

# **Pennsylvania Intergovernmental Cooperation Authority**

## **Staff Report on the City of Philadelphia's *Quarterly City Managers Report* for the Period Ending March 31, 2016**

# Executive Summary

The *Quarterly City Managers Report* (QCMR) for the third quarter of Fiscal Year 2016 was submitted to PICA on May 16, 2016. The most significant elements of the report include:

## FY16 Financial Projections

- ▶ **Fund Balance.** The General Fund FY16 year-end fund balance projection is \$70.2 million, \$0.8 million higher than the projection in the *Five-Year Financial Plan* for FY16-FY20. The slightly higher fund balance reflects a higher FY15 fund balance (\$12.1 million), offset by a \$7.4 million increase in the projected operating deficit and a \$3.9 million decrease in prior year adjustments.
- ▶ **Operating Deficit.** The FY16 operating deficit is projected at \$100.4 million, an increase of \$7.4 million from the Plan estimate. This is of some concern, since it does not fit the pattern of recent years. In FY14 and FY15, the actual year-end General Fund operating deficit was below the initial Plan projection. In addition, the projected deficit generally declined throughout the fiscal year with each successive QCMR. It may be that the City's current estimates are conservative and actual results will outperform the current estimate. Nonetheless, the increase in the projected operating deficit is a concern.
- ▶ **Revenue.** FY16 tax revenue is projected at \$2,935.8 million, \$23.5 million higher than the Plan. The increase reflects strong performance of wage and earnings, sales and real estate transfer tax revenue. Overall General Fund revenue is projected at \$3,966.7 million, \$61.6 million higher than the Plan.
- ▶ **Obligations.** FY16 obligations are projected at \$4,067.1 million, an increase of \$69.0 million from Plan. The increase reflects costs associated with the Papal visit, overtime, indemnities, and snow removal. \$8.2 million of the increased costs associated with the Papal visit are not yet reimbursed.

# Executive Summary (continued)

## Performance

- ▶ *Public Safety.* Through the third quarter of FY16, the percent of EMS calls that received a response within 9 minutes have increased to 69 percent; however, work remains to be done in order to reach The National Fire Protection Association standard of 90 percent.
- ▶ *Health and Human Services.* The child immunization rate has dropped to 77.9 percent, compared to 85.8 percent in FY15. The percent of health center visits by uninsured patients declined significantly in FY16.
- ▶ *Housing.* The number of mortgage foreclosures diverted declined in FY15, and is on pace to decline again in FY16, due to reduced demand for the program.
- ▶ *Parks and Libraries.* Visits to recreational sites through the third quarter were 4.79 million, an increase from the same period in FY15.
- ▶ *Streets and Licenses and Inspections.* The number of imminently dangerous properties has declined through the third quarter of FY16.

# Introduction

- ▶ This PICA Staff Report analyzes the City of Philadelphia’s *Quarterly City Managers Report* (QCMR) for the third quarter of Fiscal Year 2016, the period ending March 31, 2016. The QCMR, which was submitted to PICA on May 16, 2016, contains information on projected FY16 General Fund revenues and expenditures, agency performance, personnel levels, leave usage, and cash flow.
- ▶ The focus of this report is the current projections of FY16 General Fund revenues and expenditures by category, agency performance, and other key financial and management issues such as labor contracts, pension reform, staffing and overtime. The report is organized as follows:
  - ▶ Background
  - ▶ FY16 Financial Projections
  - ▶ Performance
  - ▶ Key Financial and Management Issues

# Background

- ▶ The Pennsylvania Intergovernmental Cooperation Authority (“PICA”) Act (Act of June 5, 1991, P. L. 9, No. 6), Section 209(i), requires the City of Philadelphia to submit to PICA within 45 days following the end of each fiscal quarter a report describing actual or estimated revenues and expenditures and comparing them to budgeted levels for the most recent quarter.
- ▶ The City fulfills this requirement by publishing a *Quarterly City Managers Report* (“QCMR”) after the end of each fiscal quarter. The QCMR details actual-to-date and projected revenues and expenditures for the current fiscal year for the General Fund, Water Fund, and Aviation Fund, and provides information on agency performance, personnel, leave usage, and cash flow.
- ▶ This PICA staff report analyzes the most recent QCMR covering the third quarter of FY16 (the “Q3 QCMR”).<sup>1</sup> It compares the Q3 QCMR estimates of FY16 revenues and expenditures with estimates in the approved FY16-FY20 *Five-Year Financial Plan*.<sup>2</sup> The report also highlights agency performance and key finance and management issues.
- ▶ Unless otherwise noted, information in this report is drawn from City reports, including the *Five-Year Financial Plan* and QCMRs.

## Notes:

<sup>1</sup> The QCMR is available at <http://www.picapa.org/resources/city-of-philadelphias-quarterly-city-managers-report/>

<sup>2</sup> The approved FY16-FY20 Plan was submitted to PICA on June 19, 2015 and approved on July 16, 2015.

# **FY16 Financial Projections**

- ▶ Overview
- ▶ Revenue
- ▶ Obligations

## FY16 Financial Projections: Overview

- ▶ The Q3 QCMR projects FY16 General Fund revenues at \$3,966.7 million, an increase of \$61.6 million from the initial FY16-20 *Five-Year Financial Plan* estimate. Obligations are projected at \$4,067.1 million, an increase of \$69.0 million from Plan. The end of year fund balance is projected at \$70.2 million, an increase of \$0.8 million from the initial FY16-FY20 Plan projection.
- ▶ The FY16 operating deficit is projected at \$100.4 million in the Q3 QCMR, an increase of \$7.4 million from the Plan estimate. This is of some concern, since it does not fit the pattern of recent years. In FY14 and FY15, the actual year-end General Fund operating deficit was below the initial Plan projection. In addition, the projected deficit generally declined throughout the fiscal year with each successive QCMR. It may be that the City's current estimates are conservative and actual results will outperform the current estimate. Nonetheless, the increase in the projected operating deficit is a concern.

