



Committee of Seventy

Clean and effective government. Fair elections. Informed citizens.

January 8, 2008

The Honorable Michael A. Nutter
Mayor, City of Philadelphia
Room 215, City Hall
Philadelphia, PA 19107

Dear Mayor Nutter:

The Committee of Seventy urges you to immediately commission an independent top-to-bottom policy review and financial audit of the City's Deferred Retirement Option Plan to determine whether DROP is accomplishing goals that remain relevant and whether it should continue to be extended indefinitely. Pending the outcome of this review, Seventy urges you to suspend all new DROP enrollments.

Seventy's greatest concern is DROP's impact on the City's ballooning unfunded pension crisis. However, to be frank, this letter is prompted by a *Philadelphia Inquirer* story of a ruling by former Mayor Street's Law Department that sanctioned the recent one day retirement of two elected officials so that they could receive substantial DROP pension payments.

First, there is the matter of DROP's impact on the pension fund.

More than four years ago, in voting to continue DROP indefinitely, the Philadelphia Board of Pensions and Retirement found that DROP had resulted in "an immaterial increase in the City's normal cost during [its initial four year] test period." The increased cost may no longer be "immaterial."

According to the Pennsylvania Intergovernmental Cooperation Authority, pension costs account for 11.4% of the City's projected \$3.8 billion spending in FY08. From FY01 to FY08, these costs more than doubled and are expected to reach \$437 million this year. Only 53.3% of the pension liability is funded. A 2005 PICA Report cites the significant number of City employees taking advantage of DROP as a possible factor in the City's pension fund problems.

The evaluation and audit of DROP must be independent because of the obvious conflict-of-interest if the internal review of the program were done by current City employees. With all due respect to the Finance Director, the City Controller and their staffs, the fact is that all of these people have a vested interest in DROP's continuation. The Finance Director and City Controller also sit on the Pensions Board.



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However, what has drawn significant public attention is the Law Department's opinion that permitted City Councilwoman Joan Krajewski and City Commissioner Marge Tartaglione to run for reelection in November 2007, retire for 24 hours, receive their lump sum payments and then return to work. When an elected official retires, that person's office becomes vacant and can only be permanently filled by a subsequent election. Councilwoman Krajewski and City Commissioner Tartaglione were reelected by the voters to offices from which they had not yet retired.

Seventy urges you to assign your new City Solicitor to immediately review the Law Department's opinion. It is not surprising that three other members of Council have now enrolled in DROP, two of whom have not ruled out seeking reelection in 2011, and that other Council members are considering this option.

The need for an opinion by the Law Department would be obviated if, as you proposed when you were in City Council and as the *Philadelphia Inquirer* endorsed today, you were to initiate legislation in City Council to exclude elected officials from participating in DROP. Unlike non-elected City employees whose enrollment in DROP can help with succession planning, it is the voters – and not the employee – who decide when to “retire” their elected representatives.

Seventy urges you to promptly act upon the recommendations contained in this letter. We believe they are important not only to the City's fiscal health, but also to your commitment to restoring the voters' trust in the integrity of city government and in their elected officials.

The Committee of Seventy will be pleased to assist you in any way.

Sincerely,

Zachary Stalberg
President and CEO