PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

The City of Philadelphia's Five-Year Financial Plan for Fiscal Year 2016 - Fiscal Year 2020

Staff Report

July 2015

Pennsylvania Intergovernmental Cooperation Authority

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Executive Summary

Based on a thorough analysis of the Plan and examination of PICA Act criteria and legislative intent, PICA staff recommends approval of the FY16-FY20 Five Year Financial Plan. The following reasons present the rationale for approval:

• Revenue and expenditure projections, as presented in the Plan, are "based on reasonable and appropriate assumptions and methods of estimation," which are "consistently applied," as required by the PICA Act. In addition, the preliminary revenue results for FY15 suggest another year of solid performance in most taxes. The City's revenue projections are realistic and have consistently been outperformed by actual collections in recent years. Although the risk of another recession always exists, PICA feels confident that the City and its consultant are effectively monitoring tax performance in a way that will allow them to adjust to changes in economic growth.

• The City is continuing to manifest signs of continued economic expansion since the end of the recession. Unemployment levels have nearly reached pre-recession levels, and median income has also recovered. Furthermore, City debt as a percentage of personal income has declined below pre-recession levels.

• Health costs have experienced minimal growth in recent years and are projected to be relatively stable through the life of the Plan. The City has also implemented some cost-saving measures, which will contribute to stability in costs.

• PICA staff is encouraged by the City's willingness to improve its efforts in setting aside reserves, which is evidenced by its contribution to the Budget Stabilization Reserve in FY20. Setting aside reserves in the stabilization fund is a positive step, and it displays the City's ultimate goal of focusing on that objective. However, PICA would like to see this occur more frequently, combined with higher fund balances.

• The current status of labor contracts is more stable than it has been in previous years – presently all contracts are up-to-date. However projections are nonetheless vulnerable because the Plan does not account for any increases beyond the current contracts, which will all expire mid-way through the five year period. The aggregate and potential cost for all unions is significant enough to present a risk.

• The Board of Revision of Taxes is behind schedule in resolving assessment appeals, the remainder of which are valued at $4.7 billion. This lag impacts both the City and the School District financially because it restricts their ability to receive revenue. However, the City has incorporated this risk into the Plan, and has lowered tax projections accordingly.

• Risk surrounding the School District is mostly unquantifiable due to a variety of unpredictable factors. Over time, the City has increased its role in providing assistance to the School District; however, this is a risk area because it remains unknown whether the City will need to provide even more assistance in the future, especially in light of questions surrounding state funding and delays in assessment appeals.

• Preliminary investment results for FY15 suggest that the Pension Fund experienced far lower than expected returns this past fiscal year. PICA has expressed consistent concern over some of the Pension Fund's assumptions, particularly the assumed rate of investment return, which is currently at 7.8 percent. In addressing this underlying risk, the Pension Board is continuing to apply its prudent strategy of lowering the expected rate of return. However, until the assumed rate reaches a level that can be achieved on average over the long-term, projections in the Plan will be subject to revisions from experience losses. Similar to many municipalities around the country, Philadelphia is facing substantial challenges with regard to its unfunded liability, which is very high, especially as compared to the larger cities in the country.

• Indemnities have increased 60 percent since FY08, and PICA is concerned that $40 million annually in indemnity costs are not being mitigated.

I. Introduction

The PICA Act Criteria

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") is mandated with assessing the strength of the City's annual Five Year Financial Plan (the "Plan"). The framework for evaluating the Plan is provided by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class ("PICA Act").

The City of Philadelphia's FY2016-FY2020 Five Year Financial Plan was submitted to PICA on June 19, 2015. This report will give an overview of the Plan, discuss potential risks, analyze projections, address spending, assess indicators of financial health, as well as comment on several areas impacting the city's future.

Legislative Intent

PICA was established for the main purposes of facilitating financial stability, helping to "achieve and maintain access to capital markets," eliminating deficits, and promoting "sound budgetary practices."[1] In pursuing these goals, the PICA Act grants the Authority the opportunity to "make recommendations to an assisted city concerning its budgetary and fiscal affairs." In a section of the Act dedicated to legislative intent, the statute states that the Commonwealth created PICA based on its public policy interests to "foster the fiscal integrity of cities of the first class... and provide for proper financial planning procedures and budgeting practices." In a discussion of sound financial planning and budgetary practices, the Act "charge[s]" Philadelphia with the "responsibility to exercise efficient and accountable fiscal practices," including: managerial accountability, consolidation/elimination of inefficient city programs, recertification of tax-exempt properties, increased collection of existing taxes, privatization of services, sale of city assets, improvement of procurement and competitive bidding practices, and review of compensation and benefits of city employees.

