

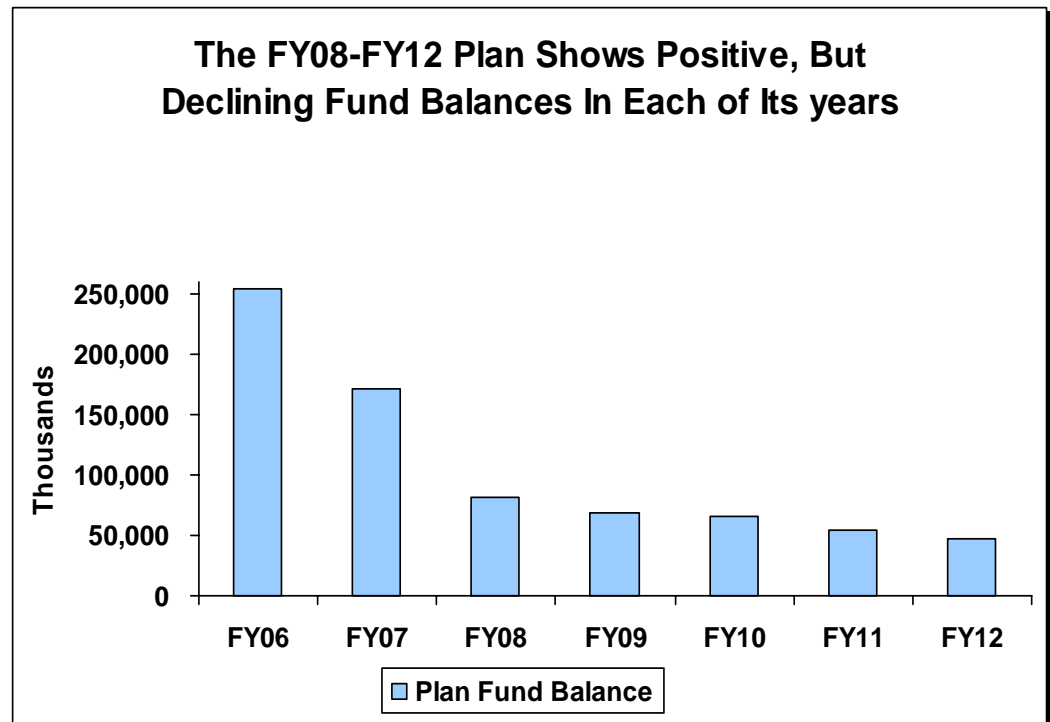
# FY08-FY12 Five-Year Plan: At First Glance

March 6, 2007

# FY08-FY12 Five-Year Plan: At First Glance

## What Does the Plan Do?

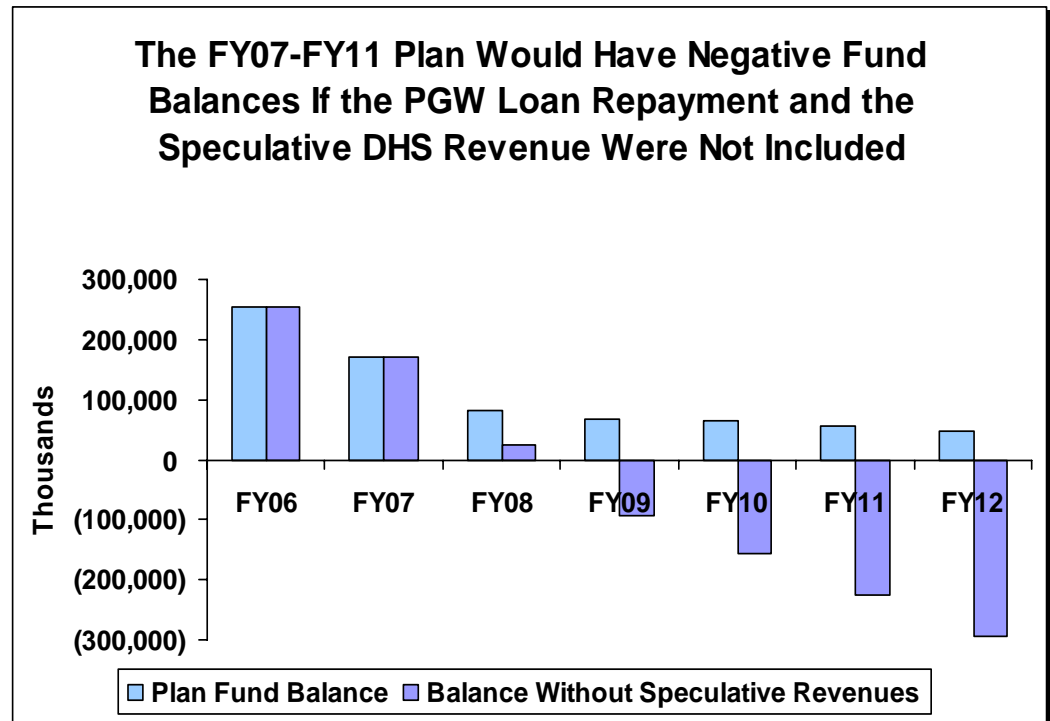
- It shows positive fund balances in each year, but quickly spends down the \$254 million FY06 fund balance.
- It increases funding in a number of areas including for prevention services in the Department of Human Services, NTI and homeless services.
- It maintains and extends the business and wage tax reductions included in the FY07-FY11 Plan.



