



**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**  
**STAFF REPORT ON THE CITY OF PHILADELPHIA'S**  
**FIVE YEAR FINANCIAL PLAN FOR FISCAL YEARS 2019-2023**  
*AS REVISED - NOVEMBER 23, 2018*

**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**  
1500 Walnut Street, Suite 1600, Philadelphia, PA 19102  
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**PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY**  
1500 Walnut Street, Suite 1600, Philadelphia, PA 19102  
215-561-9160—www.picapa.org

December 7, 2018

To the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority:

The staff of the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) is pleased to provide you with our report on the City of Philadelphia’s *Five Year Financial Plan for Fiscal Years 2019 through 2023 as Revised – November 2018* (the “Revised Plan”).

This report provides a review and assessment of the Revised Plan and its compliance with the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the “PICA Act”). It analyzes the revised fund balances to ensure sufficient coverage for the additional health and welfare costs recently negotiated through a contract reopener with AFSCME District Council 33. Based on this review, and in accordance with the PICA Act Section 209(f), “Authority Review and Approval of Plan,” I recommend that the Board approve the Revised Plan as presented.

The preparation of this report on a timely basis was made possible by the dedicated service of the PICA staff. I would also like to thank the City of Philadelphia’s Office of the Director of Finance and the Office of Budget and Program Evaluation for their cooperation, support and continued assistance.

Sincerely,

Harvey M. Rice  
Executive Director

## EXECUTIVE SUMMARY

In November 2018, the City executed a collective bargaining reopener agreement (the “Reopener”) with AFSCME District Council 33 (“DC33”). This Reopener resulted in \$28 million in additional health and welfare costs that were not included in the *City’s FY2019-FY2023 Five Year Financial Plan*, approved in July 2018 (the “Plan”). As required, the City submitted a Revised Plan, which demonstrated the City’s ability to pay for these additional costs through a higher than projected FY2018 year end fund balance.

Based on a review and analysis of the Revised Plan, PICA staff has determined that the year end fund balances throughout the Revised Plan period are sufficient to cover the Reopener and certain other additional commitments recently made by the City. Therefore, PICA staff recommends that the Board approve the Revised Plan. The following reasons outline our rationale for approval:

- The projected fund balance for FY2018 in the Revised Plan is \$368.7 million, an increase of \$140.2 million over the estimated fund balance in the Plan.
- The total cost of the DC33 Reopener totaling \$28 million, can be absorbed by the above increase of the FY2018 year end fund balance without having a significant adverse impact on each year’s fund balance in the Revised Plan.
- The Revised Plan includes certain other commitments totaling \$84.5 million over the plan period, which can also be absorbed by the increased FY2018 year end fund balance.
- As is evident by the City’s most recent Quarterly City Managers Report, the City is still experiencing steady tax revenue growth in the first quarter of FY2019. The City is currently projecting an additional \$37.2 million for FY2019 General Fund revenues above the Plan’s projection.

Change in Fund Balance Between Plans (\$ in Millions)						
	Projected					
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Fund Balance per the Plan (approved in July 2018)	\$228.5	\$139.4	\$83.2	\$46.7	\$41.1	\$100.6
Adjustments to the Plan	140.2	84.0	62.3	51.6	40.9	27.8
Fund Balance per Revised Plan	\$368.7	\$223.4	\$145.5	\$98.3	\$82.0	\$128.4

Although positive year end fund balances are projected, PICA continues to stress risk factors to the Revised Plan that were previously identified as part of our Staff Report on the Plan. The key risks that continue to be identified in the Revised Plan include:

- The possibility of a decline in economic growth,
- School District of Philadelphia funding,
- Real Estate Transfer Tax projections, and
- Rising pension costs.

**I. INTRODUCTION**

In November 2018, the City of Philadelphia (the “City”) submitted to the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) a revision (the “Revised Plan”) to the *City’s FY2019-FY2023 Five Year Financial Plan* (the “Plan”), which was approved by the PICA Board on July 25, 2018.

The revision was required under the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the “PICA Act”), Section 209(j)(2) and Intergovernmental Cooperation Agreement (“ICA”) Section 5.07 (b). The PICA Act’s provision states that if a collective bargaining agreement is executed by the City for any of the City’s labor unions that is not in compliance with the Five Year Plan currently approved by the PICA Board, the City shall “submit to the authority a proposed revision to the plan which demonstrates that revenues sufficient to pay the costs of such collective bargaining agreement will be available in the affected fiscal years of the plan.”

