

Pennsylvania Intergovernmental Cooperation Authority

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

Executive Summary

The *Quarterly City Managers Report* (QCMR) for the fourth quarter of Fiscal Year 2015 was submitted to PICA on August 17, 2015. The most significant elements of the report include:

- ▶ **Fund Balance.** The General Fund FY15 year-end balance is projected at \$144.8 million, an increase of \$2.4 million from the third quarter QCMR and \$76.5 million higher than the initial FY15-FY19 Plan projection.
- ▶ **Tax Revenue.** Overall projected General Fund tax revenue is \$2,781.9 million, unchanged from the previous QCMR.
- ▶ **Spending.** FY15 General Fund obligations are projected at \$3,840.9 million, an increase of \$16.3 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).
- ▶ **Performance.** On-time solid waste collection has declined to 76 percent through the fourth quarter of FY15. Dependent children in placement as of June 30 was 5,184, an increase of more than 1,000 since FY12. Households receiving financial assistance for homelessness prevention and for ending homelessness increased for the first time since FY12 because of a partnership between the Office of Supportive Housing and Philadelphia Housing Authority.
- ▶ **Positions.** Filled General Fund positions are 225 higher than the level of June 2010.
- ▶ **Overtime.** The total projected General Fund overtime for FY15 is \$159.1 million, an increase of \$37.6 million above the initial Five Year Plan estimate. In FY15, the Plan projected reductions for Fire, Police and Streets Departments, but the year-end projection exceeds Plan estimates by \$10.3 million, \$8.1 million, and \$7.4 million for those departments, respectively.

Introduction

- ▶ This PICA Staff Report analyzes the City of Philadelphia's *Quarterly City Managers Report* (QCMR) for the fourth quarter of Fiscal Year 2015, the period ending June 30, 2015. The QCMR, which was submitted to PICA on August 17, 2015, contains information on projected General Fund revenues and expenditures for FY15, agency performance, personnel levels, leave usage, and cash flow.
- ▶ The focus of this report is the current projection of FY15 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 is organized as follows:
 - ▶ Background
 - ▶ Fiscal Year 2015 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 information on personnel, leave usage, performance, and cash flow.
- ▶ This PICA staff report analyzes the most recent QCMR covering the fourth quarter of FY15 (the “Q4 QCMR”).¹ It compares the Q4 QCMR estimates of FY15 revenues and expenditures with estimates in the QCMRs for the first, second, and third quarters of FY15, and the initially-approved FY15-FY19 *Five-Year Financial Plan*.² 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 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 Projection

- ▶ Overview
- ▶ Revenue
- ▶ Obligations

FY15 Projection: Overview

- ▶ The Q4 QCMR projects FY15 General Fund revenues at \$3,767.5 million, a decrease of \$658.3 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 projected at \$3,840.9 million, a decrease of \$683.7 million from the Plan. The FY15 operating deficit is projected at \$73.4 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 projected FY15 operating deficit, prior year adjustments, and FY14 fund balance is the projected FY15 fund balance of \$144.8 million. This projection is \$76.5 million higher than the initial FY15-FY19 Plan projection.

| FY15 General Fund Summary: Projections (\$ in Millions) | | | | | | |
|--|---------------------|----------------|----------------|----------------|----------------|------------------------------------|
| Category | FY15-19 Plan | Q1 QCMR | Q2 QCMR | Q3 QCMR | Q4 QCMR | Change from Plan to Q4 QCMR |
| Revenues | \$4,425.7 | \$4,471.4 | \$3,786.4 | \$3,789.7 | \$3,767.5 | (\$658.3) |
| Obligations | 4,524.6 | 4,560.9 | 3,865.3 | 3,865.6 | 3,840.9 | (683.7) |
| Operating Surplus/(Deficit) | (98.8) | (89.5) | (78.9) | (75.8) | (73.4) | 25.4 |
| Prior Year Adjustments | 20.4 | 22.9 | 22.9 | 16.1 | 16.1 | (4.3) |
| Prior Year Fund Balance/(Deficit) | 146.8 | 202.1 | 202.1 | 202.1 | 202.1 | 55.3 |
| Year-End Fund Balance | 68.4 | 135.5 | 146.1 | 142.4 | 144.8 | 76.5 |