# FY08-FY12 Five-Year Plan: At First Glance

## Is the Plan Balanced Using Reasonable Assumptions?

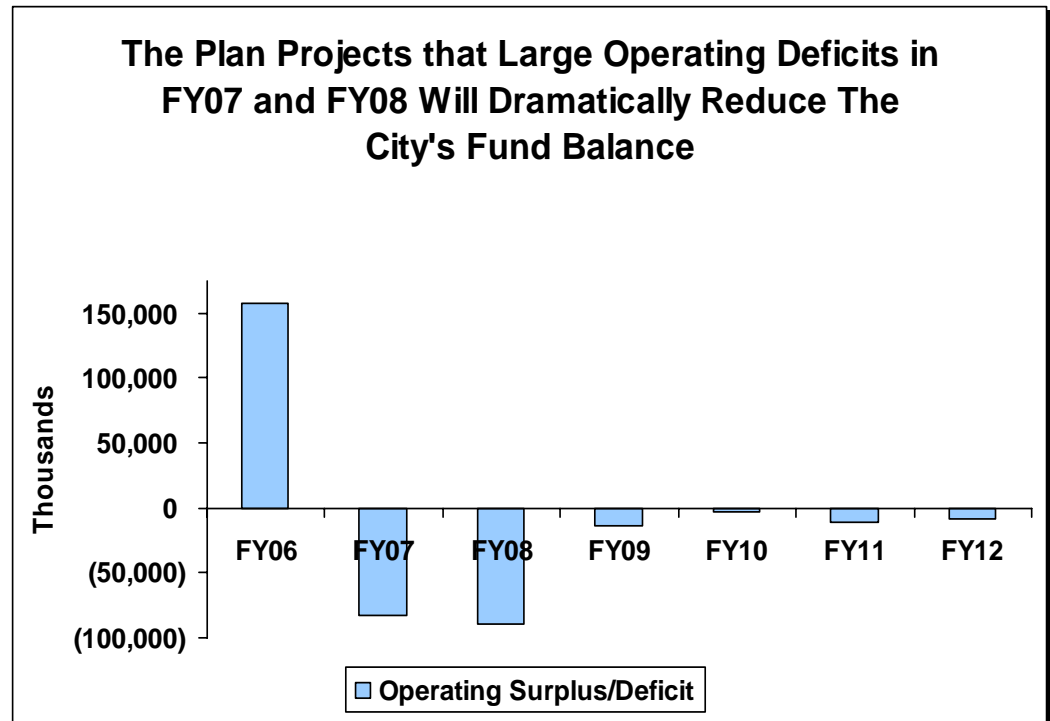
- The Plan includes a number of risks and just two of those – the speculative revenue included for the Department of Human Services and the \$45 million loan repayment from PGW could create deficits each year beginning in FY09.
- PICA Staff does not believe a Plan that includes these two revenue sources is balanced using reasonable assumptions.