<b>FY16 General Fund Summary: Projections (\$ in Millions)</b>					
<b><u>Category</u></b>	<b><u>FY16-20 Plan Projection</u></b>	<b><u>Q1 QCMR Projection</u></b>	<b><u>Q2 QCMR Projection</u></b>	<b><u>Q3 QCMR Projection</u></b>	<b><u>Change from Plan to Q3 QCMR Projection</u></b>
Revenues	\$3,905.1	\$3,929.2	\$3,957.1	\$3,966.7	\$61.6
Obligations	3,998.1	4,021.4	4,042.4	4,067.1	69.0
Operating Surplus/(Deficit)	(93.0)	(92.2)	(85.3)	(100.4)	(7.4)
Prior Year Adjustments	22.9	22.9	19.0	19.0	(3.9)
Prior Year Fund Balance/(Deficit)	139.4	151.5	151.5	151.5	12.1
<b>Year-End Fund Balance</b>	<b>69.3</b>	<b>82.2</b>	<b>85.3</b>	<b>70.2</b>	<b>0.8</b>

# FY16 Financial Projections: Revenue

- ▶ The Q3 QCMR projects FY16 General Fund revenue at \$3,966.7 million, an increase of \$61.6 million from the initial FY16-FY20 Plan estimate.
- ▶ The increase reflects higher-than-projected revenue from taxes (\$23.5 million), locally-generated non-tax sources (\$12.9 million), and other governments (\$28.0 million), offset by lower-than-projected revenue from other funds (\$2.8 million).

<b>FY16 General Fund Revenue Projections (\$ in Millions)</b>					
<b><u>Category</u></b>	<b><u>FY16-20 Plan Projection</u></b>	<b><u>Q1 QCMR Projection</u></b>	<b><u>Q2 QCMR Projection</u></b>	<b><u>Q3 QCMR Projection</u></b>	<b><u>Change from Plan to Q3 QCMR Projection</u></b>
Taxes	\$2,912.3	\$2,925.3	\$2,934.7	\$2,935.8	\$23.5
Locally-Generated Non-Tax	275.8	284.4	283.9	288.7	12.9
Other Governments	651.8	654.3	676.1	679.8	28.0
Other Funds	65.2	65.2	62.4	62.4	(2.8)
<b>Total</b>	<b>3,905.1</b>	<b>3,929.2</b>	<b>3,957.1</b>	<b>3,966.7</b>	<b>61.6</b>



## FY16 Financial Projections: Tax Revenue

- ▶ FY16 General Fund tax revenue is projected at \$2,935.8 million, an increase of \$23.5 million from the initial Plan estimate. The overall increase reflects increases for sales (\$21.5 million), real estate transfer (\$15.7 million), wage and earnings (\$8.9 million), parking (\$3.3 million), and net profits (\$2.4 million), offset by a decline in business income and receipts (\$18.7 million) and real estate (\$4.7 million).
- ▶ The reduction in projected business income and receipts tax revenue reflects actual FY15 revenue that was lower than the Plan estimate due to a significant number of taxpayer refunds. The impact of the lower FY15 base is partly offset by a higher projected FY16 growth rate. Increases in sales, real estate transfer, and wage and earnings taxes reflect higher than anticipated collections to date.

<b>FY16 General Fund Tax Revenue Projections (\$ in Millions)</b>					
<b><u>Tax</u></b>	<b><u>FY16-20 Plan Projection</u></b>	<b><u>Q1 QCMR Projection</u></b>	<b><u>Q2 QCMR Projection</u></b>	<b><u>Q3 QCMR Projection</u></b>	<b><u>Change from Plan to Q3 QCMR Projection</u></b>
Wage and Earnings	\$1,370.6	\$1,370.6	\$1,371.3	\$1,379.5	\$8.9
Real Estate	581.1	583.6	581.3	576.4	(\$4.7)
Business Income and Receipts	453.9	457.1	437.5	435.2	(\$18.7)
Net Profits	18.5	18.5	20.9	20.9	2.4
Sales	149.4	154.4	170.8	170.8	21.5
Real Estate Transfer	221.9	229.9	237.5	237.5	15.7
Parking	88.6	88.6	91.9	91.9	3.3
Amusement	19.2	19.2	19.6	19.6	0.4
Other	9.2	3.5	3.8	3.8	(5.4)
<b>Total</b>	<b>2,912.3</b>	<b>2,925.3</b>	<b>2,934.7</b>	<b>2,935.8</b>	<b>23.5</b>

## FY16 Financial Projections: Locally-Generated Non-Tax Revenue

- FY16 locally-generated non-tax revenue is projected at \$288.7 million, an increase of \$12.9 million from the initial Plan estimate. The change reflects: an increase of \$9.5 million in Managing Director's Office due to reimbursements associated with the Papal visit; an increase of \$3.4 million in City Treasurer due to interest earnings and bond sale premium; an increase of \$1.0 million in Licenses and Inspections due to higher building permit fees; an increase of \$1.4 million in Public Property due to energy cost refunds; a decrease of \$2.2 million in Streets due to a delay in receiving right-of-way fees; and a \$2.0 million increase in Fire due to emergency medical service fee collections.

<b>FY16 General Fund Locally-Generated Non-Tax Revenue Projections (\$ in Millions)</b>					
<u>Agency Source</u>	<u>FY16-20 Plan Projection</u>	<u>Q1 QCMR Projection</u>	<u>Q2 QCMR Projection</u>	<u>Q3 QCMR Projection</u>	<u>Change from Plan to Q3 QCMR Projection</u>
Managing Director	\$0.5	\$10.7	\$10.7	\$10.0	\$9.5
Finance	18.4	18.6	18.6	19.0	0.6
Fire	38.4	37.4	37.4	40.4	2.0
City Treasurer	1.7	3.6	3.6	5.1	3.4
Innovation and Technology	23.2	23.2	23.2	23.2	--
Licenses and Inspections	53.0	54.0	54.0	54.0	1.0
Public Property	13.2	11.5	11.8	14.6	1.4
Streets	25.0	24.0	24.0	22.8	(2.2)
Other	102.4	101.4	100.7	99.7	(2.7)
<b>Total</b>	<b>275.8</b>	<b>284.4</b>	<b>283.9</b>	<b>288.7</b>	<b>12.9</b>