**II. REVISIONS TO THE PLAN**

**Overview of District Council 33 Health and Welfare Reopener**

On November 8, 2018, the City executed a collective bargaining reopener (the “Reopener”) agreement with AFSCME District Council 33 (“DC33”) for health and welfare costs for FY2019 and FY2020 as stipulated in the original contract dated July 15, 2016. Costs related to the Reopener were not included in the City’s currently approved Plan therefore, in accordance with the PICA Act and the ICA, PICA requested the submission of a revised plan. The City submitted its Revised Plan on November 23, 2018.

As a result of the Reopener, the City is required to make lump sum payments into DC33’s Health Fund both in FY2019 and FY2020, in the amount of \$17 million and \$11 million, respectively. The FY2020 lump sum payment is contingent on DC33 hiring a health fund administrator.

The changes in year end fund balances between the Plan and the Revised Plan pertain directly to this Reopener agreement, as shown in Table 1 and Table 2, and to certain additional commitments recently made by the City, as shown in Table 3. The Revised Plan assumes no other changes in revenue and other expenditures from those included in the Plan.

**Impact on Fund Balances**

As required by the PICA Act and the ICA, PICA analyzed the Revised Plan to ensure that the City demonstrated that revenues sufficient to pay the costs of the collective bargaining agreement will be available in the affected fiscal years of the Plan.

The cost for this Reopener is \$17 million for FY2019 and \$11 million for FY2020, for a total of \$28 million during the current Plan period, as shown in Table 2.

**Table 1: DC33 Health and Welfare Reopener Agreement**

The parties hereby agree as follows:	
1.	The City will make a one-time lump sum payment to the DC33 Health Fund (“health fund”) of \$17 million within 30 days following ratification of the execution of this Agreement.
2.	The City will make a one-time lump sum payment to the health fund of \$11 million on July 1, 2019.
3.	Within 90 days of the execution of this Agreement, DC33 will hire a health fund administrator who has the minimum qualifications described on the attached. If DC33 fails to do so, the City will have no obligation to make the payment described in paragraph 2 of this Agreement.
4.	Except as provided herein, the terms of the 2016-2020 Memorandum of Agreement remain in full force and effect.

**Table 2: Costs of Collective Bargaining Reopener Agreement**

Fiscal Year	Lump Sum
FY2019	\$17,000,000
FY2020	11,000,000
FY2021	--
FY2022	--
FY2023	--
<b>Total</b>	<b>\$28,000,000</b>

The City's unaudited FY2018 year end fund balance was \$368.7 million, an increase of \$140.2 million over the estimated amount in the Plan. The City's Revised Plan indicates that the total costs of this Reopener totaling \$28 million would be absorbed by the higher than projected FY2018 fund balance.

In addition to the Reopener, the City has made certain other commitments, since the approval of the Plan, that PICA considered during the review of the Revised Plan. Table 3 details these additional commitments and the effect on each year of the Plan. Approximately \$53 million has been committed for the funding of affordable housing, \$11.6 million for living wage costs, and \$20 million for the Budget Stabilization Reserve, for a total of \$84.5 million through the Revised Plan period.

The affordable housing bill passed and signed by the Mayor in October 2018, which is projected to cost the City \$53.0 million over the life of the Revised Plan, puts money into the Philadelphia Housing Trust fund for a variety of programs.

The living wage costs projected at \$11.6 million over the life of the Revised Plan, relate to a bill introduced in September 2018, which has yet to be enacted, that would raise the minimum wage for City workers and employees of City contractors.

This legislation would boost wages to a minimum of \$12.40 in FY2019 to \$15 per hour by FY2023 and would cover approximately 2,000 City employees who are temporary or seasonal workers.

In addition, the administration is proposing an ordinance for a City Charter change, to be voted on in May 2019 by the electorate, which would allow for certain mid-year transfers into the Budget Stabilization Reserve. The Revised Plan projects a \$20 million deposit into the Reserve in FY2019, if this Charter change is approved by voters.

As shown in Table 4, the total costs of the Reopener and the additional commitments made by the City, which combined total \$112.5 million can be absorbed by the \$140.2 million increase of the FY2018 fund balance.

Further, the City is still experiencing steady tax revenue growth in the first quarter of FY2019. As is evident by the City's most recent Quarterly City Managers Report, which is currently projecting an additional \$37.2 million for FY2019 General Fund revenues above the Plan's projection.

**Table 3: Additional Commitments Recently Made by the City**

Description	FY2019	FY2020	FY2021	FY2022	FY2023	Total
Affordable Housing	\$19,131,000	\$9,119,000	\$8,402,000	\$7,544,000	\$8,770,000	\$52,966,000
Living Wage Costs	154,000	1,617,000	2,387,000	3,157,000	4,312,000	11,627,000
Budget Stabilization Reserve	20,000,000	--	--	--	--	20,000,000
<b>Total</b>	<b>\$39,285,000</b>	<b>\$10,736,000</b>	<b>\$10,789,000</b>	<b>\$10,701,000</b>	<b>\$13,082,000</b>	<b>\$84,593,000</b>

### III. RISKS TO THE REVISED PLAN

In addition to our analysis regarding the specific changes involved in the Revised Plan, a well-rounded discussion of the City's finances requires the presentation of any risk factors or other financial issues facing the City. The key risks to the Revised Plan, which were detailed in our Staff Report on the Plan and continue to be a concern include:

- Economic growth,
- School District of Philadelphia funding,
- Real Estate Transfer Tax projections, and
- Pension funding.