# FY08-FY12 Five-Year Plan: At First Glance

## What Are the Plan's Overall Trends?

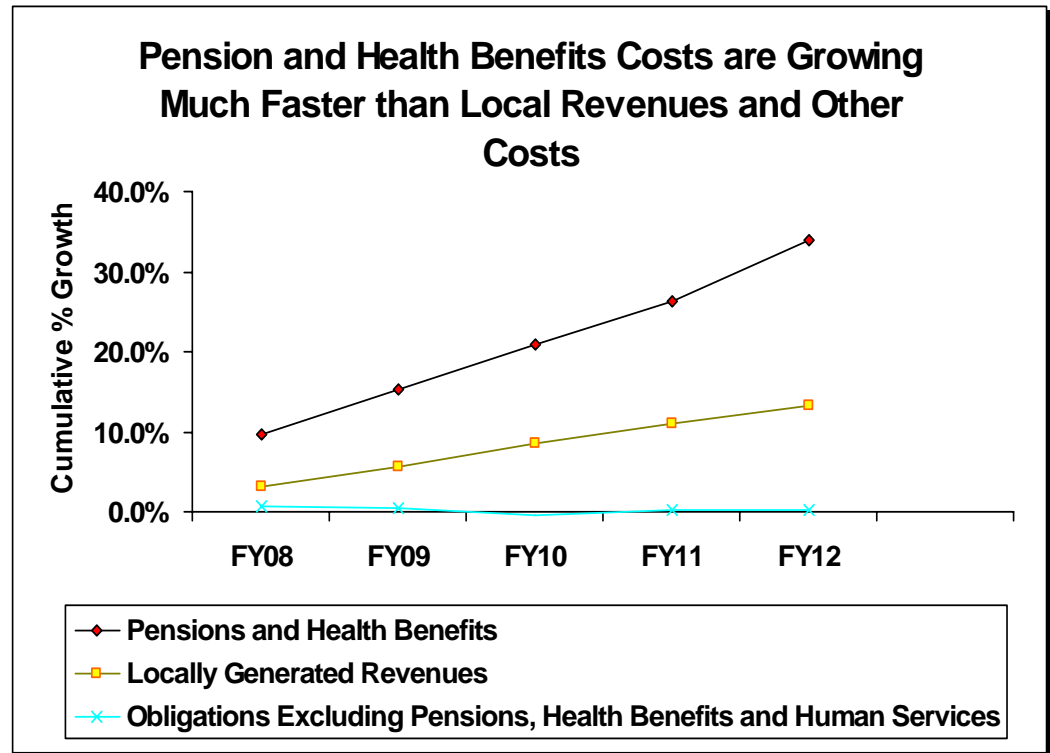
- The Plan projects that the City will spend more than it will take in each year.
- Because of the imbalance between revenues and expenditures, the Plan is projected to have large operating deficits in FY07 and FY08.
- FY09 through FY12 only show positive fund balances because they include speculative items.