## FY16 Financial Projections: Revenue from Other Governments

- ▶ The Q3 QCMR projection of FY16 revenue from other governments is \$679.8 million, an increase of \$28.0 million from the initial Plan projection.
- ▶ The overall increase reflects the following increases: PICA City Account, due to higher revenue from the PICA portion of the wage, earnings, and net profits taxes (\$15.2 million); Public Health, due to higher Medical Assistance (MA) reimbursements for the Philadelphia Nursing Home offset by lower MA reimbursements for health center services (net increase of \$6.2 million); Revenue, due to higher on-street parking revenue generated by the Philadelphia Parking Authority (\$3.1 million); Finance, due to higher state pension aid (\$1.2 million); and First Judicial District, due to higher state reimbursement for county court and probation costs (\$0.6 million).

<b>FY16 General Fund Revenue from Other Governments Projections (\$ in Millions)</b>					
<b><u>Agency Source</u></b>	<b><u>FY16-20 Plan Projection</u></b>	<b><u>Q1 QCMR Projection</u></b>	<b><u>Q2 QCMR Projection</u></b>	<b><u>Q3 QCMR Projection</u></b>	<b><u>Change from Plan to Q3 QCMR Projection</u></b>
Finance	\$162.4	\$162.9	\$163.6	\$163.6	\$1.2
First Judicial District	14.6	14.6	15.1	15.2	0.6
PICA City Account	353.5	353.5	366.2	368.7	15.2
Public Health	56.2	56.2	61.4	62.4	6.2
Revenue	35.7	37.7	38.8	38.8	3.1
Other	29.3	29.3	31.1	31.1	1.8
<b>Total</b>	<b>651.8</b>	<b>654.3</b>	<b>676.1</b>	<b>679.8</b>	<b>28.0</b>

# FY16 Financial Projections: Obligations

- ▶ The Q3 QCMR projects FY16 obligations at \$4,067.1 million, an increase of \$69.0 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

<b>FY16 General Fund Obligations Projections (\$ in Millions)</b>					
<b><u>Agency or Cost Center</u></b>	<b><u>FY16-20 Plan Projection</u></b>	<b><u>Q1 QCMR Projection</u></b>	<b><u>Q2 QCMR Projection</u></b>	<b><u>Q3 QCMR Projection</u></b>	<b><u>Change from Plan to Q3 QCMR Projection</u></b>
City Council	\$41.7	\$16.7	\$16.7	\$16.7	(\$25.0)
Contribution to School District	79.2	104.2	104.2	104.2	25.0
Debt Service	245.9	245.9	245.9	245.9	--
Employee and Retiree Health Benefits	411.5	411.5	411.5	410.5	(1.0)
Fire	219.1	226.2	229.2	237.3	18.2
Indemnities	38.0	38.0	38.0	41.2	3.2
Legal Services	43.2	44.7	44.7	44.7	1.5
Pension Contribution	498.4	498.4	507.5	507.5	9.0
Police	643.0	652.4	652.4	652.4	9.4
Prisons	253.8	252.4	252.4	254.4	0.6
Procurement	4.8	4.8	4.8	5.8	1.0
Public Health	116.3	116.3	122.0	122.0	5.7
Public Property	59.9	60.8	60.7	61.7	1.8
Sheriff	19.2	19.2	19.2	22.2	3.0
Streets	125.4	126.8	126.8	132.6	7.2
Other	1,279.8	1,285.6	1,289.0	1,293.9	14.1
<b>Total</b>	<b>3,998.1</b>	<b>4,021.4</b>	<b>4,042.4</b>	<b>4,067.1</b>	<b>69.0</b>

## FY16 Financial Projections: Obligations

- ▶ Changes in projected FY16 obligations between the initial FY16-20 Plan and the Q3 QCMR include:
  - ▶ **City Council** (\$25.0 million decrease). The decrease reflects a transfer of \$25 million to the line item for the City's annual contribution to the School District of Philadelphia (SDP). At the time the FY16 budget was enacted, a portion of the City's assistance to SDP was appropriated in the City Council budget. This increase was funded through an increase in the City real estate tax.
  - ▶ **Contribution to the School District** (\$25.0 million increase). The increase reflects the transfer of \$25 million from the City Council appropriation.
  - ▶ **Fire** (\$18.2 million increase). Higher than projected overtime, in part due to the Papal visit, certain expenses that are not eligible for grant funding, higher premium pay and tuition reimbursement, and higher revenue collection fees. The higher collection fees are offset by higher fee revenue.
  - ▶ **Indemnities** (\$3.2 million increase). Higher than projected legal settlements.
  - ▶ **Legal Services** (\$1.5 million increase). Contractual cost increases.
  - ▶ **Pension Contribution** (\$9.0 million increase). Increased projected General Fund payment to the Pension Fund due to higher projected sales tax revenue. The City is required to contribute a portion of local sales tax collections to the Pension Fund.
  - ▶ **Police** (\$9.4 million increase). Increased overtime for the Papal visit.
  - ▶ **Prisons** (\$0.6 million increase). Increased salary adjustment costs and contractual obligations.
  - ▶ **Procurement** (\$1.0 million increase). Increased advertising costs.
  - ▶ **Public Health** (\$5.7 million increase). Higher expenditures associated with the Philadelphia Nursing Home. These expenditures will be offset by increased state Medical Assistance revenue.
  - ▶ **Public Property** (\$1.8 million increase). Higher costs associated with the Papal visit and maintenance contracts.
  - ▶ **Sheriff** (\$3.0 million increase). Higher than anticipated overtime.
  - ▶ **Streets** (\$7.2 million increase). Reflects Papal visit expenses, higher overtime due to a shortage of compactors, and snow removal costs.