FY15 Projection: Revenue

- ▶ The Q4 QCMR projects FY15 General Fund revenue at \$3,767.5 million, a decrease of \$658.3 million from the initial FY15-FY19 Plan estimate.
- ▶ The decrease reflects higher than projected tax revenue (\$33.7 million) and revenue from other governments (\$5.4 million), offset by a decline in locally-generated non-tax revenue (\$673.4 million)¹ and revenue from other funds (\$23.9 million).

| FY15 General Fund Revenue: Projections (\$ in Millions) | | | | | | |
|--|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---|
| <u>Category</u> | <u>FY15-19 Plan</u> | <u>Q1 QCMR</u> | <u>Q2 QCMR</u> | <u>Q3 QCMR</u> | <u>Q4 QCMR</u> | <u>Change from Plan to Q4 QCMR</u> |
| Taxes | \$2,748.2 | \$2,767.4 | \$2,779.9 | \$2,781.9 | \$2,781.9 | \$33.7 |
| Locally-Generated Non-Tax | 970.7 | 997.7 | 299.2 | 301.3 | 297.3 | (673.4) |
| Revenue from Other Governments | 638.9 | 638.4 | 643.0 | 642.3 | 644.3 | 5.4 |
| Revenue from Other Funds | 67.9 | 67.9 | 64.2 | 64.2 | 44.0 | (23.9) |
| Total | 4,425.7 | 4,471.4 | 3,786.4 | 3,789.7 | 3,767.5 | (658.3) |

Note:

¹ See page 8 of this report for an explanation of this figure.

FY15 Projection: Tax Revenue

- ▶ FY15 General Fund tax revenue is projected at \$2,781.9 million, an increase of \$33.7 million from the initial Plan estimate. The overall increase reflects increases for wage and earnings tax (\$28.4 million), real estate transfer tax (\$25.1 million), and business income and receipts tax (\$13.1 million), offset by declines in real estate tax (\$19.5 million), sales tax (\$10.8 million), amusement tax (\$2.0 million), and net profits tax (\$0.7 million).
- ▶ Wage and earnings tax collections have been stronger than anticipated in part due 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 (\$ in Millions) | | | | | | |
|--|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---|
| <u>Tax</u> | <u>FY15-19 Plan</u> | <u>Q1 QCMR</u> | <u>Q2 QCMR</u> | <u>Q3 QCMR</u> | <u>Q4 QCMR</u> | <u>Change from Plan to Q4 QCMR</u> |
| Wage and Earnings | \$1,294.7 | \$1,310.2 | \$1,321.1 | \$1,323.1 | \$1,323.1 | \$28.4 |
| Real Estate | 547.4 | 547.4 | 542.8 | 527.9 | 527.9 | (19.5) |
| Business Income and Receipts | 453.2 | 453.2 | 451.3 | 466.3 | 466.3 | 13.1 |
| Net Profits | 20.5 | 18.9 | 17.8 | 19.8 | 19.8 | (0.7) |
| Sales | 154.6 | 152.7 | 144.9 | 143.8 | 143.8 | (10.8) |
| Real Estate Transfer | 176.6 | 184.3 | 201.7 | 201.7 | 201.7 | 25.1 |
| Parking | 76.9 | 76.9 | 76.9 | 76.9 | 76.9 | -- |
| Amusement | 20.9 | 20.4 | 20.1 | 18.9 | 18.9 | (2.0) |
| Other | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | -- |
| Total | 2,748.2 | 2,767.4 | 2,779.9 | 2,781.9 | 2,781.9 | 33.7 |