# FY08-FY12 Five-Year Plan: At First Glance

## Why Is It So Hard to Balance the Plan?

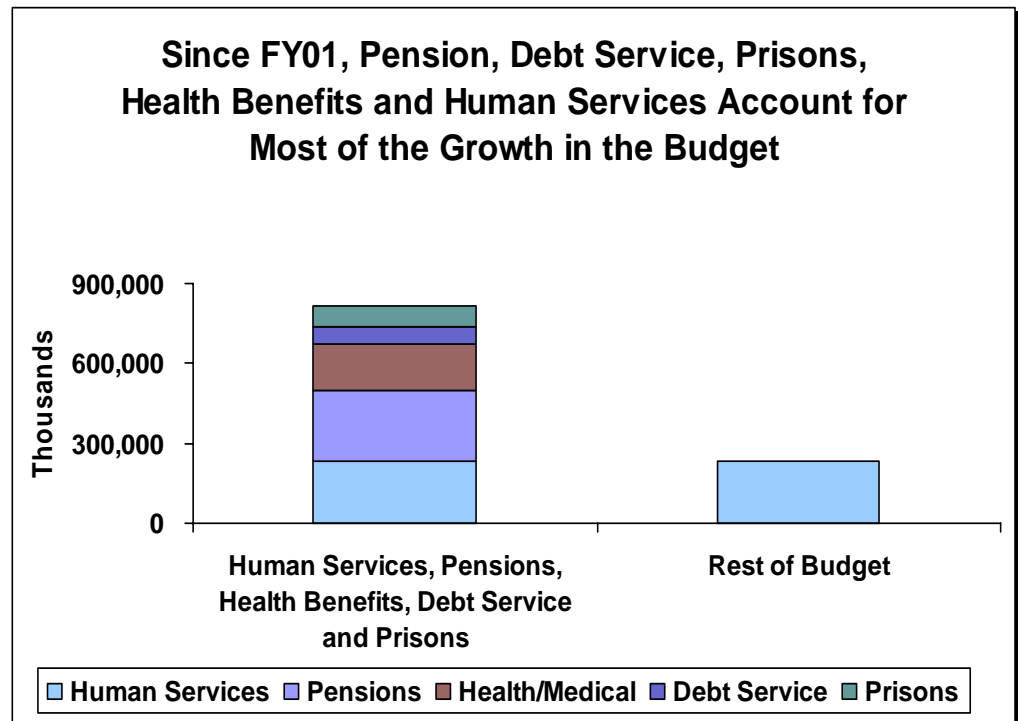
- Pensions and health benefits are projected to grow almost three times as fast as locally generated revenues and more than 100 times faster than other obligations (excluding DHS which is largely reimbursed).
- Pensions and health benefits costs are projected to reach \$1 billion in FY12.
- By the end of the Plan, pensions and health benefits will account for about \$1 out of every \$4 the City spends up from \$1 out of every \$8 in FY01.



# FY08-FY12 Five-Year Plan: At First Glance

## What Does The Increase in The Four Areas of the Budget Mean for the Rest of the Budget?

- Since FY01, Pensions, health benefits, prisons and debt service have grown from under a quarter of the budget to almost a third of the budget.
- If the four areas were not consuming a larger percentage of the budget than they did in FY01, there would be an additional \$340 million to either spend on other areas of the budget like police or streets or to use for tax reduction.



# FY08-FY12 Five-Year Plan: At First Glance

## What Other Spending Is Increasing?

In addition to the increases for DHS, Prisons, pensions, employee health insurance and debt service, the FY08 budget has new spending in a number of areas including the following:

- **\$7.7 million for neighborhood transformation initiative programs including greening, demolitions and vacant lot cleaning.**
- **\$6.4 million for a shift of fleet acquisition funding to FY08 from later years of the Plan.**
- **\$3.9 million to continue the City's 10-year plan to end homelessness.**
- **\$1.5 million for additional surveillance cameras.**
- **\$1 million for increased fuel costs.**
- **\$700,000 to shift 10 employees from the capital budget to the operating budget.**

# FY08-FY12 Five-Year Plan: At First Glance

## What Spending Is Being Decreased?

In order to bring the Plan into balance, the City had to make a number of budget cuts, including the following:

- 2.5% personnel cuts for most major departments and FY09 cuts in many departments to reflect DROP rightsizing. The only agencies with budgets of at least \$1 million that were exempted from the 2.5% FY08 reductions were the Courts, the Department of Human Services, uniform costs in the Fire and Police departments and the District Attorney's Office, the Philadelphia Prison System, and the Office of Housing and Community Development.
- Elimination of increases added during last year's budget process for the Department of Public Health (\$1.6 million), the Department of Recreation (\$1 million) and the Clerk of Quarter Sessions (\$150,000).
- \$2 million from economic stimulus to bring it back to its FY06 level of \$4 million. The Plan shows funding for stimulus being eliminated in FY09, along \$2.5 million in funding for Innovation Philadelphia and the \$2.5 million for Promote Philadelphia.
- \$1 million from the \$23.5 million contribution to Community College.
- \$250,000 from the Art Museum's \$2.25 million payment.
- 63 positions (\$3.2 million) from the Police Department in FY09.
- \$4 million from the scheduled conclusion in FY09 of the City's funding commitment to the CORE Scholarship program.

