Pennsylvania Intergovernmental Cooperation Authority

Staff Report
on the
City of Philadelphia's
Quarterly City Managers Report
for the Period Ending September 30, 2015

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

January 8, 2016

Executive Summary

The *Quarterly City Managers Report* (QCMR) for the first quarter of Fiscal Year 2016 was submitted to PICA on November 16, 2015. The most significant elements of the report include:

- *Fund Balance*. The General Fund FY15 year-end fund balance unaudited actual is $151.5 million, $83.2 million higher than the initial FY15-FY19 Plan projection.
  - The current General Fund FY16 year-end fund balance projection is $82.2 million, $12.9 million higher than the FY16-FY20 Plan projection.
- *Tax Revenue*. Unaudited actual FY15 General Fund tax revenue is $2,777.0 million,$28.8 million higher than the initial FY15-FY19 Plan projection.
  - The currently projected FY16 General Fund tax revenue is $2,925.3 million,$13.0 million higher than the FY16-FY20 Plan projection.
- *Spending*. FY15 General Fund obligation unaudited actual is $3,831.5 million, an increase of $7.0 million from the original Five-Year Plan projection (after adjustment for the loss of $700 million in PGW sale proceeds included in the original Plan).
  - FY16 General Fund obligations are projected at $4,021.4 million, $23.3 million higher than the FY16-FY20 Plan projection primarily due to the Papal visit.

Introduction

- This PICA Staff Report analyzes the City of Philadelphia's *Quarterly City Managers Report* (QCMR) for the first quarter of Fiscal Year 2016, the period ending September 30, 2015. The QCMR, which was submitted to PICA on November 16, 2015, contains information on projected General Fund revenues and expenditures for FY16, unaudited actual revenues and expenditures for FY15, 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, deviations from previous projections, and financial and management issues such as labor contracts, pension reform, performance measures, staffing and overtime. The report also analyzes the FY15 unaudited actual revenues and expenditures in relation to previous projections. The QCMR for the first quarter of FY16 is the first to present information on FY15 actual financial results.
- The report is organized as follows:
    - Background
    - Fiscal Year 2015 Unaudited Actual Revenues and Expenditures
    - Fiscal Year 2016 Projected Revenues and Expenditures
    - Key Financial and Management Issues
    - Current Labor Contracts and Pension Benefits
    - Performance Measures
    - Staffing, Overtime, & Leave Usage

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 personnel, leave usage, performance, and cash flow.

- This PICA staff report analyzes the most recent QCMR covering the first quarter of FY16 (the "Q1 QCMR").[1] It compares the Q1 QCMR estimates of FY16 revenues and expenditures with estimates in the approved FY16-FY20 *Five-Year Financial Plan*.[2] Because the Q1 QCMR also includes FY15 unaudited actual revenues and expenditures, the report also compares these FY15 actual results to previous estimates in the FY15 QCMRs and the initially-approved FY15-FY19 *Five Year Financial Plan*.[3] The report also highlights finance and management issues.

- Unless otherwise noted, information is drawn from City Five-Year Financial Plans and QCMRs.

Notes:

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

[2] The approved FY16-FY20 Plan was submitted to PICA on June 19, 2015 and approved on July 16, 2015.

[3] The initially approved FY15-FY19 Plan was submitted to PICA on June 26, 2014 and approved on July 21, 2014. Subsequently, a revised FY15-FY19 Plan was approved on October 14, 2014. All references to the "FY15-FY19 Plan" in this report are to the version approved on July 21.

FY15 Results

- Overview
- Revenue
- Obligations

FY15 Results: Overview

- Unaudited actual FY15 General Fund revenues are $3,759.8 million, a decrease of $666.0 million from the initial FY15-19 *Five-Year Financial Plan* estimate in large part due to the unrealized Philadelphia Gas Works (PGW) sale. Obligations are $3,831.5 million, a decrease of $693.0 million from the Plan. The FY15 operating deficit is $71.7 million, a decrease from the $98.8 million deficit projected in the Plan. The Plan projected the FY14 year-end fund balance at $146.8 million, while the actual FY14 fund balance was $202.1 million.
- The sum of the FY15 operating deficit, prior year adjustments, and FY14 fund balance is the unaudited actual FY15 fund balance of $151.5 million. The actual FY15 fund balance is $83.2 million higher than the initial FY15-FY19 Plan projection.

FY15 General Fund Summary: Projections and Unaudited Actual ($ in Millions)

Category	FY15-19 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Revenues	$4,425.7	$4,471.4	$3,786.4	$3,789.7	$3,767.2	$3,759.8	($666.0)
Obligations	4,524.6	4,560.9	3,865.3	3,865.6	3,840.6	3,831.5	(693.0)
Operating Surplus/(Deficit)	(98.8)	(89.5)	(78.9)	(75.8)	(73.3)	(71.7)	27.1
Prior Year Adjustments	20.4	22.9	22.9	16.1	16.1	21.1	0.8
Prior Year Fund Balance/(Deficit)	146.8	202.1	202.1	202.1	202.1	202.1	55.3
Year-End Fund Balance	68.4	135.5	146.1	142.4	144.9	151.5	83.2

FY15 Results: Revenue

- The unaudited actual FY15 General Fund revenue was $3,759.8 million, a decrease of $666.0 million from the initial FY15-FY19 Plan estimate.
- The decrease reflects higher than projected tax revenue ($28.8 million) and revenue from other governments ($10.4 million), offset by a decline in locally-generated non-tax revenue ($676.3 million)[1] and revenue from other funds ($28.9 million).