PICA also continues to note other financial concerns that may impact the City's finances, which are not considered key risks to the Revised Plan, but challenge the City's fiscal stability, and should be continually and closely monitored, include:

- Future labor costs,
- BIRT volatility,
- Fund balance,
- Overtime costs,
- Beverage tax,
- Real estate tax appeals,
- Indemnities, and
- Employee health benefit costs.

**Table 4: Change in Fund Balances Between Plans (\$ in Millions)**

	Projected					
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Fund Balance per Plan (approved in July 2018)	\$228.5	\$139.4	\$83.2	\$46.7	\$41.1	\$100.6
Increase in projected fund balance	140.2	0	0	0	0	0
Reopener agreement	0	(17.0)	(11.0)	0	0	0
Additional commitments	0	(39.2)	(10.7)	(10.7)	(10.7)	(13.1)
Cumulative effect of revisions	0	140.2	84.0	62.3	51.6	40.9
<b>Fund Balance per Revised Plan</b>	<b>\$368.7</b>	<b>\$223.4</b>	<b>\$145.5</b>	<b>\$98.3</b>	<b>\$82.0</b>	<b>\$128.4</b>
<b>Change in Fund Balance</b>	<b>\$140.2</b>	<b>\$84.0</b>	<b>\$62.3</b>	<b>\$51.6</b>	<b>\$40.9</b>	<b>\$27.8</b>



**Appendices**

**APPENDIX A: REVISED PLAN SUBMISSION-NOVEMBER 2018**



# CITY OF PHILADELPHIA

## OFFICE OF BUDGET & PROGRAM EVALUATION

1401 John F. Kennedy Blvd.  
 Suite 1400, Municipal Services Bldg.  
 Philadelphia, PA 19102-1693  
 P 215-686-6146  
 F 215-686-2625

Anna Adams  
 Budget Director

November 23, 2018

Dear Mr. Rice:

On November 8, 2018, a collective bargaining reopener was concluded with AFSCME District Council 33. This reopener agreed that the City would make a one-time lump sum payment of \$17 million to the DC 33 Health Fund within 30 days of ratification, and that the City would make a one-time lump sum payment of \$11 million to the DC 33 Health Fund on July 1, 2019. It also requires DC 33 to hire a health fund administrator.

The \$28 million cost in FY19 and FY20 will be absorbed completely by the additional FY18 fund balance shown in the unaudited financial statement of \$368.8 million, \$140.2 million above the amount included with the Approved Five Year Plan for FY19-23. Under the PICA Act, the award would typically require the City to submit a revised Five Year Plan. As the fund balance far exceeded projections, and as the City will be updating its Five Year Plan with the proposed FY20 budget in a few months, please accept this letter as our Revised Five Year Plan for FY19-23.

Even with the City's commitment to provide \$53 million through FY23 in additional funding for affordable housing, approximately \$12 million in additional funding through FY23 for living wage costs and to deposit \$20 million in a budget stabilization reserve fund, the City will have positive fund balances in each year, including the cost of the D.C. 33 healthcare reopener. These costs total just under \$113 million, and therefore is less than the additional \$140 million that the higher FY18 Actual Fund Balance achieved. With these additional costs and assuming no change in other revenues or expenditures from those included in the Plan, fund balances would be \$223 million in FY19, \$145 million in FY20, \$98 million in FY21, \$81 million in FY22 and \$128 million in FY23. Those projections do not include any benefit from the higher revenue base and lower expenditure base included in the FY18 unaudited actual.

Sincerely,

Anna Adams  
 Budget Director

Cc: Rob Dubow, Finance Director  
 Jim Engler, Chief of Staff

**APPENDIX B: AFSCME DC33 HEALTH AND WELFARE REOPENER**

**MEMORANDUM**

**CITY OF PHILADELPHIA**

**MAYOR'S OFFICE OF  
LABOR RELATIONS**

**DATE: November 13, 2018**

**TO: Rob Dubow, Director of Finance**

**FROM: Monica Marchetti-Brock, Director of Labor Relations**



**SUBJECT: 2018 District Council 33 Health & Welfare Reopener**

The Memorandum of Agreement between the City and AFSCME, District Council 33 dated July 15, 2016, included a reopener for Health & Welfare. The City and DC 33 reached an agreement for the reopener on November 8, 2018. As a result, the City must make payments that go to the District Council 33 Health Fund. Those changes are enumerated below:

Health & Welfare:

1. The City will make a one-time lump sum payment of \$17 million dollars to the District Council 33 Health Fund within 30 days of ratification of the execution of this agreement.
2. The City will make a one-time lump sum payment of \$11 million dollars to the District Council 33 Health Fund effective July 1, 2019.
3. Within 90 days of the agreement, DC 33 will hire a health fund administrator who has the minimum qualifications agreed to by the parties. If DC 33 fails to do so, the City will not be required to make the payment in #2 above.