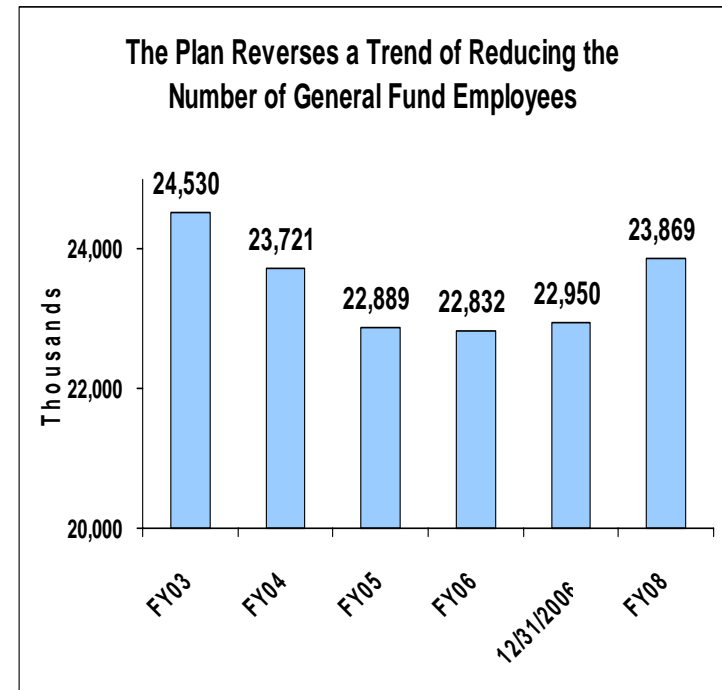
# FY08-FY12 Five-Year Plan: At First Glance

## What Changes in Staffing Does the Plan Propose? :

The plan proposes to reverse a recent trend of reducing staffing.

In total, the FY08 budget includes 900 positions more than were filled at the end of calendar 2006. The largest components of that increase are:

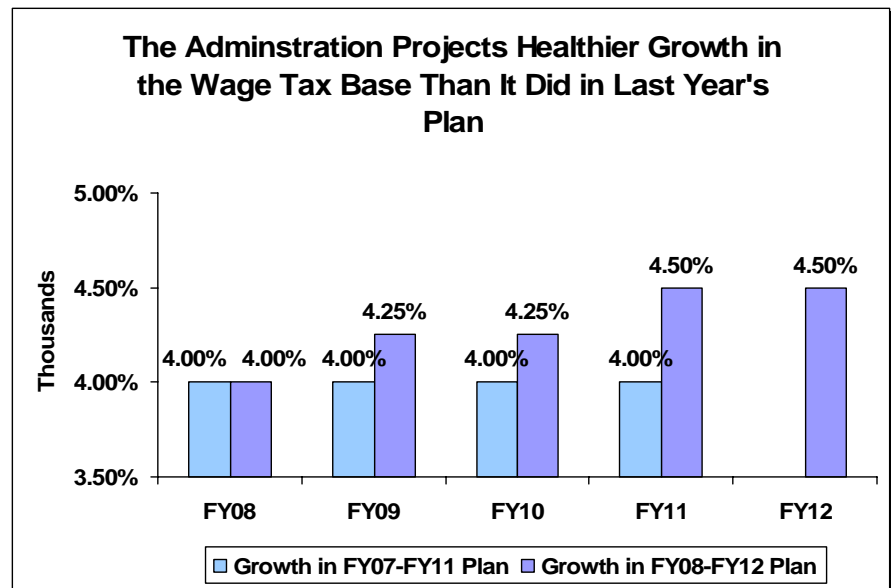
- 173 in the Police Department including 114 police officers.
- 170 in Prisons to handle a projected continued increase in the census.
- 128 in the Fire Department including 113 new firefighters.
- 72 in the Department of Human Services.
- 57 in the Mayor's Office of Information Services to improve project management and to move 26 employees in Public Property's telecommunication division to MOIS as part of a shift of the function.
- 46 in the Recreation Department; and
- 32 in the Department of Licenses and Inspections.