FY15 General Fund Revenue: Projections and Unaudited Actual ($ in Millions)

Category	FY15-19 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Taxes	$2,748.2	$2,767.4	$2,779.9	$2,781.9	$2,781.9	$2,777.0	$28.8
Locally-Generated Non-Tax	970.7	997.7	299.2	301.3	297.1	294.4	(676.3)
Revenue from Other Governments	638.9	638.4	643.0	642.3	644.2	649.3	10.4
Revenue from Other Funds	67.9	67.9	64.2	64.2	44.0	39.0	(28.9)
Total	**4,425.7**	**4,471.4**	**3,786.4**	**3,789.7**	**3,767.2**	**3,759.8**	**(666.0)**

Note:
[1] See page 8 of this report for an explanation of this figure.

FY15 Results: Tax Revenue

- Unaudited actual FY15 tax revenue was $2,777.0 million, an increase of $28.8 million from the initial Plan estimate. The overall increase reflects increases for wage and earnings tax ($31.2 million), real estate transfer tax ($26.8 million), parking tax ($2.8 million), and net profits tax ($0.7 million), offset by declines in the business income and receipts tax ($15.0 million), real estate tax ($11.0 million), sales tax ($5.2 million), and amusement tax ($1.9 million).
- Wage and earnings tax collections have been stronger than anticipated due in part to the recovering economy and high delinquent collections. Real estate collections have been below the initial projection due to delays in processing assessment appeals. The Board of Revision of Taxes continues to process appeals that resulted from a citywide reassessment in FY14 known as the Actual Value Initiative (AVI). The impact on revenues has resulted from taxpayers with assessments under appeal who continue to pay tax based on pre-AVI assessments.

FY15 General Fund Tax Revenue
Projections and Unaudited Actual ($ in Millions)

Tax	FY15-19 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Wage and Earnings	$1,294.7	$1,310.2	$1,321.1	$1,323.1	$1,323.1	$1,325.8	$31.2
Real Estate	547.4	547.4	542.8	527.9	527.9	536.4	(11.0)
Business Income and Receipts	453.2	453.2	451.3	466.3	466.3	438.2	(15.0)
Net Profits	20.5	18.9	17.8	19.8	19.8	21.2	0.7
Sales	154.6	152.7	144.9	143.8	143.8	149.5	(5.2)
Real Estate Transfer	176.6	184.3	201.7	201.7	201.7	203.4	26.8
Parking	76.9	76.9	76.9	76.9	76.9	79.7	2.8
Amusement	20.9	20.4	20.1	18.9	18.9	19.0	(1.9)
Other	3.5	3.5	3.5	3.5	3.5	3.8	0.3
Total	**2,748.2**	**2,767.4**	**2,779.9**	**2,781.9**	**2,781.9**	**2,777.0**	**28.8**

FY15 Results: Locally-Generated Non-Tax Revenue

- Unaudited actual FY15 locally-generated non-tax revenue was $294.4 million, a decrease of $676.3 million from the initial Plan. The initial Plan estimate included $700 million in revenue from the sale of the Philadelphia Gas Works. This sale did not occur as anticipated, resulting in the elimination of $700 million from Department of Public Property revenue. Projected Finance revenue increased due to the release of $29 million previously held in reserve, as part of an agreement between the City and Fraternal Order of Police (FOP) regarding health care costs. The reserve had been created to cover potential costs related to termination of self-insurance for the FOP health plan. First Judicial District revenue has declined $8.8 million from the Plan estimate due to lower revenue from Traffic Court fines, bail fees, and court charges.

FY15 General Fund Locally-Generated Non-Tax Revenue Projections and Unaudited Actual ($ in Millions)

Agency Source	FY15-19 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Finance	$16.7	$45.4	$45.6	$47.1	$47.6	$44.4	$27.7
Fire	37.9	37.9	38.1	38.0	36.7	36.7	(1.2)
Innovation and Technology	23.2	23.7	23.9	23.9	23.9	24.1	0.8
Police	4.3	4.3	4.3	4.3	5.1	5.2	0.9
Licenses and Inspections	49.5	51.2	51.2	51.2	53.0	53.0	3.5
Public Property	708.4	709.0	11.3	11.3	10.0	9.9	(698.5)
Revenue	3.5	3.5	6.3	6.6	6.6	6.5	3.1
Public Health	13.1	13.1	12.1	12.1	11.1	11.0	(2.1)
Streets	24.1	22.3	24.5	25.4	24.1	23.9	(0.1)
First Judicial District	40.8	38.3	35.3	33.8	32.3	32.1	(8.8)
Other	49.3	49.0	46.7	47.8	46.8	47.7	(1.7)
Total	**970.7**	**997.7**	**299.2**	**301.3**	**297.1**	**294.4**	**(676.3)**

FY15 Results: Revenue from Other Governments

- Unaudited actual FY15 revenue from other governments is $649.3 million, an increase of $10.4 million from the initial Plan projection. The most significant variance between the initial Plan and the current projection is an $8.4 million increase in PICA tax revenue and a $3.0 million increase in parking violations and fines collected by the Philadelphia Parking Authority (PPA) and classified under the Department of Revenue.

FY15 General Fund Revenue from Other Governments Projections and Unaudited Actual ($ in Millions)							
Agency Source	**FY15-19 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
Finance	$161.4	$162.3	$162.5	$162.9	$162.9	$162.4	1.0
PICA City Account	338.0	332.6	337.0	337.0	338.0	346.5	8.4
Public Health	59.2	63.2	63.2	63.2	60.2	56.5	(2.8)
Revenue	35.0	35.0	35.0	35.0	38.0	38.1	3.0
Other	45.2	45.2	45.2	44.2	45.1	45.9	0.7
Total	**638.9**	**638.4**	**643.0**	**642.3**	**644.2**	**649.3**	**10.4**

FY15 Results: Obligations

- Unaudited actual FY15 General Fund obligations $3,831.5 million, a decrease of $693.0 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