FY15 Projection: Locally-Generated Non-Tax Revenue

- FY15 locally-generated non-tax revenue is projected at \$297.3 million, a decrease of \$673.4 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 \$8.6 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 (\$ in Millions) | | | | | | |
|--|-------------------------|--------------------|--------------------|--------------------|--------------------|--|
| <u>Agency Source</u> | <u>FY15-19 Plan</u> | <u>Q1 QCMR</u> | <u>Q2 QCMR</u> | <u>Q3 QCMR</u> | <u>Q4 QCMR</u> | <u>Change from Plan to Q4 QCMR</u> |
| Finance | \$16.7 | \$45.4 | \$45.6 | \$47.1 | \$47.6 | \$30.9 |
| Fire | 37.9 | 37.9 | 38.1 | 38.0 | 36.8 | (1.2) |
| Innovation and Technology | 23.2 | 23.7 | 23.9 | 23.9 | 23.9 | 0.7 |
| Police | 4.3 | 4.3 | 4.3 | 4.3 | 5.2 | 0.8 |
| Licenses and Inspections | 49.5 | 51.2 | 51.2 | 51.2 | 53.0 | 3.5 |
| Public Property | 708.4 | 709.0 | 11.3 | 11.3 | 10.0 | (698.4) |
| Revenue | 3.5 | 3.5 | 6.3 | 6.6 | 6.6 | 3.1 |
| Public Health | 13.1 | 13.1 | 12.1 | 12.1 | 11.1 | (2.0) |
| Streets | 24.1 | 22.3 | 24.5 | 25.4 | 24.1 | -- |
| First Judicial District | 40.8 | 38.3 | 35.3 | 33.8 | 32.3 | (8.6) |
| Other | 49.3 | 49.0 | 46.7 | 47.8 | 46.8 | (2.5) |
| Total | 970.7 | 997.7 | 299.2 | 301.3 | 297.3 | (673.4) |

FY15 Projection: Revenue from Other Governments

- ▶ The Q4 QCMR projection of FY15 revenue from other governments is \$644.3 million, an increase of \$5.4 million from the initial Plan projection. The most significant variance between the initial Plan and the current projection is 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 (\$ in Millions) | | | | | | |
|---|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---|
| <u>Agency Source</u> | <u>FY15-19 Plan</u> | <u>Q1 QCMR</u> | <u>Q2 QCMR</u> | <u>Q3 QCMR</u> | <u>Q4 QCMR</u> | <u>Change from Plan to Q4 QCMR</u> |
| Finance | \$161.4 | \$162.3 | \$162.5 | \$162.9 | \$162.9 | \$1.5 |
| PICA City Account | 338.0 | 332.6 | 337.0 | 337.0 | 338.0 | -- |
| Public Health | 59.2 | 63.2 | 63.2 | 63.2 | 60.2 | 1.0 |
| Revenue | 35.0 | 35.0 | 35.0 | 35.0 | 38.0 | 3.0 |
| Other | 45.2 | 45.2 | 45.2 | 44.2 | 45.1 | (0.1) |
| Total | 638.9 | 638.4 | 643.0 | 642.3 | 644.3 | 5.4 |

FY15 Projection: Obligations

- ▶ The Q4 QCMR projects FY15 obligations at \$3,840.9 million, a decrease of \$683.7 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

| FY15 General Fund Obligations: Projections (\$ in Millions) | | | | | | |
|--|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|---|
| <u>Agency or Cost Center</u> | <u>FY15-19 Plan</u> | <u>Q1 QCMR</u> | <u>Q2 QCMR</u> | <u>Q3 QCMR</u> | <u>Q4 QCMR</u> | <u>Change from Plan to Q4 QCMR</u> |
| Civil Service Commission | \$53.0 | \$18.0 | \$3.6 | \$0.2 | \$0.2 | (\$52.8) |
| Commerce | 2.8 | 2.8 | 2.8 | 7.9 | 7.9 | 5.1 |
| Debt Service | 247.8 | 247.8 | 245.1 | 245.1 | 239.1 | (8.7) |
| Employee Benefits | 1,817.3 | 1,837.7 | 1,121.7 | 1,111.7 | 1,111.7 | (705.7) |
| Innovation & Technology | 82.2 | 82.1 | 82.1 | 82.1 | 63.8 | (18.4) |
| Fire | 206.8 | 203.2 | 224.3 | 227.3 | 230.2 | 23.5 |
| First Judicial District | 106.3 | 108.9 | 109.5 | 109.5 | 109.5 | 3.2 |
| Human Services | 99.5 | 99.5 | 102.8 | 102.8 | 102.8 | 3.3 |
| Indemnities | 33.7 | 33.7 | 39.7 | 39.7 | 39.7 | 6.0 |
| Law | 13.4 | 13.6 | 16.1 | 16.1 | 15.7 | 2.2 |
| Police | 592.5 | 613.3 | 613.3 | 613.4 | 615.4 | 22.9 |
| Prisons | 240.8 | 241.0 | 243.5 | 246.6 | 245.6 | 4.8 |
| Public Property | 57.7 | 69.6 | 69.8 | 64.2 | 64.2 | 6.5 |
| Sheriff | 18.5 | 18.6 | 18.6 | 21.0 | 21.4 | 2.9 |
| Streets | 117.6 | 124.4 | 124.8 | 130.0 | 133.0 | 15.4 |
| Other | 834.8 | 846.8 | 847.9 | 848.1 | 840.5 | 5.7 |
| Total | 4,524.6 | 4,560.9 | 3,865.3 | 3,865.6 | 3,840.9 | (683.7) |