# **Performance**

- ▶ **Public Safety**
- ▶ **Health and Human Services**
- ▶ **Housing**
- ▶ **Parks and Recreation and Free Library**
- ▶ **Streets and Licenses and Inspections**

## Performance: Public Safety

- ▶ **Police Department:** The number of homicides declined from FY12 through FY14, increased slightly in FY15, and are remaining at that level through the third quarter of FY16. Part 1 violent crime declined each year from FY11 to FY15, but has increased slightly through the first three quarters of FY16 in comparison to FY15.
- ▶ **Fire Department:** Through the third quarter, 69.0 percent of EMS calls received a response within 9 minutes, an increase from 66.0 percent in the same period in FY15. The National Fire Protection Association standard is that 90 percent of these calls should receive a response within 9 minutes.

Performance Measures: Public Safety								
Agency	Measure	Totals					Through Q3	
		FY11	FY12	FY13	FY14	FY15	FY15	FY16
Police	Homicides	318	350	263	246	248	195	226
	Part 1 violent crime	18,446	18,224	17,384	16,533	15,912	11,615	11,846
	Homicide clearance rate (%)	67.9	64.0	73.0	56.5	62.3	63.0	45.8
	Other violent crime clearance rate (%)	49.8	48.5	50.4	52.3	51.3	50.8	52.1
Fire	Fire engine average response time <sup>1</sup>	4:57	4:57	4:54	4:57	4:54	4:54	4:53
	Structural fires	3,041	3,108	2,882	3,019	2,880	2,191	2,023
	Fire deaths	41	24	25	23	24	22	8
	EMS response time (percent within 9 minutes)	68.5	68.0	66.0	64.0	68.5	69.0	69.0

Notes:

<sup>1</sup>Includes responses for fire and EMS incidents.

# Performance: Health and Human Services

- ▶ **Department of Human Services:** Dependent placements have increased in recent years, with particularly large increases in FY15 and through the first three quarters of FY16. The increase may reflect, in part, a broader definition of child abuse and new reporting requirements resulting from amendments to the state Child Protective Services Law. Delinquent placements continue to decline. Total discharges to permanency increased in FY15 and through the third quarter of FY16.
- ▶ **Department of Public Health:** The percent of District Health Center visits by uninsured patients declined significantly in FY16. Through the third quarter, the child immunization rate was 77.9 percent, compared to 85.0 percent in FY15.

Performance Measures: Health and Human Services								
Agency	Measure	Totals					Through Q3	
		FY11	FY12	FY13	FY14	FY15	FY15	FY16
Human Services	Permanency discharges	2,130	1,633	1,229	1,221	1,403	763	1,276
	Adoptions as percent of permanency discharges (%)	31	29	29	31.8	27.2	34.4	23.3
	Dependent placements as of end of period	4,182	4,030	4,179	4,473	5,184	5,054	5,889
	Delinquent placements as of end of period	1,413	1,198	1,155	952	873	869	793
Public Health	Uninsured patient visits to District Health Centers (%)	49.6	51.1	52.9	49.6	49.0	51.6	44.0
	New HIV diagnoses <sup>2</sup>	NA	792	704	585	624	474	397
	Children with complete immunizations <sup>1</sup> (%)	NA	NA	75	78	85.8	85.3	77.9

Note

<sup>1</sup> Defined as percentage of children of age 19 to 35 months with complete immunizations.

<sup>2</sup> The FY16 amount is corrected from the figure shown in the Q3 QCMR. The definition of this measure changed beginning in FY16, so amounts prior to FY16 are not comparable to the FY16 amount. Before FY16, amounts represent newly-diagnosed HIV cases based on case reports. Beginning in FY16, amounts represent new HIV diagnoses based on the date of diagnosis, and are consistent with data reported to the US Centers for Disease Control and Prevention.



## Performance: Housing

- ▶ **Office of Supportive Housing:** Households receiving financial assistance to prevent homelessness declined from FY11 to FY13 due to reduced federal funding, but increased in FY15 due to a partnership between OSH and the Philadelphia Housing Authority. During the third quarter of FY16, placements in transitional housing were 107, compared to 136 for the same quarter in FY15, this is mirrored in the decline of the year-to-date figures for transitional housing listed below.
- ▶ **Office of Housing and Community Development:** The number of mortgage foreclosures diverted declined in FY15 and is on pace to decline again in FY16, due to reduced demand for the program. Through the third quarter, repairs to owner-occupied homes increased, compared to Q3 of FY15. The number of current or prospective homeowners receiving counseling during the first three quarters of FY16 was lower than the same period in FY15.

Performance Measures: Housing								
Agency	Measure	Totals					Through Q3	
		FY11	FY12	FY13	FY14	FY15	FY15	FY16
Supportive Housing	Assistance to prevent homelessness (households)	1,898	809	610	676	814	644	636
	Assistance to end homelessness (households)	NA	NA	291	135	356	290	209
	New permanent supportive housing units <sup>1</sup>	120	179	180	59	115	NA	NA
	Transitional housing placements	510	558	539	509	610	408	370
Housing and Community Development	Mortgage foreclosures diverted	1,647	1,423	1,754	1,232	1,178	905	843
	Owner-occupied homes repaired <sup>2</sup>	8,232	7,129	5,409	5,689	5,511	3,815	4,479
	City lots greened and cleaned <sup>3</sup>	8,417	8,500	9,238	8,766	8,713	8,278	9,334
	Clients receiving counseling	NA	NA	12,463	12,398	11,495	8,210	7,197

Notes:

<sup>1</sup> Excludes Philadelphia Housing Authority units. Quarterly data for this indicator is not available; data will be available at the end of the fiscal year.

<sup>2</sup> Includes Basic System Repair Program, Weatherization, and Heater Hotline.

<sup>3</sup> The number of lots as of a point in time. Includes land stabilization and land maintenance.

# Performance: Parks and Recreation and Free Library

- ▶ **Department of Parks and Recreation:** Visits to departmental sites through the third quarter were 4.79 million, an increase from the same period in FY15. The number of acres mowed and trees planted through the third quarter are not representative of the full year because those activities do not occur during the winter season.
- ▶ **Free Library of Philadelphia:** Through the first three quarters, Free Library circulation and visits were down due to lengthy closures of libraries for repairs. The 21<sup>st</sup> Century Library project, which also involves closures, will impact the number of hours open in the third and fourth quarters of FY16.