FY15 General Fund Obligations Projections and Unaudited Actual ($ in Millions)							
Agency or Cost Center	**FY15-19 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
Civil Service Commission	$53.0	$18.0	$3.6	$0.2	$0.2	$0.2	($52.8)
Commerce	2.8	2.8	2.8	7.9	7.9	7.9	5.1
Debt Service	247.8	247.8	245.1	245.1	239.1	238.4	(9.4)
Employee Benefits	1,817.3	1,837.7	1,121.7	1,111.7	1,111.7	1,099.5	(717.8)
Innovation & Technology	82.2	82.1	82.1	82.1	63.8	63.9	(18.3)
Fire	206.8	203.2	224.3	227.3	230.2	232.5	25.8
First Judicial District	106.3	108.9	109.5	109.5	109.5	118.0	11.7
Human Services	99.5	99.5	102.8	102.8	102.8	96.5	(2.9)
Indemnities	33.7	33.7	39.7	39.7	39.7	--	(33.7)
Law	13.4	13.6	16.1	16.1	15.7	15.7	2.3
Police	592.5	613.3	613.3	613.4	615.4	632.7	40.2
Prisons	240.8	241.0	243.5	246.6	245.6	246.2	5.4
Public Property	57.7	69.6	69.8	64.2	64.2	67.6	9.9
Sheriff	18.5	18.6	18.6	21.0	21.4	22.2	3.7
Streets	117.6	124.4	124.8	130.0	133.0	144.6	27.0
Other	834.8	846.8	847.9	848.1	840.5	845.6	10.8
Total	**4,524.6**	**4,560.9**	**3,865.3**	**3,865.6**	**3,840.6**	**3,831.5**	**(693.0)**

FY15 Results: Obligations

- Changes from the initial FY15-19 Plan estimate of FY15 obligations and the unaudited actual include:

  - **Civil Service Commission** ($52.8 million decline). The Civil Service Commission line item in the initial FY15-FY19 Plan included a $52.8 million reserve for the potential cost of future labor contracts with District Council 33 of AFSCME (DC33), the International Association of Fire Fighters (IAFF), and the Fraternal Order of Police (FOP). The City has since entered into contracts with these unions: a July 2014 FOP arbitration award covering FY15-FY17; an August 2014 DC33 contract covering FY10-FY16; and a January 2015 IAFF arbitration award covering FY14-FY17. The actual FY15 costs resulting from these contracts are shown in the agencies that employ members of these bargaining units, rather than under the Civil Service Commission.
  - **Commerce** ($5.1 million increase). Increased spending of the proceeds from the sale of the Love Park garage.
  - **Debt Service** ($9.4 million decline). The decline reflects reduced interest costs related to the FY15 Tax Revenue Anticipation Note and variable rate debt.
  - **Employee Benefits** ($717.8 million decrease). Details on projected employee benefits cost changes are provided on page 13 of this report.
  - **Innovation & Technology** ($18.3 million decrease). The decline is due to lower than anticipated 911 costs.

FY15 Projection: Obligations

- Changes from the initial FY15-19 Plan estimate of FY15 obligations and the Q4 QCMR estimate include:
  - **Fire** ($25.8 million increase). The increase reflects $21.2 million in current and retroactive wage increases under the January 2015 IAFF arbitration award.
  - **First Judicial District** ($11.7 million increase). The increased reflects the year-end reconciliation, which included a one-time cost of $6.7 million for past amounts owed.
  - **Indemnities** ($33.7 million decrease). The decrease is due to the year-end allocation of indemnity costs among the respective city agencies.
  - **Law** ($2.3 million increase). Increased appraisal fees and contractual obligations.
  - **Police** ($40.2 million increase). The increase primarily reflects the costs of the new FOP contract covering FY15 through FY17. The contract included a 3.0 percent wage increase effective July 1, 2014 and a $1,500 per member bonus.
  - **Prisons** ($5.4 million increase). The increase reflects a new arbitration award covering correctional officers represented by District Council 33 Local 159. The award resulted in increased salary costs of $4.1 million. Higher than projected overtime has also contributed to higher costs.
  - **Public Property** ($9.9 million increase). The increase reflects expenditure of a portion of the proceeds from the sale of the Love Park garage.
  - **Sheriff** ($3.7 million increase). Reflects $0.5 million in additional costs due to a new arbitration award covering Sheriff's Office employees and a $2.0 million increase in overtime due to the assumption of warrant duties from the First Judicial District.
  - **Streets** ($27.0 million increase). Reflects increased personnel costs associated with new labor contracts and increased overtime, due in part to shortage of vehicles.

FY15 Results: Employee Benefit Obligations

- Unaudited actual FY15 employee benefit obligations are $1,099.5 million, a decrease of $717.8 million from the Plan. The decrease primarily reflects the elimination of supplemental contributions to the Pension Fund. The initial FY15-FY19 Plan assumed that $700 million from the sale of the Philadelphia Gas Works (PGW), and $2.3 million in dedicated sales tax revenue, would be deposited into the Pension Fund in FY15. The QCMR eliminates these supplemental payments, reflecting the failure to sell PGW and weaker than expected sales tax collections. Actual employee health benefit costs are $6.7 million above the Plan, due to the net impact of higher costs resulting from a new labor contract for DC33, offset by savings in other health plans. Higher group legal services costs reflect new FOP and IAFF contractual requirements.