# FY08-FY12 Five-Year Plan: At First Glance

## The Plan Uses More Aggressive Wage Tax Base Growth Assumptions Than Did Earlier Plans

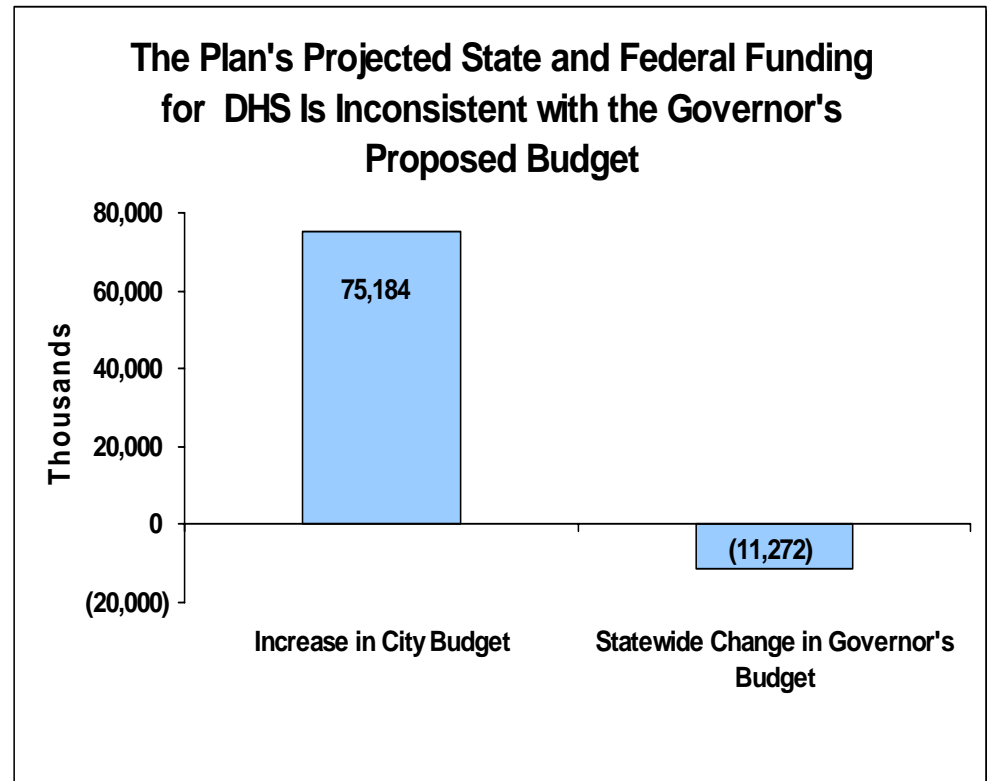
- While most of the tax revenue projections in the FY08-FY12 Plan are reasonable, the wage tax projections are more aggressive than they had been in any previous Plan.
- Beginning in FY09, the Administration projects that the wage tax base will grow at either 4.25% or 4.5% each year.
- No other Five-Year Plan has projected that the wage tax would grow by more than 4% in any year.



# FY08-FY12 Five-Year Plan: At First Glance

## The Non-Tax Revenue Projections in the Plan are Overly Aggressive

- The biggest single risk in the Plan is the assumption that the City will receive an additional \$75 million in funding from the state and federal governments in reimbursements for costs borne by the Department of Human Services.
- The Plan's assumptions about funding for the Department of Human Services are dramatically different from the Governor's proposed budget, which shows a decrease of \$11 million in combined state and federal funding for the entire Commonwealth.
- If the City does not have reasonable contingency plans for what it will do if it does not receive the state and federal funding, PICA Staff will not recommend that the Plan be approved.