Performance Measures: Parks and Recreation and Free Library								
Agency	Measure	Totals					Through Q3	
		FY11	FY12	FY13	FY14	FY15	FY15	FY16
Parks and Recreation	Visits to Department facilities and sites (000,000)	6.57	6.60	7.30	6.24	6.78	5.85	4.79
	Acres mowed <sup>1</sup> (000)	37.5	36.0	40.3	40.3	43.6	27.1	24.2
	Trees planted <sup>2</sup> (000)	18.3	20.3	26.0	18.3	13.9	7.5	5.0
Free Library	Circulation of materials (000,000)	7.21	7.50	6.58	6.51	6.5	5.0	4.5
	Visits (000,000)	6.10	5.96	5.85	5.67	5.9	4.5	4.6
	Website visits (000,000)	NA	NA	7.3	8.2	9.9	7.6	7.4
	Hours open (000)	100.0	97.8	95.8	99.8	109.6	82.6	80.7

## Notes

<sup>1</sup> Includes athletic fields and neighborhood parks.

<sup>2</sup> Includes trees planted by the Department along streets and on Department sites and public land, and trees planted in partnership with other organizations.

## Performance: Streets and Licenses and Inspections

- ▶ **Streets Department:** On-time trash collection declined significantly from FY13 to FY15, but has increased through the first three quarters of FY16. On time recycling collection through the first three quarters of FY16 is 95.3 percent, close to the level of FY15. The percentage of total waste recycled is 21 percent through the first three quarters.
- ▶ **Department of Licenses and Inspections:** The number of imminently dangerous properties declined to 220 as of the end of the third quarter. Residential demolitions through the third quarter are slightly above the level of FY15 in the same quarter. The number of permits issued – including building, electrical and plumbing permits – are above the number issued for the same quarter last fiscal year.

Performance Measures: Streets and Licenses and Inspections								
Agency	Measure	Totals					Through Q3	
		FY11	FY12	FY13	FY14	FY15	FY15	FY16
Streets	Recycling rate (%)	19	19	20	20.9	19.0	19.7	21.0
	On-time trash collection <sup>1</sup> (%)	94	94	96	85.1	75.5	79.0	80.3
	On-time recycling collection <sup>1</sup> (%)	96	97	97	93.3	96.3	97.3	95.3
Licenses and Inspections	Residential buildings demolished	567	543	521	522	492	392	406
	Imminently dangerous properties	NA	NA	375	566	258	306	220
	Permits issued <sup>2</sup> (000)	NA	NA	35.7	35.4	39.9	28.7	32.0

### Notes

<sup>1</sup> Percentage of collections completed by 3:00 PM.

<sup>2</sup> Includes building, electrical, and plumbing permits.

# **Key Financial and Management Issues**

- ▶ Labor Contracts
- ▶ Pension Benefits
- ▶ Staffing
- ▶ Overtime
- ▶ Leave Usage

## Labor Contracts

- ▶ The City's financial stability depends on its ability to manage the cost of labor contracts with its unions. Several of these contracts are expiring and are currently being negotiated. The following is a description of the status of contracts with the major uniformed unions:
  - ▶ **Fraternal Order of Police (FOP)**: In July 2014, an arbitration panel issued a contract award for the FOP covering the period FY15 through FY17. The award provides for wage increases of 3 percent in FY15, 3.25 percent in FY16, and 3.25 percent in FY17, and increases the City's contributions to the union legal services fund. In addition, the award increases the annual clothing allowance by \$100 per member. The contract also makes other important non-economic changes.
  - ▶ **International Association of Firefighters (IAFF)**: A new IAFF arbitration award was announced in January 2015, covering the period FY14 through FY17. The award includes retroactive wage increases of 3 percent in FY14 and 3 percent in FY15, and a 3.25 percent increase in FY16. Wages in FY17 will be determined through a reopener arbitration. The award implements self-insurance for the IAFF health fund effective February 1, 2015.

## Labor Contracts

- ▶ The following is a description of the status of contracts with the major non-uniformed unions:
  - ▶ **District Council 33 (DC33):** In August 2014, the City announced a tentative contract agreement with DC33 covering the period FY10 through FY16. The contract was ratified by DC33 members on September 9. Major economic provisions of the contract include: a lump sum ratification bonus of \$2,800; wage increases of 3.5 percent effective September 2014 and 2.5 percent effective July 2015; prospective restoration of step and longevity wage increases that were frozen in July 2009; a \$20 million lump sum payment to the union health care fund; and an increase in the City's ongoing contribution to the health fund, from \$976 to \$1,100 per member per month, effective September 2014, and \$1,194 per member per month, effective July 2015. The contract also included provisions that are expected to result in savings, including pension reforms and changes to overtime rules.
  - ▶ **District Council 47 (DC47):** In February 2014, the City executed a contract with DC47 covering FY10 through FY17. The contract provides for a 3.5 percent wage increase after ratification by the union, a 2.5 percent wage increase in FY16 and a 3 percent wage increase in FY17. The new contract also allows for adjustment of salaries to reflect step and longevity increases that were frozen when the previous contract expired in July 2009. The contract is also expected to result in savings due to pension reforms and changes to overtime rules.
- ▶ If the actual costs of any contracts between the City and municipal unions deviate from the projections in the *Five-Year Financial Plan*, any increased costs must be incorporated into future plans or plan revisions. As envisioned under the PICA statute, the Plan process requires the City to demonstrate that it can finance the cost of labor contracts while maintaining a positive General Fund balance over a five-year period. All labor costs described above are incorporated into the FY16-FY20 Plan approved by PICA on July 16, 2015.