FY15 General Fund Employee Benefits Obligations Projections and Unaudited Actual ($ in Millions)							
Category	**FY15-19 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
Pension Fund Primary Contribution	$465.6	$465.6	$465.6	$465.6	$465.6	$450.5	($15.1)
Pension Fund Supplemental Contributions	702.3	701.4	--	--	--	--	(702.3)
Pension-Related Debt Service	110.4	110.4	110.4	110.4	110.4	107.7	(2.7)
Employee Health Benefits	387.9	411.3	396.4	386.4	386.4	394.6	6.7
Employee Disability	64.1	59.3	56.0	56.0	56.0	57.3	(6.8)
FICA	68.8	68.8	71.1	71.1	71.1	71.2	2.3
Unemployment Compensation	5.1	5.1	5.1	5.1	5.1	2.5	(2.5)
Group Life Insurance	7.8	7.8	7.9	7.9	7.9	7.3	(0.5)
Group Legal Services	4.2	6.9	8.0	8.0	8.0	7.7	3.5
Flex Cash/Tool Allowance	1.1	1.1	1.1	1.1	1.1	0.7	(0.4)
Total	**1,817.3**	**1,837.7**	**1,121.7**	**1,111.7**	**1,111.7**	**1,099.5**	**(717.8)**

FY16 Projection

- Overview
- Revenue
- Obligations

FY16 Projection: Overview

- The Q1 QCMR projects FY16 General Fund revenues at $3,929.2 million, an increase of $24.0 million from the initial FY16-20 *Five-Year Financial Plan* estimate. Obligations are projected at $4,021.4 million, an increase of $23.3 million from the Plan. The FY16 operating deficit is projected at $92.2 million, a decrease from the $93.0 million deficit projected in the Plan. The Plan projected the FY15 year-end fund balance at $139.4 million, while the unaudited actual FY15 fund balance was $151.5 million.
- The sum of the projected operating deficit, prior year adjustments, and FY15 fund balance is the projected FY16 fund balance of $82.2 million. This projection is $12.9 million higher than the initial FY16-FY20 Plan projection.

FY16 General Fund Summary: Projections ($ in Millions)

Category	FY16-20 Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Revenues	$3,905.1	$3,929.2	$24.0
Obligations	3,998.1	4,021.4	23.3
Operating Surplus/(Deficit)	(93.0)	(92.2)	0.8
Prior Year Adjustments	22.9	22.9	--
Prior Year Fund Balance/(Deficit)	139.4	151.5	12.1
Year-End Fund Balance	69.3	82.2	12.9

FY16 Projection: Revenue

- The Q1 QCMR projects FY16 General Fund revenue at $3,929.2 million, an increase of $24.0 million from the initial FY16-FY20 Plan estimate.
- The increase reflects higher than projected tax revenue ($13.0 million), locally-generated non-tax revenue ($8.6 million), and revenue from other governments ($2.5 million).

FY16 General Fund Revenue: Projections ($ in Millions)			
Category	**FY16-20 Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
Taxes	$2,912.3	$2,925.3	$13.0
Locally-Generated Non-Tax	275.8	284.4	8.6
Revenue from Other Governments	651.8	654.3	2.5
Revenue from Other Funds	65.2	65.2	--
Total	**3,905.1**	**3,929.2**	**24.0**

FY16 Projection: Tax Revenue

- FY16 General Fund tax revenue is projected at $2,925.3 million, an increase of $13.0 million from the initial Plan estimate. The overall increase reflects increases for the following taxes: real estate transfer ($8.0 million); sales ($5.0 million); business income and receipts ($3.2 million); and real estate ($2.5 million).
- The changes reflect differences between estimates of FY15 tax revenues made at the time of the initial FY16-FY20 Plan's submission in June and revised FY15 tax revenue estimates made in September. These revisions of FY15 tax revenues were the basis of revised FY16 revenues. The FY16 estimate applies previously estimated annual growth rates for each tax to the revised FY15 estimates.

FY16 General Fund Tax Revenue: Projections ($ in Millions)

Tax	FY15-19 Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Wage and Earnings	$1,370.6	$1,370.6	$0.0
Real Estate	581.1	583.6	2.5
Business Income and Receipts	453.9	457.1	3.2
Net Profits	18.5	18.5	--
Sales	149.4	154.4	5.0
Real Estate Transfer	221.9	229.9	8.0
Parking	88.6	88.6	--
Amusement	19.2	19.2	--
Other	9.2	3.5	(5.7)
Total	**2,912.3**	**2,925.3**	**13.0**

FY16 Projection: Locally-Generated Non-Tax Revenue

- FY16 locally-generated non-tax revenue is projected at $284.4 million, an increase of $8.6 million from the initial Plan estimate.
- The most significant change from the initial Plan estimate was an increase of $10.2 million in the Managing Director's Office, $1.9 million in City Treasurer, and $1.0 million in L&I, offset by declines in Public Property ($1.8 million) and Streets ($1.0 million). The increase in the Managing Director's Office reflects reimbursements associated with the Papal visit.

FY16 General Fund Locally-Generated Non-Tax Revenue: Projections ($ in Millions)			
Agency Source	FY16-20 Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Managing Director	0.5	10.7	10.2
Finance	18.4	18.6	0.2
City Treasurer	1.7	3.6	1.9
Innovation and Technology	23.2	23.2	--
Licenses and Inspections	53.0	54.0	1.0
Public Property	13.2	11.5	(1.8)
Streets	25.0	24.0	(1.0)
Other	140.8	138.8	(2.0)
Total	**275.8**	**284.4**	**8.6**

FY16 Projection: Revenue from Other Governments

- The Q1 QCMR projection of FY16 revenue from other governments is $654.3 million, an increase of $2.5 million from the initial Plan projection.
- PICA City Account revenue is projected at $353.5 million.