FY15 Projection: Obligations

- ▶ Changes from the initial FY15-19 Plan estimate of FY15 obligations and the Q4 QCMR estimate 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. As a result, the \$52.8 million reserve has been eliminated in the Q4 QCMR projection, and the currently estimated cost of the contracts has been included in projections of wages and employee benefits in appropriate agencies. The current estimate of the FY15 costs of the three contracts exceeds the initial reserve by \$19.6 million. The estimated DC33 and FOP contract costs exceed the reserve, by \$17.7 million and \$8.4 million, respectively. The IAFF contract resulted in FY15 savings of \$6.5 million relative to the reserve, primarily because of savings associated with the implementation of self-insurance for the IAFF health plan.
 - ▶ **Commerce** (\$5.1 million increase). Increased spending of the proceeds from the sale of the Love Park garage.
 - ▶ **Debt Service** (\$8.7 million decline). The decline reflects reduced interest costs related to the FY15 Tax Revenue Anticipation Note and variable rate debt.
 - ▶ **Employee Benefits** (\$705.7 million decrease). Details on projected employee benefits cost changes are provided on page 13 of this report.
 - ▶ **Innovation & Technology** (\$18.4 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** (\$23.5 million increase). The increase reflects \$21.2 million in current and retroactive wage increases under the January 2015 IAFF arbitration award.
 - ▶ **First Judicial District** (\$3.2 million increase). Increased cost for salaries under labor agreements and the Office of Court Compliance.
 - ▶ **Human Services** (\$3.3 million increase). Increased placement costs.
 - ▶ **Indemnities** (\$6.0 million increase). Increased case volume and settlement costs.
 - ▶ **Law** (\$2.2 million increase). Increased appraisal fees and contractual obligations.
 - ▶ **Police** (\$22.9 million increase). The increase primarily reflects the costs of the new FOP contract covering the FY15 through FY17. The contract included a 3.0 percent wage increase effective July 1, 2014 and a \$1,500 per member bonus.
 - ▶ **Prisons** (\$4.8 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** (\$6.5 million increase). The increase reflects expenditure of a portion of the proceeds from the sale of the Love Park garage.
 - ▶ **Sheriff** (\$2.9 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 projected overtime due to the assumption of warrant duties from the First Judicial District.
 - ▶ **Streets** (\$15.4 million increase). Reflects increased personnel costs associated with new labor contracts and increased overtime, due in part to shortage of vehicles.