# FY08-FY12 Five-Year Plan: At First Glance

## Labor Costs Are Another Substantial Risk in the Plan

- **All of the City's collective bargaining agreements expire at the beginning of FY09 – the second year of the Plan. In addition the City still has unresolved appeals for fire and police arbitration awards and has expired health care provisions for its collective bargaining agreements with its nonuniformed employees.**
- **The Plan assumes single digit employee health care cost increases in each of its years and \$30 million in savings from a series of cost containment initiatives. While the cost containment initiatives are well thought out, it would be up to the next mayor's administration to implement them.**
- **The Plan is consistent with previous plans in assuming no salary increases in years not covered by current collective bargaining agreements or arbitration awards. The risk of that assumption, however, is particularly high in this Plan, because 4 of its 5 years include no salary increase.**
- **The Plan does not project any inflationary growth for contracted services or materials, supplies and equipment purchases.**

# FY08-FY12 Five-Year Plan: At First Glance

## Other Major Risks in the Plan:

**PGW:** The Plan assumes that the \$45 million loan the City made to PGW will be repaid in FY09. Perhaps the biggest PGW-related risk for FY08 through FY12 is that the City will have to provide much larger amounts to help customers pay their bills.

**SEPTA:** The Governor has proposed imposing a tax on gas suppliers to provide funding to resolve the state's mass transit crisis. If that solution is not implemented, an alternate funding solution may require additional matching funding from the City.

**School District of Philadelphia:** The Plan says that the "City understands that additional funds will be being needed" for the School District and is working with the State to determine the amount and source of that funding. The City's general fund could be one of the sources for that money.

# FY08-FY12 Five-Year Plan: At First Glance

## Mitigated Risks:

A number of risks that were included in the Mayor's initial FY07-FY11 Plan were either completely or partially eliminated from the FY08-FY12 Plan. Among the major risks mitigated in the FY08-FY12 Plan are:

**Convention Center Funding:** The FY08-FY12 Plan assumes that the City will provide \$15 million annually to the convention center beginning in FY10. Last year's Plan assumed that the City would provide no funding for the convention center after FY09. While it is possible that the City's costs will exceed \$15 million, by including funding in the Plan, the Administration has made it much less likely that the costs of the center will be substantially higher than the Plan projects.

**Prisons:** The FY07-FY11 Plan as presented last January assumed that prisons costs would only be \$4.6 million higher in FY11 than they were in FY06, despite consistent rapid increases in the prisons census. The FY08-FY12 Plan assumes that Prisons costs will \$18.7 million higher in FY12 than they will be in FY07. Given, FY07's projected \$12.4 million increase in prisons costs, the Plan's projections may still be overly optimistic, but the added money should reduce any potential prison funding shortfall.

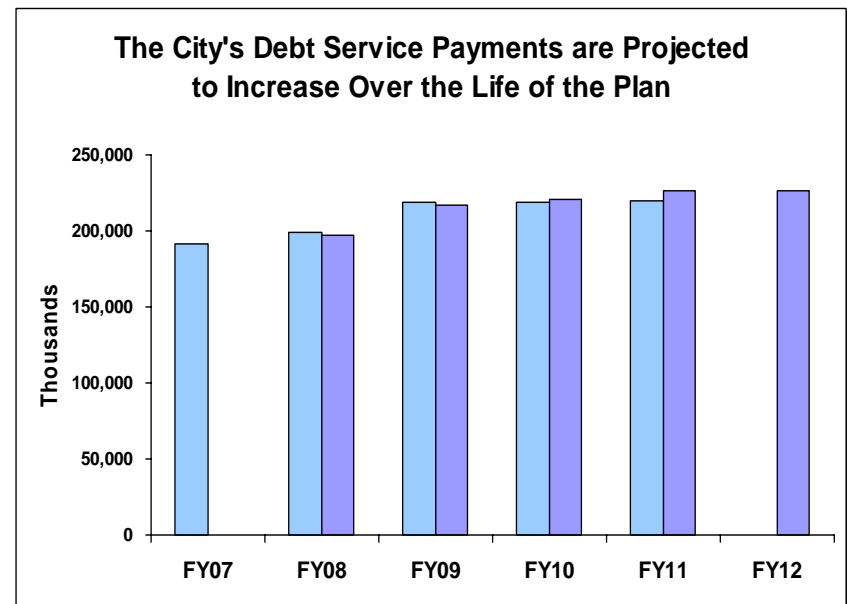
**Unspecified Future Savings:** The approved FY07-FY11 Five-Year Plan was the first one in a decade that did not include unspecified future savings. The Plan as presented last January did include those savings, but PICA Staff raised concerns that they were too speculative and they were removed. This FY08-FY12 Plan is consistent with the approved FY07-FY11 Plan.