FY16 General Fund Revenue from Other Governments: Projections ($ in Millions)			
Agency Source	**FY16-20 Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
Finance	$162.4	$162.9	$0.5
PICA City Account	353.5	353.5	--
Revenue	35.7	37.7	2.0
Other	100.2	100.2	--
Total	**651.8**	**654.3**	**2.5**

FY16 Projection: Obligations

- The Q1 QCMR projects FY16 obligations at $4,021.4 million, an increase of $23.3 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

FY16 General Fund Obligations: Projections ($ in Millions)			
Agency or Cost Center	**FY16-20 Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
City Council	$41.7	$16.7	($25.0)
Contribution to School District	79.2	104.2	25.0
Debt Service	245.9	245.9	--
Employee Benefits	1,172.2	1,172.2	--
Fire	219.1	226.2	7.1
Police	643.0	652.4	9.4
Public Property	59.9	60.8	0.9
Indemnities	38.0	38.0	--
Streets	125.4	126.8	1.4
Prisons	253.8	252.4	(1.4)
Sheriff	19.2	19.2	--
Other	1,100.7	1,106.5	5.8
Total	**3,998.1**	**4,021.4**	**23.3**

FY15 Projection: Obligations

- Changes from the initial FY16-20 Plan estimate of FY16 obligations and the Q1 QCMR estimate include:
  - **City Council** ($25.0 million decrease). The decrease reflects a transfer of $25 million to the line item for the City's annual financial contribution to the School District. At the time the FY16 budget was enacted, a portion of the City's assistance to the School District 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** ($7.1 million increase). The increase reflects various costs, the largest of which was a $4.8 million increase in overtime for the Papal visit.
  - **Police** ($9.4 million increase). The increase primarily reflects an increase in overtime for the Papal visit.
  - **Prisons** ($1.4 million decrease). There is a decrease because of an external housing surplus, offset by an allowance for arbitration award salary adjustments.
  - **Public Property** ($0.9 million increase). The increase is primarily due to the Papal visit and maintenance contracts.
  - **Streets** ($1.4 million increase). The increase primarily reflects an increase in overtime for both the Papal visit and a compactor shortage.

Key Financial and Management Issues

- Labor Contracts
- Pension Benefits
- Performance Measures
- 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. 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 new correctional officers and employees of the Register of Wills, who will have to pay a higher contribution than existing employees, and voluntary for other 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 Employees.** Newly-hired employees are required to participate in Plan 10. This is the only Bargaining Unit that does 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.

City Pension Plans
Benefits (Defined Benefit Portion)

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

City Pension Plans Eligibility and Participant Contribution Requirements		
Bargaining Unit/ Category	Previously-Hired Employees	Newly-Hired Employees[1]
Police (FOP) and Firefighters (IAFF)	Plan 67 (6%) or Plan 87 (5%, but not less than 30% or greater than 50% of normal cost)	Plan 87 (6% or 30% of normal cost, whichever is greater) or Plan 10 (5.5% for first 20 years of service)
DC33 (Other than correctional officers), DC47 and Non-Union[2]	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)	Plan 87 (previously-hired employee contribution plus 1.0%) or Plan 10 (50% of normal cost)
Deputy Sheriffs (FOP)	Plan 67 (6%) or Plan 87 (30% of normal cost)	Plan 87 (50% of normal cost) or Plan 10 (50% of normal cost)
Register of Wills (FOP)	Plan 67 (6%) or Plan 87 (30% of normal cost).	Plan 10 (50% of normal cost)

Notes:

[1] 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.

[2] Assumes employees are covered by Social Security.

Pension Benefits

City Pension Plans Eligibility and Participant Contribution Requirements (continued)		
Bargaining Unit/ Category	Previously-Hired Employees and Previously-Elected Officials	Newly-Hired Employees and Newly-Elected Officials[1]
Correctional Officers (DC33 Local 159)[2, 3]	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:

[1] 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.

[2] Assumes employees are covered by Social Security.

[3] Amount shown is effective November 14, 2014.

Performance Measures: Public Safety

- **Police Department**: Preliminary data for FY16 Q1 suggest that homicide and total Part 1 violent crime are on par with FY15 levels. Homicides declined 30 percent from FY12 to FY15, while Part 1 violent crime declined 14 percent from FY11 to FY15. The clearance rate for homicide declined substantially between FY13 and FY14 and has since increased in FY15; while it has remained relatively steady for other violent crime, such as robbery, rape, and aggravated assault.
- **Fire Department**: In FY15, 68.5 percent of EMS calls achieved a response time of 9 minutes or less, an increase from the FY14 average of 64.0 percent. The improvements reflect the impact of City initiatives to improve EMS services and response times. The initiatives, which are detailed in *FY16-FY20 Five-Year Financial Plan*, include additional medic units, increased staff, implementation of a new Priority Dispatch System, and public education on the proper use of the 911 system. Fire average response times have remained relatively stable since FY10.

Performance Measures: Public Safety

Agency	Measure	FY10	FY11	FY12	FY13	FY14	FY15	FY16 Q1
Police	Homicides	305	318	350	263	246	248	86
	Part 1 Violent Crime	17,740	18,446	18,224	17,384	16,533	15,912	4,553
	Homicide Clearance Rate	72.2%	67.9%	64.0%	73.0%	56.5%	62.3%	46.5%
	Other Violent Crime Clearance Rate	51.2%	49.8%	48.5%	50.4%	52.3%	51.3%	50.3%
Fire	Fire Engine Average Response Time[1]	4:46	4:57	4:57	4:54	4:57	4:54	4:47
	Structural Fires[2]	1,362	3,041	3,108	2,882	3,019	2,880	631
	Fire Deaths	32	41	24	25	23	24	2
	EMS Response Time (Percent Within 9 Minutes)	73.9%	68.5%	68.0%	66.0%	64.0%	68.5%	67.0%

Notes:
[1] Includes responses for fire and EMS incidents.
[2] Beginning in FY11, figures are based on the National Fire Incident Reporting System (NFIRS) definition, and not comparable to figures for FY10, which are based on a less inclusive definition.