FY15 Projection: Employee Benefit Obligations

- ▶ The Q4 QCMR projects total FY15 employee benefit obligations of \$1,111.7 million, a decrease of \$705.7 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. Employee health benefit costs are projected \$1.5 million below 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 | | | | | | |
|--|---------------------|----------------|----------------|----------------|----------------|------------------------------------|
| (\$ in Millions) | | | | | | |
| Category | FY15-19 Plan | Q1 QCMR | Q2 QCMR | Q3 QCMR | Q4 QCMR | Change from Plan to Q4 QCMR |
| Pension Fund Primary Contribution | \$465.6 | \$465.6 | \$465.6 | \$465.6 | \$465.6 | -- |
| Pension Fund Supplemental Contributions | 702.3 | 701.4 | -- | -- | -- | (702.3) |
| Pension-Related Debt Service | 110.4 | 110.4 | 110.4 | 110.4 | 110.4 | -- |
| Employee Health Benefits | 387.9 | 411.3 | 396.4 | 386.4 | 386.4 | (1.5) |
| Employee Disability | 64.1 | 59.3 | 56.0 | 56.0 | 56.0 | (8.1) |
| FICA | 68.8 | 68.8 | 71.1 | 71.1 | 71.1 | 2.3 |
| Unemployment Compensation | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | -- |
| Group Life Insurance | 7.8 | 7.8 | 7.9 | 7.9 | 7.9 | 0.2 |
| Group Legal Services | 4.2 | 6.9 | 8.0 | 8.0 | 8.0 | 3.8 |
| Flex Cash/Tool Allowance | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | -- |
| Total | 1,817.3 | 1,837.7 | 1,121.7 | 1,111.7 | 1,111.7 | (705.7) |

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 1 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.
 - ▶ **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 1.0% 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 FY15 suggest that homicide and total Part 1 violent crime are on par with FY14 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 the March 2015 proposed FY16-FY20 *Five-Year Financial Plan* document, 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 |
| Police | Homicides | 305 | 318 | 350 | 263 | 246 | 248 |
| | Part 1 Violent Crime | 17,740 | 18,446 | 18,224 | 17,384 | 16,533 | 15,912 |
| | Homicide Clearance Rate | 72.2% | 67.9% | 64.0% | 73.0% | 56.5% | 62.3% |
| | Other Violent Crime Clearance Rate | 51.2% | 49.8% | 48.5% | 50.4% | 52.3% | 51.3% |
| Fire | Fire Engine Average Response Time ¹ | 4:46 | 4:57 | 4:57 | 4:54 | 4:57 | 4:54 |
| | Structural Fires ² | 1,362 | 3,041 | 3,108 | 2,882 | 3,019 | 2,880 |
| | Fire Deaths | 32 | 41 | 24 | 25 | 23 | 24 |
| | EMS Response Time (Percent Within 9 Minutes) | 73.9% | 68.5% | 68.0% | 66.0% | 64.0% | 68.5% |

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 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 are on par with FY13 and FY14 levels.
- ▶ **Department of Public Health:** The number of newly diagnosed HIV cases were declining since FY12, but rose in FY15. In FY13, the Department began reporting on immunization rates. Child immunization increased from 75 percent in FY13 to over 85 percent in FY15.

| Performance Measures: Public Health and Human Services | | | | | | |
|--|---|---------|---------|-------|-------|-------|
| Agency | Measure | FY11 | FY12 | FY13 | FY14 | FY15 |
| Human Services | Permanency Discharges | 2,130 | 1,633 | 1,229 | 1,221 | 1,122 |
| | Adoptions as Percent of Permanency Discharges | 31% | 29% | 29% | 31.8% | 35.8% |
| | Dependent Placements as of End of Period | 4,182 | 4,030 | 4,179 | 4,473 | 5,184 |
| | Delinquent Placements as of End of Period | 1,413 | 1,198 | 1,155 | 952 | 873 |
| Public Health | Visits to District Health Centers | 339,032 | 348,472 | NA | NA | NA |
| | Percent of Visits from Uninsured Patients | 49.6% | 51.1% | 52.9% | 49.6% | 49.0% |
| | Newly Diagnosed HIV Case Reports | NA | 792 | 704 | 585 | 679 |
| | Children with Complete Immunizations ¹ | NA | NA | 75% | 78% | 85.8% |

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. In addition, the measure has been redefined to exclude forbearances. The number of owner-occupied homes repaired in FY15 are slightly below FY14 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 |
| Supportive Housing | Households Receiving Financial Assistance For Homelessness Prevention | 1,898 | 809 | 610 | 676 | 814 |
| | For Ending Homelessness | NA | NA | 291 | 135 | 356 |
| | New Permanent Supportive Housing Units ¹ | 120 | 179 | 180 | 59 | 115 |
| | Transitional Housing Placements | 510 | 558 | 539 | 509 | 610 |
| Housing and Community Development | Mortgage Foreclosures Diverted | 1,647 | 1,423 | 1,754 | 1,232 | 1,178 |
| | Owner-Occupied Homes Repaired ² | 8,232 | 7,129 | 5,409 | 5,689 | 5,511 |
| | City Lots Greened and Cleaned ³ | 8,417 | 8,500 | 9,238 | 8,766 | 8,713 |
| | Clients Receiving Counseling | NA | NA | 12,463 | 12,398 | 11,495 |