With these guiding principles in mind, PICA evaluates the Plan for reasonable and appropriate assumptions and methods of estimation. A key provision of the Act reads: "All revenue and expenditures in a financial plan shall be based on reasonable and appropriate assumptions and methods of estimation, all such assumptions and methods to be consistently applied."

The legislative intent, evident throughout the Act, includes assuring that the City is prepared to manage not only the fiscal pressure Philadelphia was experiencing at the time PICA was established, but also to avert such potential situations in the future and safeguard against their consequences. In addition to evaluating assumptions, therefore, it is also important to consider the significance of a reserve fund, as well as strategic planning to control costs and maximize efficiency. PICA has consistently advocated for both. Although the City has displayed a willingness to make improvements in these areas through the reserve policy passed by Council and increased attention to strategic planning initiatives, the approach to both needs to become more institutionalized and integrated into the budgeting process.

Evaluating Overall Plan Viability

In Section 209(2)(i), the Act outlines what a financial Plan ought to accomplish: "(i) eliminate any projected deficit for the current fiscal year and for subsequent fiscal years; (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized; (iii) balance the current fiscal year budget and subsequent budgets in the financial plan through sound budgetary practices, including but not limited to, reductions in expenditures,

[1] Act of June 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.203(a)-(b).

Table 1-1. PICA Act Criteria and Compliance		
PICA Act Provision	*PICA Act Text*	*Compliance*
Section 209(2)(i)	Eliminate any projected deficit for the current fiscal year and for subsequent fiscal years	Yes
Section 209(2)(ii)	Restore to special fund accounts money from those accounts used for purposes other than those specifically authorized	Yes
Section 209(2)(iii)	Balance the current fiscal year budget and subsequent budgets in the financial plan through sound budgetary practices, including but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of these steps	In Progress
Section 209(2)(iv)	Provide procedures to avoid a fiscal emergency condition in the future	In Progress
Section 209(2)(v)	Enhance the ability of the city to regain access to the short-term and long-term credit markets	Yes
Source: Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class ("PICA Act")		

improvements in productivity, increases in revenues, or a combination of these steps; (iv) provide procedures to avoid a fiscal emergency condition in the future; and (v) enhance the ability of the city to regain access to the short-term and long-term credit markets."

The current Plan does eliminate deficits, as it has for years, and presents a balanced budget that projects General Fund revenues and expenditures for all five years. The second provision is also met, as the City adheres to the rule that money should be allocated as specifically authorized. This was among the first reforms made by the City after the inception of PICA.

In relation to the third stipulation, an increasing number of operating departments are working to enhance strategic planning in an effort to exercise better control over their expenditures, productivity, and in some cases, revenues. However, there still remains significant work to be done in this area, as mentioned above. Although some operating departments are decidedly taking steps towards moving in the right direction, the approach to strategic planning needs to become more consistently and universally integrated into the financial planning process for all departments, so that the City will ultimately have the ability to "balance the… budget… in the financial plan through sound budgetary practices, including but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of these steps." Through this provision, as well as the legislative intent section of the Act, the language of the law points clearly to the idea that financial planning and strategic planning should come together to create an institutionalized, comprehensive process.

Equally important is the need to "provide procedures to avoid a fiscal emergency condition in the future." This includes not only sound financial planning in the manner described above, but also refers to the establishment of a reserve. PICA has advocated for both of these strategies since its inception.

Finally, the City employs its best efforts to maintain access to the credit markets, as mentioned in the fifth provision. In fact, Standard and Poor's increased Philadelphia's general obligation debt rating, by two steps, to A+ in 2013. However, further strengthening the City's financial position in the ways mentioned throughout this report will only enhance the City's credit ratings. Furthermore, Chicago's recent downgrade illuminated the need for municipalities around the country to address their financial concerns in order to maintain sound credit ratings into the future.