Performance Measures: Public Health and Human Services

- **Department of Human Services**: Dependent placements for FY16 Q1 are already outpacing FY15 year-end numbers. Those placements increased to 5,184 at the end of FY15, an increase of over 1,000 since FY12. The increase reflects in part a more expansive definition of child abuse, as well as new reporting requirements. Delinquent placements have been declining since FY11, indicating the success of diversion and prevention programs. Permanency discharges for FY16 Q1 are slightly above FY15 levels in the same quarter.
- **Department of Public Health**: The number of newly diagnosed HIV cases were declining since FY12, but rose in FY15. However, FY16 Q1 numbers are below those for FY15 Q1. In FY13, the Department began reporting on immunization rates. Child immunization increased from 75 percent in FY13 to over 85 percent in FY15; however, FY16 Q1 numbers are 7.4% below those from FY15 Q1.

Performance Measures: Public Health and Human Services							
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16 Q1**
Human Services	Permanency Discharges	2,130	1,633	1,229	1,221	1,403	435
	Adoptions as Percent of Permanency Discharges	31%	29%	29%	31.8%	27.2%	21.6
	Dependent Placements as of End of Period	4,182	4,030	4,179	4,473	5,184	5,738
	Delinquent Placements as of End of Period	1,413	1,198	1,155	952	873	791
Public Health	Visits to District Health Centers	339,032	348,472	NA	NA	NA	NA
	Percent of Visits from Uninsured Patients	49.6%	51.1%	52.9%	49.6%	49.0%	41.3%
	Newly Diagnosed HIV Case Reports	NA	792	704	585	624	127
	Children with Complete Immunizations[1]	NA	NA	75%	78%	85.8%	77.6%

Note
[1] Defined as percentage of children of age 19 to 35 months with complete immunizations.

Performance Measures: Housing

- **Office of Supportive Housing**: Homeless prevention service levels have declined in recent years due to the 2012 expiration of the Homeless Prevention and Rapid Re-Housing program, but increased in FY15 due to a partnership between OSH and the Philadelphia Housing Authority. New permanent supportive housing units declined from 180 in FY13 to 59 in FY14 due to delays in grant and development funding, but have significantly increased in FY15 to 115.
- **Office of Housing and Community Development**: Mortgage foreclosures diverted declined in FY14 and FY15 in part due to a reduction in foreclosure filings. FY16 Q1 levels are below those for the same quarter in FY15. In addition, the measure has been redefined to exclude forbearances. The number of owner-occupied homes repaired in FY16 Q1 are slightly below FY15 Q1 levels. In FY13, the agency began reporting on the number of clients receiving counseling. This measure includes counseling for current and prospective homeowners.

Performance Measures: Housing

Agency	Measure	FY11	FY12	FY13	FY14	FY15	FY16 Q1
Supportive Housing	Households Receiving Financial Assistance						
	For Homelessness Prevention	1,898	809	610	676	814	155
	For Ending Homelessness	NA	NA	291	135	356	0
	New Permanent Supportive Housing Units[1]	120	179	180	59	115	NA
	Transitional Housing Placements	510	558	539	509	610	124
Housing and Community Development	Mortgage Foreclosures Diverted	1,647	1,423	1,754	1,232	1,178	222
	Owner-Occupied Homes Repaired[2]	8,232	7,129	5,409	5,689	5,511	1,164
	City Lots Greened and Cleaned[3]	8,417	8,500	9,238	8,766	8,713	8,412
	Clients Receiving Counseling	NA	NA	12,463	12,398	11,495	2,462

Notes:

[1] Excludes Philadelphia Housing Authority units.

[2] Through Basic System Repair Program, Weatherization, or Heater Hotline.

[3] This measure represents the number of lots as of a point in time. Includes land stabilization and land maintenance.

Performance Measures: Parks and Recreation and Free Library

- **Department of Parks and Recreation**: Visits to departmental sites increased significantly from FY14 to FY15 and are on pace to reach similar levels if FY16 Q1 is an indication. Acres mowed has increased in recent years due to weather and increased frequency of mowing at athletic fields; FY16 Q1 numbers are higher than those of FY15 Q1.
- **Free Library of Philadelphia**: Circulation for FY16 Q1 is on par with that of FY15 in the same quarter. The number of physical visits increased in FY15, while website visits also increased; however, physical visits for FY16 Q1 are slightly below those from FY15 Q1, while website visits are consistent with FY15 Q1 levels.

Performance Measures: Parks and Recreation and Free Library							
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16 Q1**
Parks and Recreation	Programs Offered[1]	3,824	4,050	3,742	3,603	4,695	2,415
	Visits to Departmental Facilities and Sites (Millions)	6.57	6.60	7.30	6.24	6.80	2.44
	Acres Mowed[2] (Thousands)	37.5	36.0	40.3	40.3	43.6	18.70
	Trees Planted[3] (Thousands)	18.3	20.3	26.0	18.3	13.9	NA
Free Library	Circulation of Materials (Millions)	7.21	7.50	6.58	6.51	6.5	1.7
	Visits (Millions)	6.10	5.96	5.85	5.67	5.9	1.3
	Website Visits (Millions)	NA	NA	7.3	8.2	9.9	2.5
	Hours Open (Thousands)	100.0	97.8	95.8	99.8	109.6	24.8

Notes
[1] Beginning in FY13, data reflect number of unique programs in the period in which the program first occurs.
[2] Includes athletic fields and neighborhood parks.
[3] Includes trees planted by the Department along streets and on Department sites and public land, and trees planted in partnership with other organizations.