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. Acres mowed has increased in recent years due to weather and increased frequency of mowing at athletic fields. Trees planted increased from FY11 to FY13, but declined in FY14 and FY15 due to lower than expected contractor tree planting and private planting. The FY15 figure is well below the target – a difference of over 10,000 trees planted.
- ▶ **Free Library of Philadelphia:** Circulation for FY15 is on par with that of FY14. The number of physical visits increased in FY15, while website visits also increased.

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

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 in FY16.
- ▶ **Department of Licenses and Inspections:** The number of properties classified as imminently dangerous increased from 375 at the end of FY13 to 566 at the end of FY14. These properties declined to 258 in FY15, largely due to heightened demolition efforts and increased funding. 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. Permits issued in FY15 exceeded FY14 levels.

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

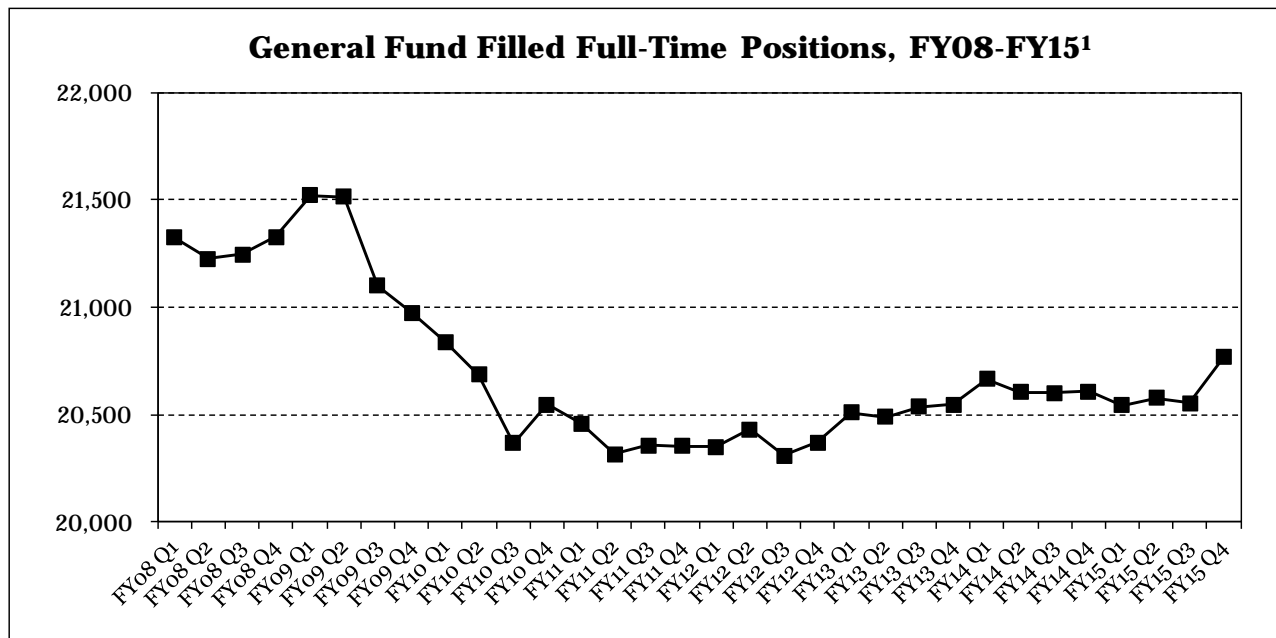
Notes

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 404.¹ This figure reflects increases in the following agencies: Prisons (225); Managing Director (134); Innovation and Technology (106); Property Assessment, including Board of Revision of Taxes (79); Revenue (76); Sheriff (66); District Attorney (60); Licenses and Inspections (50); and Free Library (47). These increases were offset by decreases in: Law (25); Fleet Management (34); Fire (56); and Police (356).