## Pension Benefits

- ▶ The City has achieved some changes to its pension program to reduce costs and promote fiscal sustainability. The most significant recent changes include increased employee contributions and creation of a hybrid defined benefit-defined contribution plan, known as Plan 10. This plan is mandatory for newly-hired correctional officers and employees of the Register of Wills and voluntary for other new employees and elected officials. The status of recent pension changes for each bargaining unit is as follows:
  - ▶ **FOP and IAFF.** Newly-hired employees are required to participate in Plan 10 or in Plan 87 (a defined benefit plan). If they choose Plan 87, required employee contributions will be higher than those of existing employees and will equal the greater of 6 percent of earnings or 30 percent of normal cost.
  - ▶ **DC33 (Other than Correctional Officers), DC47, Non-Union Employees and Elected Officials.** Contributions for those previously hired or elected will increase 0.5 percent in 2015 and an additional 0.5 percent in 2016 and thereafter. Newly-hired employees and newly-elected officials are required to participate in Plan 10 or in Plan 87. If they choose Plan 87, required employee contributions are 1 percent higher than current employees or officials.
  - ▶ **Correctional Officers (DC33 Local 159) and Register of Wills (FOP).** Newly-hired employees are required to participate in Plan 10. New employees of the these bargaining units are the only new City employees that do not have the option to participate in Plan 87.
  - ▶ **Deputy Sheriffs.** Newly-hired employees are required to participate in Plan 10 or in Plan 87. If Plan 87 is chosen, required contributions will be higher than those of existing employees and will equal 50 percent of normal costs.
- ▶ Current pension benefits, eligibility and participant contribution requirements are summarized on the next three pages.

## Pension Benefits

- ▶ Below is a summary of the provisions of City offered pension plans. Plan 67 and Plan 87 are defined benefit plans. Plan 10 is a hybrid defined benefit-defined contribution plan. The formula for determining the defined benefit under each plan is shown below. Under the Plan 10 defined contribution plan, the City matches 50 percent of employee contributions, with the total City match not to exceed 1.5 percent of compensation.
- ▶ The definition of average final compensation (AFC) used to determine benefits varies by plan, as follows: Plan 67 municipal and Plan 87 municipal and elected, average of three highest years; Plan 67 uniformed, average of five highest years or 12 consecutive months, whichever is higher; Plan 87 uniformed, average of two highest years; and Plan 10, average of five highest years.
- ▶ To qualify for normal service retirement benefits, participants must meet age and service requirements, as follows: Plan 67 municipal, age 55; Plan 67 uniformed, age 45; Plan 87 and Plan 10 municipal, age 60 and 10 years of service; Plan 87 and Plan 10 uniformed, age 50 and 10 years of service; and Plan 87 elected, age 55 and 10 years of service.

<b>City Pension Plans Benefits (Defined Benefit Portion)</b>			
Category	Plan 67	Plan 87	Plan 10
Police and Fire	2.5 percent x AFC x years of service	(2.2 percent x AFC x years of service up to 20 years) + (2.0 percent x AFC x years of service in excess of 20 years)	1.75 percent x AFC x years of service up to 20 years
Municipal	(2.5 percent x AFC x years of service up to 20 years) + (2.0 percent x AFC x years of service in excess of 20 years)	(2.2 percent x AFC x years of service up to 10 years) + (2.0 percent x AFC x years of service in excess of 10 years)	1.25 percent x AFC x years of service up to 20 years
Elected Officials	NA	3.5 percent x AFC x years of service	1.25 percent x AFC x years of service up to 20 years



# Pension Benefits

<b>City Pension Plans Eligibility and Participant Contribution Requirements</b>		
<b>Bargaining Unit/ Category</b>	<b>Previously-Hired Employees</b>	<b>Newly-Hired Employees<sup>1</sup></b>
<b>Police (FOP) and Firefighters (IAFF)</b>	<b>Plan 67 (6%) or Plan 87 (5%, but not less than 30% or greater than 50% of normal cost)</b>	<b>Plan 87 (6% or 30% of normal cost, whichever is greater) or Plan 10 (5.5% for first 20 years of service)</b>
<b>DC33 (Other than correctional officers), DC47 and Non-Union<sup>2</sup></b>	<b>Plan 67 (3.75% for compensation subject to Social Security tax and 6% for compensation above that level; with additional 0.5% beginning January 2015 and additional 0.5% beginning January 2016) or Plan 87 (30% of normal cost, with additional 0.5% beginning January 2015, and additional 1.0% beginning January 2016)</b>	<b>Plan 87 (previously-hired employee contribution plus 1.0%) or Plan 10 (50% of normal cost)</b>
<b>Deputy Sheriffs (FOP)</b>	<b>Plan 67 (6%) or Plan 87 (30% of normal cost)</b>	<b>Plan 87 (50% of normal cost) or Plan 10 (50% of normal cost)</b>
<b>Register of Wills (FOP)</b>	<b>Plan 67 (6%) or Plan 87 (30% of normal cost).</b>	<b>Plan 10 (50% of normal cost)</b>

**Notes:**

<sup>1</sup> Newly-hired employees are those hired on or after the following dates: police, January 1, 2010; firefighters, October 15, 2010; DC33 (other than correctional officers), September 9, 2014; DC47, March 5, 2014; non-represented civil service, May 14, 2014; non-represented non-civil service, November 14, 2014; and Deputy Sheriffs and Register of Wills employees, January 1, 2012. Plan 10 contributions do not include voluntary DC plan contributions.

<sup>2</sup> Assumes employees are covered by Social Security.