# FY08-FY12 Five-Year Plan: At First Glance

## How Does the Plan Deal With the Major Structural Issues Facing the City's Finances?

**Rainy Day Fund: Potential progress.** The Plan does not take any steps towards establishing a Rainy Day Fund, but Administration officials have been having productive discussions with Council representatives about establishing a fund.

**Reducing the City's Debt Burden: Limited Progress.** The Plan takes an incremental step towards pay-as-you-go capital funding, which would help reduce the size of future borrowings. In FY08, the salaries of ten full-time and two temporary employees are shifted from the capital budget to the operating budget. Projected debt service payments over the life of the Plan, however, will total about \$40 million more than payments in the FY07-FY11 Plan.

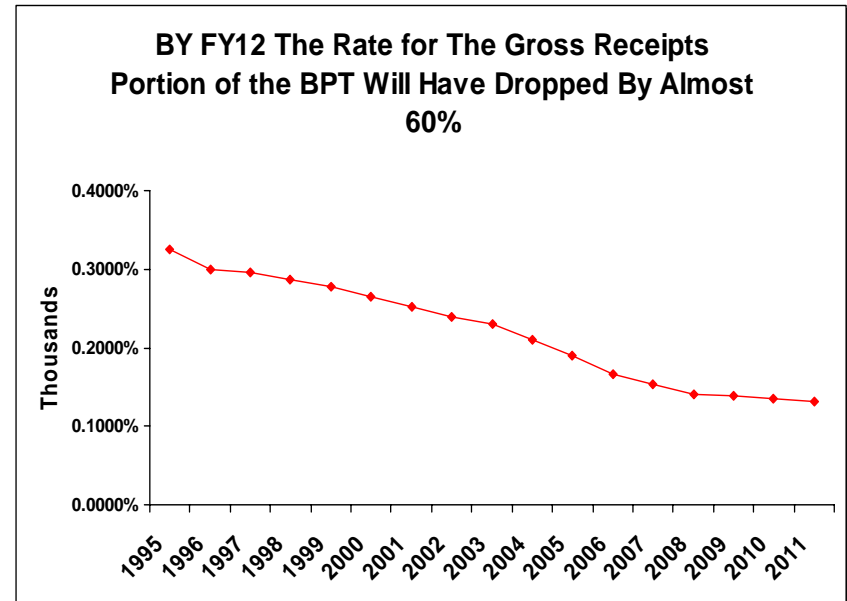


# FY08-FY12 Five-Year Plan: At First Glance

## How Does the Plan Deal With the Major Structural Issues Facing the City's Finances?

**Making the City's Tax Structure More Competitive: Limited Progress.** The Plan maintains and extends by one year the reductions that were included in last year's plan. By FY12, the rate for the gross receipts portion of the business privilege tax will be almost 60% lower than it was when the tax reduction program began, the resident portion of the wage tax will be about 25% lower and the nonresident portion will be almost 20% lower.

**Reducing the City's Unfunded Pension Liability: No Progress.** The Plan eliminates language included in the approved FY07-FY11 Plan that said the City would explore strategies to decrease pension obligations including increasing the minimum retirement age, decreasing the benefit multiplier, increasing the period to determine average final compensation, and increasing the employee contribution.



# FY08-FY12 Five-Year Plan: At First Glance

## How Does the Plan Deal With the Major Structural Issues Facing the City's Finances?

### Investing in the Infrastructure: Limited Progress.

The Plan includes lower levels of funding for City infrastructure spending than did last year's approved Plan. The Plan also assumes, however, that the City will request \$40 million from PICA for a new juvenile detention facility on the prisons campus; renovations to police and fire facilities and the Free Library and funding for an emergency standby power project.

