

**Pennsylvania Intergovernmental  
Cooperation Authority**

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**November 26, 2007**

**Revised FY08-FY12 Five-Year Plan  
Staff Recommendation**

**Overview**

This is perhaps the most difficult Plan recommendation we have had to make. This difficulty arises in part because the Revised Plan was presented after the close of the fiscal year, so our base tax numbers are fixed leaving much less opportunity for greater-than-anticipated revenues, and in part because all of the labor contracts for the City expire at the end of the first-year of the Plan, immediately after dramatic benefit increases given by the Street Administration raised employee health benefit costs by over \$161 million from the original FY08-FY12 Plan.

With the fixed tax base numbers, it is not clear that the Plan's revenue assumptions are conservative enough to allow for tax revenues that are sufficiently higher than the amount included in the Plan to ensure against risks to the Plan being realized, or unanticipated costs (such as labor agreements) being incurred. Additional risks include the continuing increase in prisons costs, the likelihood that the receipt of gaming revenues will be delayed and the possibility that the downturn in the real estate market will lead to a decrease in revenue collections. Regional economic projections are also murky, which could further threaten other revenue streams.

The Revised Plan has, however, reduced or eliminated some risks that were in earlier plans. In addition to adding to the Plan the \$161 million Mayor Street agreed to give the City's four largest unions for FY06, FY07 and FY08, the Administration has produced a letter from PGW pledging to repay half of its \$45 million loan this year and the other half next year in accordance with the state Public Utility Commission's rate relief directives.

In addition, there are several areas in which the Plan is still conservative. The business privilege tax projections assume two percent base growth in net income in FY08, which is far more conservative than recent trends. The Plan also appears to have underestimated the amount of money the City will receive from the water fund as reimbursements for costs the general fund incurs providing services to that fund. Finally, while the Plan assumes that the Administration will incur all of the additional obligations that are proposed in the new version of the budget, City Council has refused to introduce ordinances for items that are projected to add \$56 million in costs over the life of the Plan. If those bills are not introduced, the City will not incur those costs.

Our analysis of all of the risks and possible areas in which actual results are likely to be better than the Plan's projections leads us to conclude that the City will have available

about \$75 million plus the assumed nine percent increase in benefits costs to pay for the cost of salary and benefit increases and other risks in the Plan. While we are not sure that that will be enough in the long term, given that a new Administration will shortly be devising its own Plan within these revenue limits, and will be responsible for implementation of the spending policies for the duration of this Plan including the negotiation of the new labor agreements, it would seem contrary to the PICA mission of fostering sound financial practices to force the outgoing Administration to recreate a Plan which it will never put into operation.

With the knowledge that a new Plan, including FY13, will be presented in a few months by a new Administration that is responsible for executing the Plan, and the hope that labor agreements that balance the needs of the City's employees and the long-term fiscal health of the City will be completed shortly thereafter, we are recommending that the Board approve the Plan.