# Pension Benefits

<b>City Pension Plans Eligibility and Participant Contribution Requirements (continued)</b>		
Bargaining Unit/ Category	Previously-Hired Employees and Previously-Elected Officials	Newly-Hired Employees and Newly-Elected Officials <sup>1</sup>
Correctional Officers (DC33 Local 159) <sup>2,3</sup>	Plan 67 (3.75% of amount subject to Social Security tax and 6% percent of amount above that level, or 50% of normal cost, whichever is higher), or Plan 87 (50% of normal cost)	Plan 10 (50% of normal cost)
Elected Officials	Plan 87 (30 percent of normal cost for municipal plan, with additional 0.5% beginning January 2015, and additional 0.5% beginning January 2016, plus incremental normal cost for elected official plan over municipal plan)	Plan 87 (previously-elected official contribution plus 1%) or Plan 10 (50% of normal cost)

Notes:

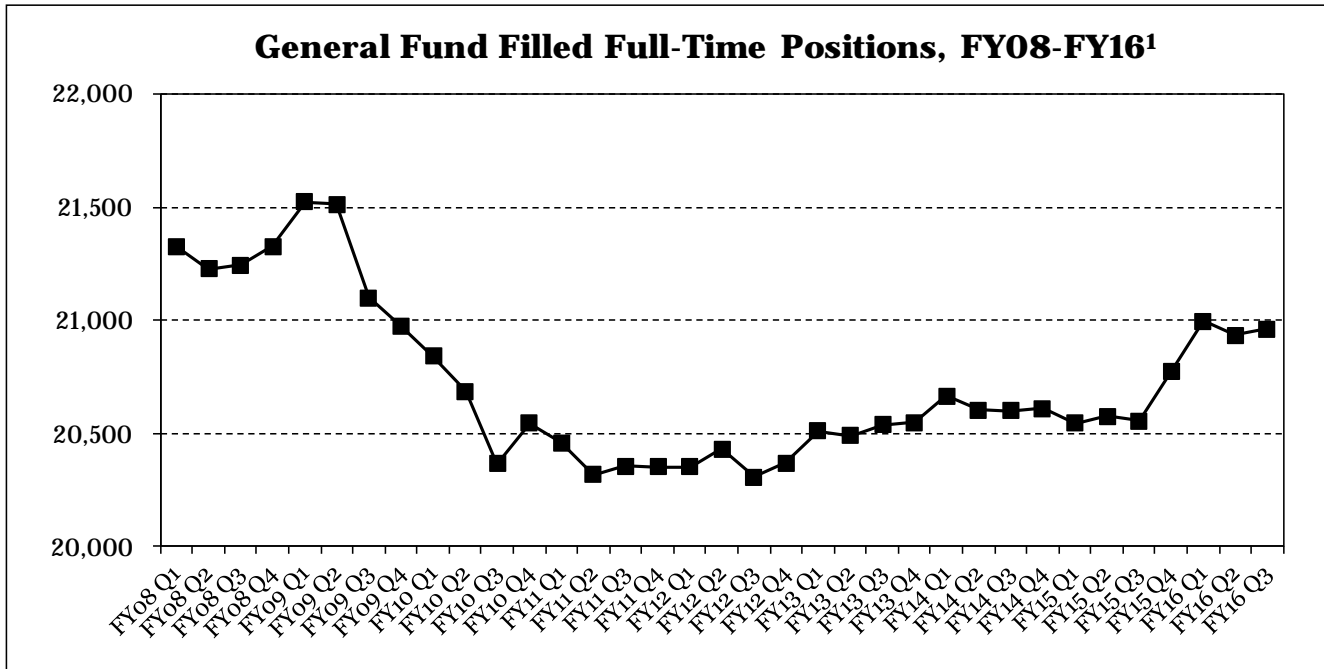
<sup>1</sup> Newly-hired correctional officers are those hired on or after November 14, 2014. Newly-elected officials are those elected on or after November 14, 2014. Plan 10 contributions do not include voluntary DC plan contributions.

<sup>2</sup> Assumes employees are covered by Social Security.

<sup>3</sup> Amount shown is effective November 14, 2014.