Assessing Assumptions

The language that assumptions must be "reasonable and appropriate" is limiting language in the Act and is intended to convey the idea that "reasonable" assumptions are those which represent a likely scenario, neither too optimistic nor too pessimistic. This legislative intent has historically been interpreted by PICA staff to refer to certain risks over which the Authority has expressed concern, including: the underfunded pension system, health benefit costs, potential and/or pending labor costs, foregone revenues, increasing indemnities, narrow fund balances, and the lack of reserve funds. PICA credits the City on consistently providing a balanced budget; however, staff is concerned about projected low fund balances in some years of the current plan.

The terms "reasonable" and "appropriate" are not strictly defined in the Act, although there are some clarifying provisions that shed light on what constitutes reasonable and appropriate assumptions, especially with regard to revenue and expenditure projections.

The Act explains that estimates for tax revenues collected by the City should be "based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models;" while revenues received from federal or state government should be based on "historical patterns," "currently available levels," or levels contained in a budget proposed by the Governor, President, or in a Congressional budget resolution. Estimations of locally-generated non-tax revenues should be based on "current or proposed rates, charges or fees, historical patterns and generally recognized econometric models." The Plan does meet these criteria. Furthermore, the City derives projections on the growth of its tax base from forecasts created by a consultant, IHS Global Insight. The forecasts are then reviewed by a group of professional economists before they are used by the City to estimate the tax base.

With regard to expenditures, the Act explains that estimates should show "all obligations incurred during the fiscal year and estimated to be payable during the fiscal year or in the 24-month period following the close of the current fiscal year." Pursuant to this provision, the absence of some labor costs in assumptions may complicate the evaluation of any given Plan. The Act continues by stating that obligations from previous fiscal years "not covered by encumbered funds" should also be included in estimated expenditures. The current Plan does not take into account some obligations for labor that will likely be incurred "during the fiscal year or in the 24-month period following." The City has projected no wage increase for any of the unions beyond their current contracts. Furthermore, the City has not set aside any reserves for these potential labor costs, making the assumptions all the more vulnerable.

Outcomes of upcoming arbitration and collective bargaining will almost certainly surpass zero, yet the Plan incorporates this number in its assumptions for all unions, beyond their respective current contracts. The City has historically limited the inclusion of potential future labor costs. However, the question of unidentified wage and benefit increases is an important issue, as it has proved to be in previous years, where actual costs have outpaced not only projections, but also amounts set aside in the labor reserve. One could argue that because the FY16-FY20 Plan does not include costs associated with wage increases for City employees, the expenditure assumptions in the Plan may pose a risk.

Structure of the Plan

First, the Act stipulates that the proposed operating budget and capital budget must be "consistent with the proposed financial plan." The Plan meets this test. Second, the Act states that the Plan must be "accompanied by a statement describing, in reasonable detail, the significant assumptions and methods of estimation used in arriving at the projections contained in such plan." Although the City has presented a Plan along with supporting documentation explaining most major assumptions, it does not provide a consolidated document that represents a reasonably detailed statement of how it calculated significant assumptions and what methods of estimation were used.

Finally, the Act requires that estimates ought to be made on a modified accrual basis. The Plan meets this criterion, and all projections are shown in this manner. The City uses the modified accrual basis of accounting to recognize revenues and expenditures for budgeting purposes.

Overall, the Plan adheres to important provisions in the PICA Act with regard to structure, as well as how to formulate a significant portion of its assumptions. However, the Plan ought to consider the legislative intent of the Act in addressing certain core issues like establishing methods for the formulation of some assumptions and enhancing financial planning.

Risks to the Plan

Section III of this report quantifies some risks to the Plan. Although all contracts are currently up to date, this Plan relies on zero increases beyond their expiration, which will occur in the middle of the Plan period for all unions.

The main quantifiable risks to the Plan are those involving wage increases that do not anticipate increases in cost (please see discussion in Section III of this report). There are also other risks to the Plan, including the potential for higher contributions to the Pension Fund if certain assumptions do not perform as expected, the state of the economy and its effect on revenues, potential for the provision of assistance to the School District, backlogged real estate tax appeals, indemnities, performance of the Revenue Department's data warehouse project, legislative changes impacting the Department of Human Services, and other potentially unforeseeable contingencies.

