payments will reach \$12.2 million and remain at that level until FY31. In other words, for the next 25 years there will be \$12.2 million less each year to pay for things like police officers, street repair, investment in infrastructure or other essential services.

In its papers on the City's long-term obligations and infrastructure, PICA urged that the City take a number of steps including establishing a debt policy and utilizing pay-as-you-go financing. Until the City has established that debt policy and determined how it will fund its core infrastructure, it would not be appropriate to proceed with this proposed borrowing. Any increased investments in arts and culture should be made through the operating budget and should be determined as part of the FY08 budget process.

Sincerely,

Rob Dubow
Executive Director

C: The PICA Board
Members of City Council
Mayor John Street
Controller Alan Butkovitz
Charles McPherson, Chief Financial Officer, City Council
Joyce Wilkerson, Chief of Staff