The agreement and description are attached.

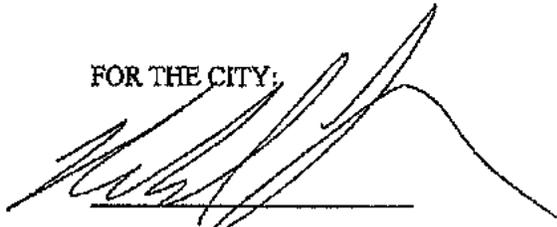
cc: Rich Lazer, Deputy Mayor for Labor  
James Engler, Chief of Staff  
Michael DiBerardinis, Managing Director  
Anna Adams, Budget Director  
Catherine Paster, Deputy Finance Director  
Catherine Lamb, Deputy Finance Director  
Josephine Arevalo, Accounting Director  
Valerie Hayes, Payroll Director  
Christine Derenick-Lopez, Human Resources Director  
Marsha Greene-Jones, Benefits Director

**DISTRICT COUNCIL 33 AND THE CITY OF PHILADELPHIA  
REOPENER AGREEMENT**

The parties hereby agree as follow:

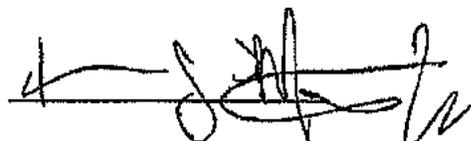
1. The City will make a one-time lump sum payment to the DC 33 Health Fund ("health fund") of \$17 million within 30 days following ratification of the execution of this Agreement.
2. The City will make a one-time lump sum payment to the health fund of \$11 million on July 1, 2019.
3. Within 90 days of the execution of this Agreement, DC 33 will hire a health fund administrator who has the minimum qualifications described on the attached. If DC 33 fails to do so, the City will have no obligation to make the payment described in paragraph 2 of this Agreement.
4. Except as provided herein, the terms of the 2016-2020 Memorandum of Agreement remain in full force and effect.

FOR THE CITY:



11-8-18

FOR THE UNION:



11-8-18

**District Council 33**  
**Health and Welfare Fund Administrator Minimum Job Qualifications**

Expertise in:

- A. Accounting and financial controls
- Have strong familiarity with the financial needs of administering a large self-insured health plan, including, but not limited to Incurred But Not Paid (IBNP) claims, advance funding, administrative fees, provider discounts and health care budgeting
  - Understanding financial accounting and the ability to comprehend and interpret balance sheets, income statement, statement of cash flows and budgets
- B. Health benefits administration
- Understand health and welfare government regulations, benefit program trends and prevailing practices among the benefits industry
  - Ability to review and understand health care utilization patterns and analyze cost trends to ensure programs are aligning with industry norms and prevailing trends; recommend sound business decisions to the Joint Trust based on the analysis
  - Work as a liaison with insurance vendors, including on matters such as bill payment and reconciliation, resolution of member issues, accounts structure, and reporting needs
  - Ability to review and negotiate insurance renewals and plan contracts with benefit plan carriers, vendors, auditors and consultants for services, premiums, and overall plan administration to ensure programs remain competitive and cost effective
- C. Operations and compliance
- Oversee administrative duties including but not limited to payment of fund expenses, processing enrollments, review of payroll deductions, billing, and reporting
  - Administer COBRA in accordance with legal requirements legal requirements
  - Assist members with enrolling in medical, dental, and vision insurance plans
  - Supervise system operations
  - Ensure compliance with health insurance privacy regulations, government regulations, and applicable tax codes
- D. Trustee and member/customer support
- Develop benefit plans that provide the optimal balance between value and cost; develop short and long-term recommendations to reduce and manage the growth of health care costs to ensure the financial wellbeing of a large, complex health and welfare fund
  - Inform and assist leadership in developing effective benefit policies and administrative procedures
  - Have familiarity with prevailing health and wellbeing programs that encourage healthy behavior aimed to improve the health and productivity of the membership
  - Inform members of changes to the benefits plans, structure and cost when applicable
  - Resolve member issues with insurance providers and other benefits administrators

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