In light of the aforementioned quantifiable and unquantifiable risks, the City's fund balance becomes important. One of PICA's consistent comments throughout the years has been the need for a more substantial fund balance. This year, the Plan submitted to PICA projected fund balances that were low in some years; however, the Plan does make a contribution to the Budget Stabilization Reserve in FY20. This would be the first contribution to the Reserve since its enactment in 2011. PICA praises the City on its effort to allocate funds to the Reserve, however, these contributions should be made more frequently, ideally on an annual basis.

The current Plan illuminates the need for higher fund balances because it would only take one vulnerable assumption to create a disturbance. After the recession's end five years ago, the City should now be able to focus its efforts on building up a fund balance and a reserve. The City ought to be prepared for several contingencies occurring at the same time. Although PICA recognizes that the City has demonstrated the ability to manage fiscal contingencies, we also contend that this absolutely would be enhanced through the maintenance of a reserve.

Narrow fund balances, combined with a lack of money in the Reserve, pose a risk to the Plan. Moreover, the Plan lacks information on where savings will come from in the future. Fund balances should ideally become higher in the future, so as to meet GFOA standards. It is concerning that the fund balance is below optimal levels, while the Plan likely projects insufficient increases to cover future labor costs and makes several other optimistic assumptions, detailed in

Section III. The best way to mitigate risk would be to account for more contingencies in the Plan and maintain a higher fund balance.

The GFOA recommends that governments, regardless of size, “maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” This is a general guideline that ought to be tailored based on the characteristics and needs of the government in question and an assessment of potential risks, previous impacts/problem areas, and other considerations.

II. Analysis of Plan Projections

The *Five-Year Financial Plan* for Fiscal Years 2016 through 2020 was initially proposed by the Mayor on March 5, 2015. After passage of the FY16 operating budget and revenue ordinances by City Council, the City submitted to PICA, on June 19, a revised proposed Plan. The June 19 Plan revised revenue and obligation projections to ensure consistency with the Council adopted FY16 budget and revenue ordinances. Changes were also made to revenue estimates to take into account the latest revenue collections. In addition, obligation projections were revised to reflect new labor contracts with correctional officers represented by District Council 33 Local 159, and Sheriff's Office and Register of Wills employees represented by the Fraternal Order of Police.

Plan Overview

Table 2.1 below summarizes the primary elements of the Plan. The Plan projects General Fund operating deficits in FY15 through FY17. However, positive end-of-year fund balances are projected in each fiscal year through FY20, as required under the PICA Act. The reduction of the fund balance from $257 million at the end of FY13 to $34 million by FY17 is a significant concern. In the two most recent cyclical economic expansions, in the 1990s and again prior to 2008, the General Fund balance consistently increased. This has not occurred since the expansion that began in 2010, largely due to continuing increases in labor costs and workforce growth. While the Plan meets statutory criteria

Table 2.1 Summary of FY16-FY20 Five-Year Financial Plan ($ in Millions)

	FY14 Actual	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est.
Revenues							
Taxes	$2,796	$2,782	$2,912	$2,994	$3,082	$3,138	$3,194
Locally-Generated Non-Tax	302	301	276	275	276	276	277
Other Governments	666	639	652	669	695	720	737
Other Funds	42	64	65	66	66	67	67
Total	3,806	3,787	3,905	4,004	4,119	4,201	4,275
Obligations							
Agencies	2,170	2,242	2,272	2,284	2,295	2,297	2,302
Employee Benefits	1,194	1,112	1,172	1,207	1,239	1,290	1,323
Other	522	512	554	570	595	590	612
Total	3,887	3,866	3,998	4,062	4,128	4,176	4,238
Prior Year Adjustments	26	16	23	22	22	22	22
Adjusted Operating Surplus/ (Deficit)	(55)	(63)	(70)	(35)	13	47	59
Prior Year Fund Balance	257	202	139	69	34	47	94
Current Year Fund Balance	202	139	69	34	47	94	154

Source: FY16-FY20 *Five-Year Financial Plan*, Submitted to PICA on June 19, 2015.