Performance Measures: Transportation and Regulation

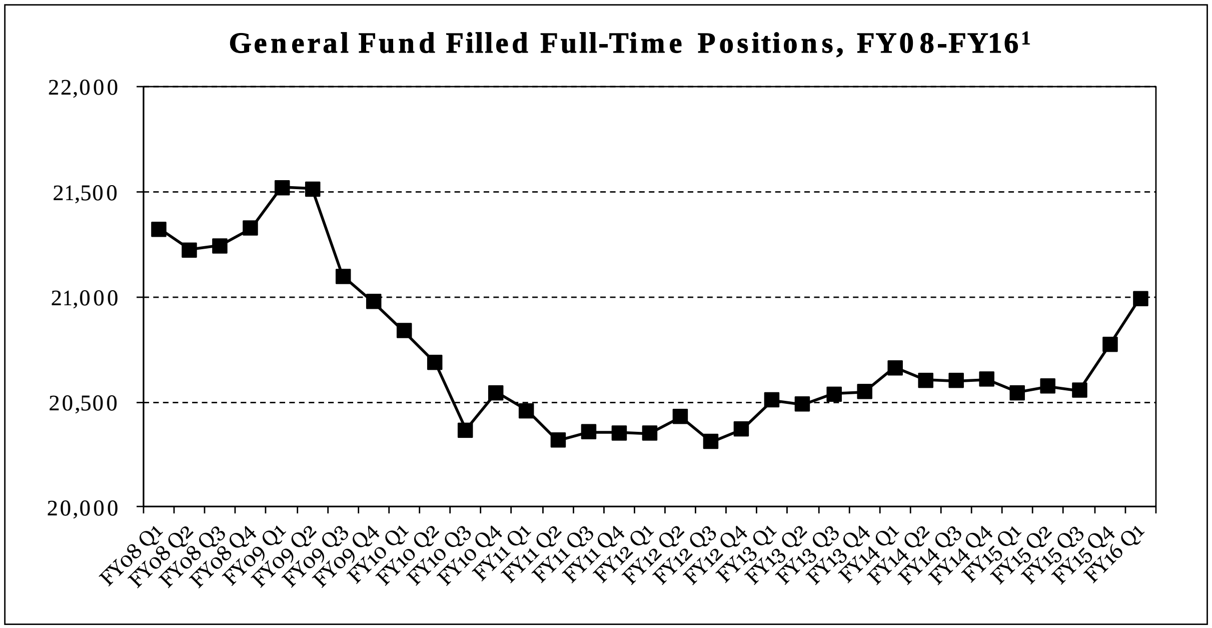
- **Streets Department**: On-time recycling collection has remained relatively stable since FY11; while on-time trash collection has declined substantially since FY11, in part due to an aging fleet. Additional vehicles will be acquired this fiscal year.
- **Department of Licenses and Inspections**: The number of properties classified as imminently dangerous increased from FY13 to FY14 and subsequently declined in FY15, largely due to heightened demolition efforts and increased funding. However, L&I fell 100 demolitions short of meeting its FY15 target. Although demolitions for FY16 Q1 are similar to those in FY15 for the same quarter, the number of imminently dangerous properties has declined marginally during this first quarter. Residential demolitions fell well below the target of 600 because of an increase in the cost of demolitions, as well as a large commercial demolition that reduced the level of funds available for residential demolitions.

Performance Measures: Transportation and Regulation							
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16 Q1**
Streets	Recycling Rate	19%	19%	20%	21%	19%	19%
	On-Time Trash Collection[1]	94%	94%	96%	85%	76%	76%
	On-Time Recycling Collection[1]	96%	97%	97%	93%	96%	96%
Licenses and Inspections	Residential Buildings Demolished	567	543	521	522	492	137
	Imminently Dangerous Properties	NA	NA	375	566	258	233
	Permits Issued[2] (Thousands)	NA	NA	35.7	35.4	39.9	11.0

Notes
[1] Percentage of collections completed by 3:00 PM.
[2] Includes building, electrical, and plumbing permits.

Staffing

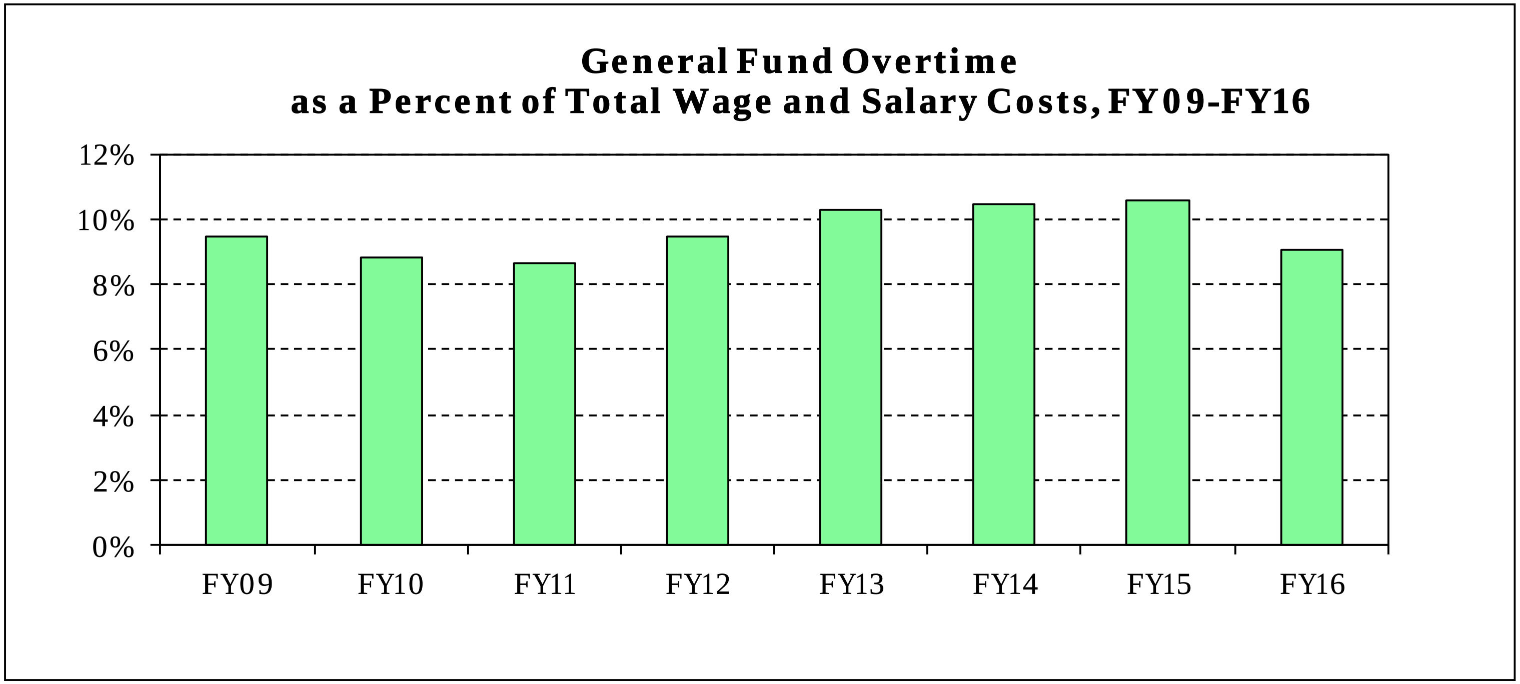
- After declining by more than 1,100 from December 2008 through March 2010, General Fund employment has since increased by 628.[1]