# Staffing

- ▶ General Fund employment has increased by 405 since Q3 of FY15.<sup>1</sup>

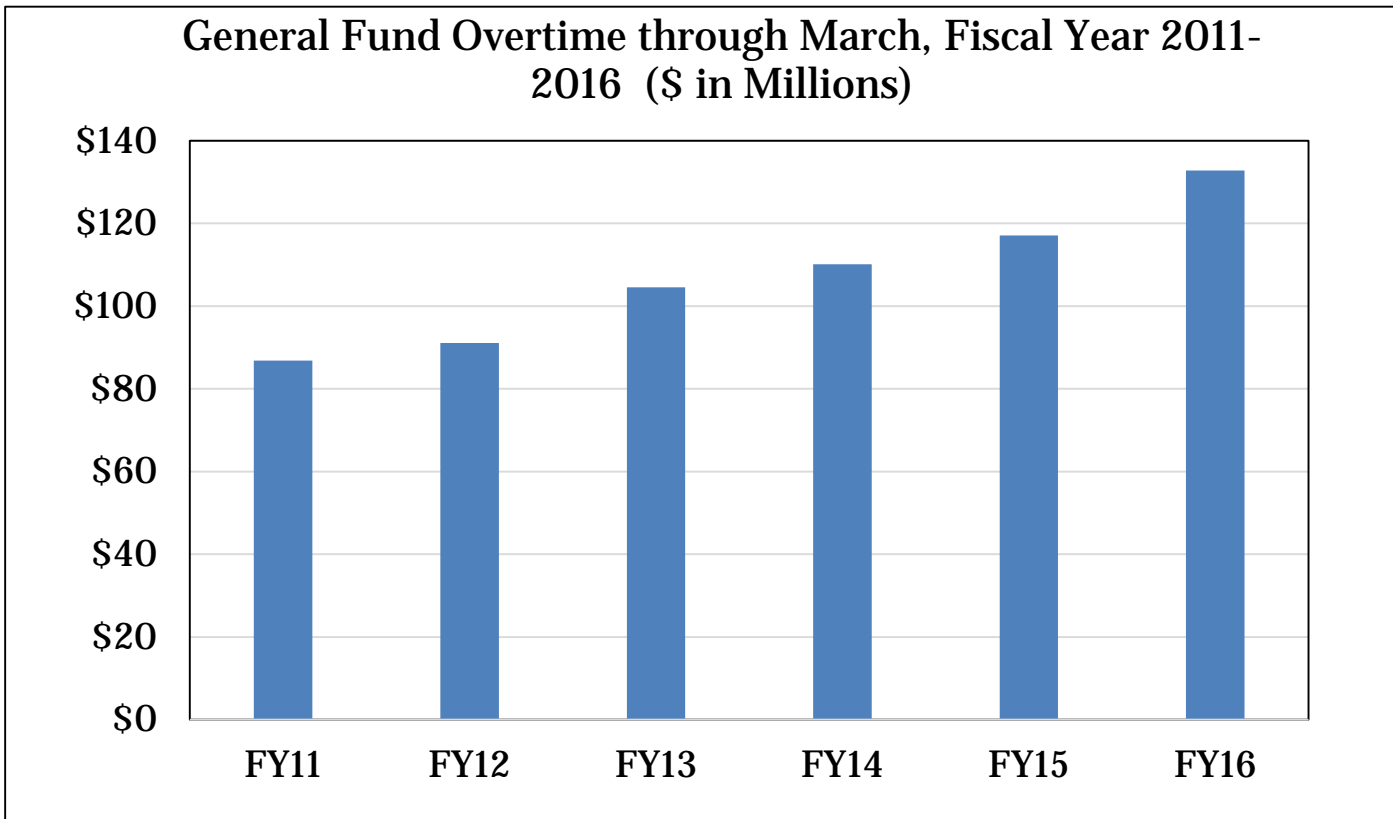


Note:

<sup>1</sup> Department of Human Service (DHS) personnel are excluded to allow comparability. DHS personnel are primarily reported in the Grants Revenue Fund beginning in FY12, due to an accounting change.

# Overtime

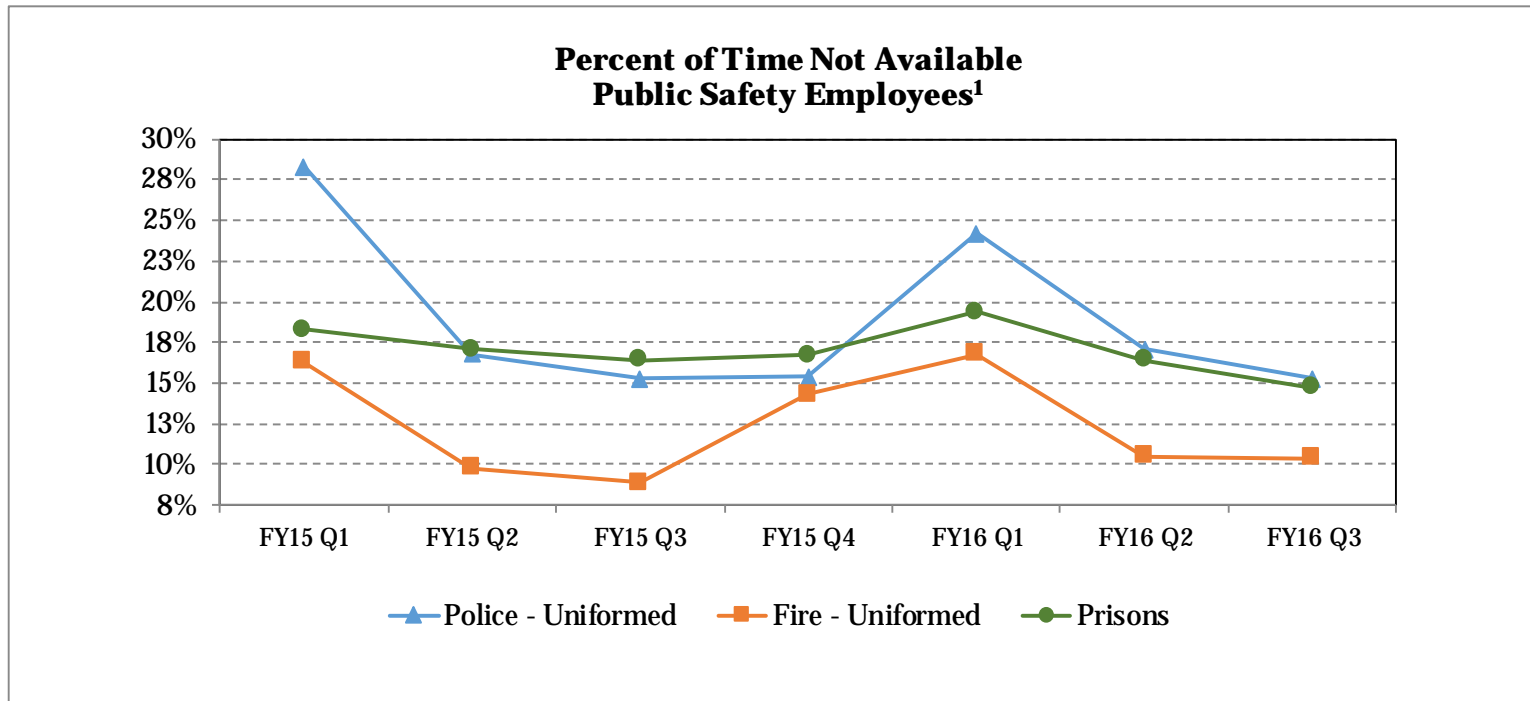
- ▶ Overtime has increased 53 percent from Q3 FY11 through the same quarter in FY16. The FY16 year-to-date actual for overtime is currently \$132.8 million, compared to \$117.1 million in Q3 of FY15. The QCMR projects total FY16 overtime at \$166.4 million.



<sup>1</sup>The FY11 amount excludes \$3.8 million in Fire Department overtime due to a one-time legal settlement related to overtime for emergency medical services personnel.

# Leave Usage

- ▶ In the third quarter of FY16, time not available due to leave usage varied from a high of 21.1 percent of work days for civilian employees in the Police Department, to a low of 2.0 percent for employees in the Mayor’s Office. The median rate among all City agencies was 14.2 percent.<sup>1</sup> Seasonal variability in leave use has major cost implications, since overtime is often necessary to ensure consistent staffing.



Note:

<sup>1</sup> The calculation includes time not available due to sick, injured-on-duty, vacation, compensation time, holiday compensation time, annual leave, funeral, military, excused, AWOL, suspension, administration, and other miscellaneous leave.