Table 2.2 Projected General Fund Revenues in FY16-FY20 Five-Year Financial Plan ($ in Millions)							
	FY14 Actual	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est
Taxes							
Real Estate	$526	$528	$581	$589	$605	$621	$636
Wage and Earnings	1,262	1,323	1,371	1,421	1,466	1,478	1,490
Business Income and Receipts	462	466	454	463	475	488	501
Sales	263	144	149	157	166	174	183
Real Property Transfer	168	202	222	226	231	235	240
Parking	75	77	89	91	93	95	98
Other	40	42	47	48	45	46	46
Total	2,796	2,782	2,912	2,994	3,082	3,138	3,194
Locally-Generated Non-Tax							
Innovation and Technology	23	24	23	25	24	25	24
Streets	29	25	25	25	25	25	25
Fire	37	38	38	38	38	38	38
Public Property	36	11	13	9	10	10	10
Licenses and Inspections	51	51	53	53	54	54	54
Records	16	17	17	18	18	18	18
Finance	23	47	18	18	18	18	18
First Judicial District	33	34	35	35	35	35	36
Other	53	54	53	54	54	53	53
Total	302	301	276	275	276	276	277
Revenues from Other Governments							
Public Health	55	60	56	56	56	56	56
Public Property	18	18	18	18	18	18	18
Finance	207	163	162	162	164	164	164
Revenue	40	35	36	36	37	38	39
PICA	319	337	353	370	394	418	435
Other	26	26	26	26	26	26	26
Total	666	639	652	669	695	720	737
Revenues from Other Funds	42	64	65	66	66	67	67
Total General Fund Revenues	3,806	3,787	3,905	4,004	4,119	4,201	4,275

for projecting positive fund balances, it does not provide assurance that the City will be prepared for any significant adverse financial events that could occur over the next five fiscal years.

The operating deficits of recent years have largely reflected extraordinary costs and revenue changes that were legacies of the Great Recession. These factors included retroactive wages and benefits for uniformed firefighters in FY14, repayment of deferred pension contributions in FY13 and FY14, and the dedication of $120 million in sales tax proceeds to the School District beginning in FY15. While the City has been able to manage these challenges while maintaining positive fund balances, there is a concern that without a rapid accumulation of reserves, the City will be inadequately prepared to cope with the next recession, or other adverse events.

Beginning in FY18, the Plan projects modest operating surpluses. These surpluses are due to projected tax base growth, offset by lower tax rates for the wage, earnings, net profits, and business income and receipts taxes, and minimal projected labor cost growth. However, the Plan faces risks which could negatively impact its projections. These risks, which are described in Section III, include potential wage increases for unionized workers beyond the level assumed in the Plan, and slower than projected economic and tax base growth. These risks, if realized, and not offset by other cost saving or revenue generating initiatives, could result in operating deficits and negative fund balances in the later years of the Plan.

The Plan projects an increase in fund balance from $34 million in FY17 to $154 million in FY20. Still, this projected fund balance represents just 3.6 percent of obligations in FY20, well below the 8.0 percent level reached in FY07, prior to the Great Recession. The Plan also projects a contribution of $26.0 million to the Budget Stabilization Reserve Fund (BSRF) in FY20. This contribution would be required under the City Charter in any fiscal year in which the projected fund balance, absent the contribution to the BSRF, exceeds 3 percent of appropriations. The Plan projects that in FY20, the fund balance, excluding the BSRF contribution, will equal 4.3 percent of appropriations. Accordingly, a BSRF contribution equal to 0.75 percent of tax and locally-generated non-tax revenues is projected.

The projected contribution would be the first to the BSRF, which was created by an amendment to the City Charter, approved by voters in 2011. The Fund is designed to provide additional revenues to the City in the event of lower-than-budgeted revenues, or if necessary to prevent a service disruption or fund emergency programs. However, the projected contribution to the BSRF in FY20 is modest compared to the potential risks faced by the City.

This Section discusses major assumptions of the Plan's projections of revenues and obligations. The revenue discussion focuses on projected tax rates, and growth in the tax base and revenue for each major tax. Projections of non-tax revenue are also discussed. The obligation analysis focuses on trends in agency spending, employee benefits, and other appropriations.