Note:
[1] 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

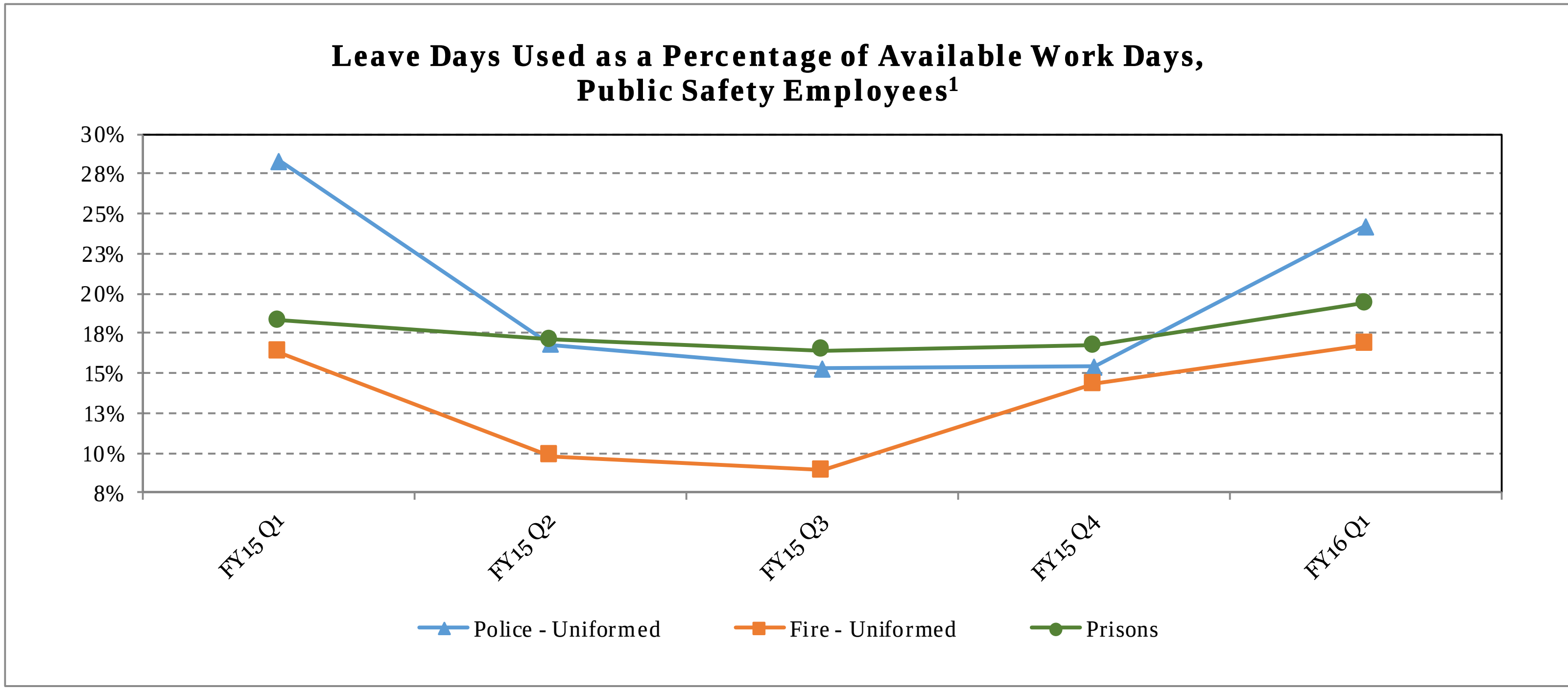
- Overtime as a percentage of wages and salaries is currently 9.0 percent. This figure declined from 9.5 percent in FY09 to 8.6 percent in FY11, and has since increased each year, reaching 10.6 percent in FY15.[1] The decline in overtime costs during the City's greatest period of fiscal constraint after the recession and the increase since FY11 suggests that greater overtime control is possible. The decrease in costs reflected in FY16 Q1 is a trend the City hopes to continue.



[1] 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 first quarter of FY16, leave usage varied from a high of 25.4 percent of available work days among City Commissioners employees to a low of 12.5 percent among Mayor's Office employees. The median leave usage rate among all City agencies was 19.1 percent.[1] Seasonal variability in leave use has major cost implications, since overtime is often necessary to assure consistent staffing.



Note:
[1] The leave usage calculation includes the following categories: vacation, annual, sick, funeral, unpaid, comp time, and "AWOL." Beginning in FY15, the following additional categories have also been included: injured-on-duty, Heart and Lung, military, excused, suspension, administrative, and strike.