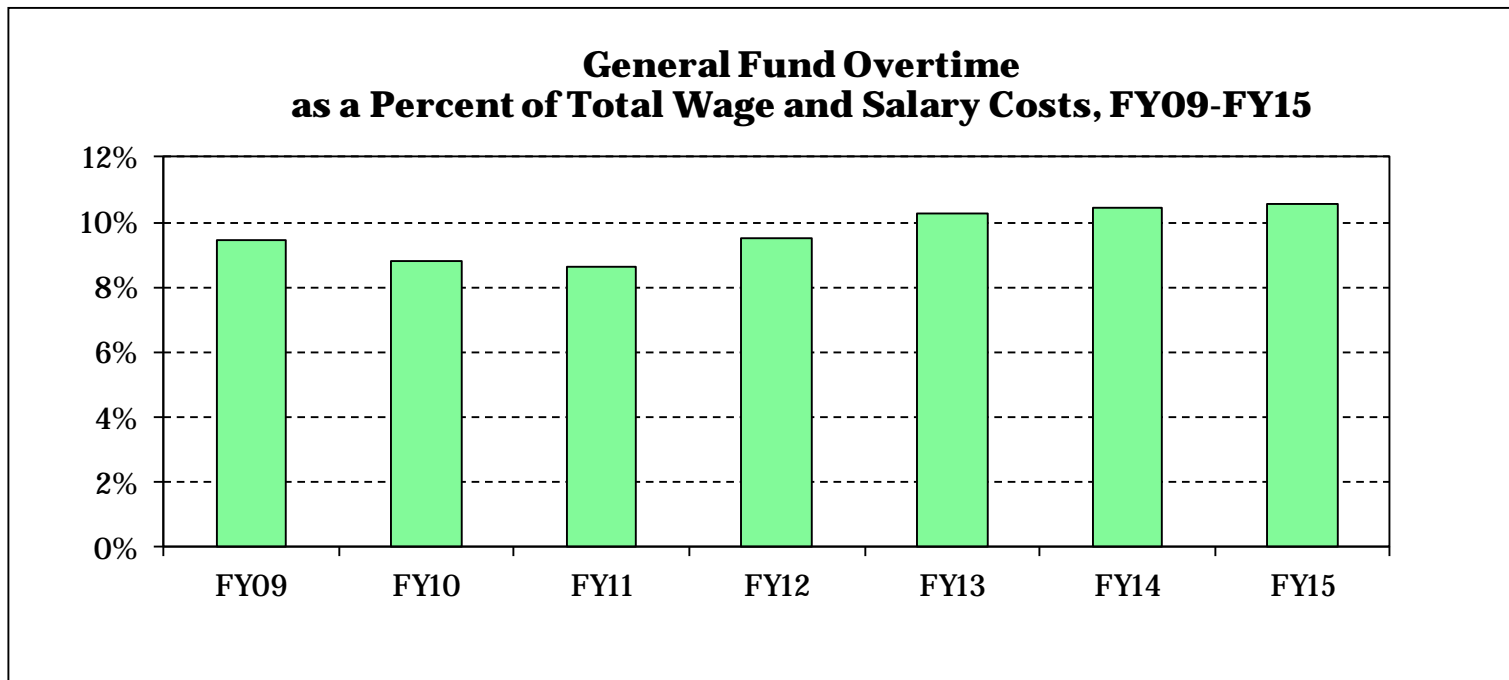


Note:

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

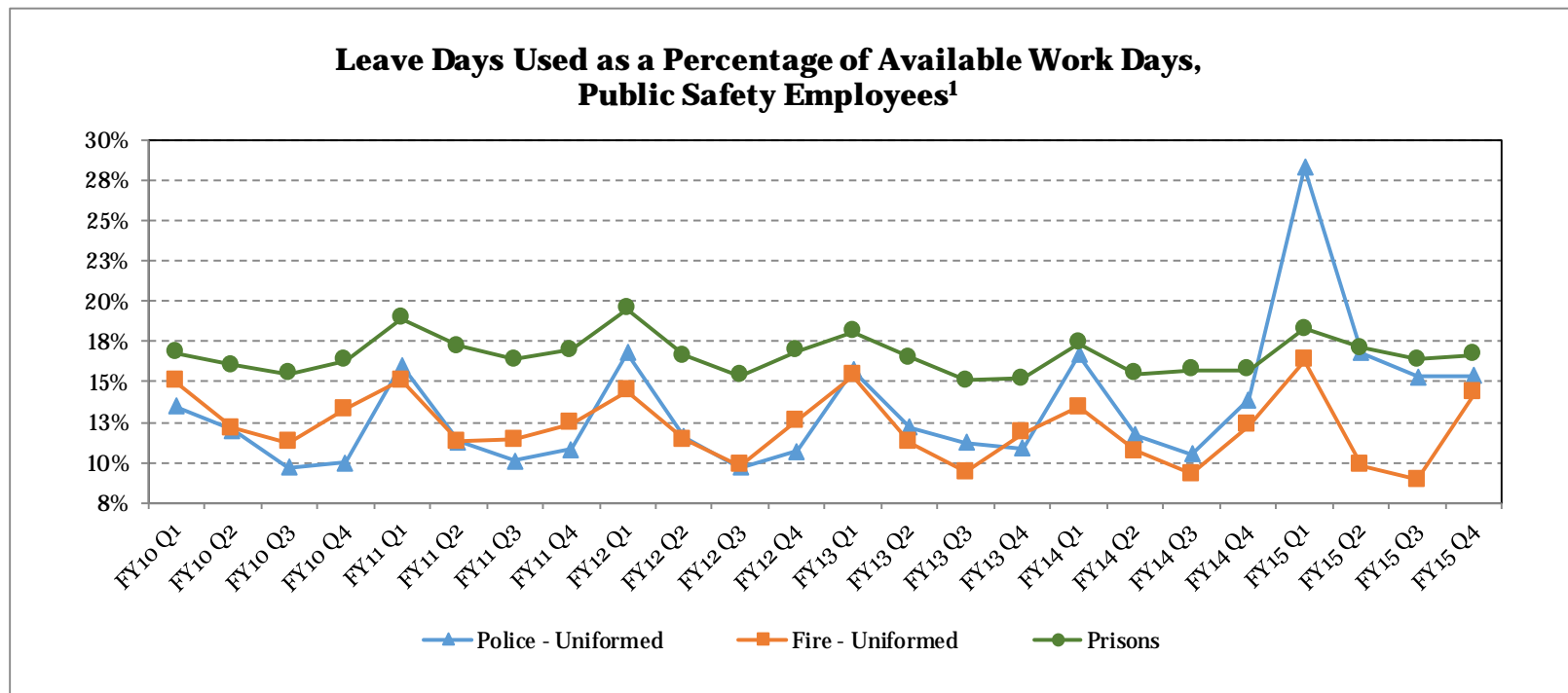
- ▶ Overtime as a percentage of wages and salaries declined from 9.5 percent in FY09 to 8.6 percent in FY11, and has since increased each year, reaching 10.6 percent in FY15.¹ The decline in overtime costs during the City's greatest period of fiscal constraint after the recession and the increase since FY11 suggests that greater overtime control is possible. In FY15, the Plan projected reductions for Fire, Police and Streets Departments, but the year-end projection exceeds Plan estimates by \$10.3 million, \$8.1 million, and \$7.4 million for those departments, respectively. The total projected overtime for FY15 is \$159.1 million, an increase of \$37.6 million above the initial Five Year Plan estimate.



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 fourth quarter of FY15, leave usage varied from a high of 18.7 percent of available work days among non-uniformed Police Department employees to a low of 6.2 percent among Mayor’s Office employees. The median leave usage rate among all City agencies was 14.8 percent.¹ Seasonal variability in leave use has major cost implications, since overtime is often necessary to assure consistent staffing.



Note:

¹ Prior to FY15, the calculation includes the following categories: vacation, annual, sick, funeral, unpaid, comp time, and “AWOL.” Beginning in FY15, the following additional categories are included: injured-on-duty, Heart and Lung, military, excused, suspension, administrative, and strike. The increase in Police uniformed leave usage in FY15 Q1 reflects higher leave usage and the inclusion of additional leave categories.