General Fund Revenues

Taxes. The most significant source of General Fund revenue is taxes. As shown in Table 2.2, taxes are projected to increase from $2.782 billion in FY15 to $3.194 billion in FY20. Taxes are projected to comprise 73.5 percent of General Fund revenue in FY15, increasing to 74.7 percent in FY20. The most significant source of tax revenue is the wage and earnings tax, which accounts for 47.6 percent of tax revenue in FY15. Real estate taxes make up 19.0 percent of total revenue, and business income and

Table 2.3 Projected Philadelphia Tax Rates (Percent), FY16-FY20 Five-Year Financial Plan

	FY14.	FY15	FY16	FY17	FY18	FY19	FY20
Real Estate							
City	0.6018	0.6018	0.6317	0.6317	0.6317	0.6317	0.6317
School District	0.7382	0.7382	0.7681	0.7681	0.7681	0.7681	0.7681
Total	1.3400	1.3400	1.3998	1.3998	1.3998	1.3998	1.3998
Wage, Earnings, and Net Profits							
Resident	3.9240	3.9200	3.9102	3.9004	3.8907	3.8129	3.7366
Non-Resident	3.4950	3.4915	3.4828	3.4741	3.4654	3.3961	3.3282
Business Income and Receipts							
Net Income	6.43	6.41	6.39	6.35	6.30	6.25	6.20
Gross Receipts[1]	0.1415	0.1415	0.1415	0.1415	0.1415	0.1415	0.1415
Sales	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Real Property Transfer	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Parking	20.0	20.0	22.5	22.5	22.5	22.5	22.5

Note:
[1] Alternative gross receipts tax rates are permitted for manufacturers, wholesalers and retailers.

receipts (BIRT) taxes comprise 16.8 percent of tax revenue.[2]

The Plan projections for each tax reflect assumptions about base growth, tax rates, and the impact of changes in tax structure. These assumptions are detailed in Tables 2.3 and 2.4. Table 2.3 presents the Plan's projected tax rates, and Table 2.4 presents projected base and revenue growth for each major tax.

The real estate tax rate is projected to increase from 1.34 percent in 2015 to 1.3998 percent in 2016. This overall rate includes portions dedicated to the City and School District. The City portion is projected to increase from 0.6018 percent in 2015 to 0.6317 percent in 2016. The increase in the City real estate tax rate is projected to generate an additional $25.1 million in FY16, and increasing amounts thereafter, due to growth in the tax base. The Plan incorporates, in the City Council line item, an annual grant of $25 million to the School District that will be fully funded by the increase in the City real estate tax rate.

Since the mid-1990s, the City has incrementally reduced the wage, earnings, and net profits tax

[2] Including the PICA tax, a portion of the wage and earnings taxes paid by City residents, wage and earnings taxes comprise 54 percent of combined City and PICA taxes in FY15. Real estate taxes make up 17 percent, and BIRT, 15 percent, of combined City and PICA taxes. Including both PICA and School District of Philadelphia taxes, wage and earnings taxes represent 40 percent of total local tax revenue, while real estate taxes make up 28 percent of local taxes, and BIRT makes up 11 percent of local tax revenue.

Table 2.4 Projected Percentage Growth in Tax Bases and Revenues, FY16-FY20 Five-Year Financial Plan

	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est
Real Estate						
Base[1]	(3.6)	1.4	3.7	2.9	2.8	2.5
Revenue	0.3	10.1	1.4	2.7	2.6	2.4
Wage and Earnings						
Base	4.8	4.1	4.0	3.5	3.5	3.5
Revenue	4.9	3.6	3.7	3.2	0.8	0.8
Net Profits						
Base	5.8	4.9	3.1	2.9	4.6	4.6
Revenue	21.8	(6.6)	2.8	2.4	2.1	2.1
Business Income and Receipts						
Base[2]	6.26	1.89	2.95	2.95	2.95	2.95
Revenue	1.0	(2.7)	1.9	2.8	2.6	2.6
Sales						
Base	0.3	2.1	2.8	3.3	2.8	3.0
Revenue	(45.3)	3.9	5.0	5.8	4.8	5.1
Real Property Transfer						
Base	20.0	10.0	2.0	2.0	2.0	2.0
Revenue	20.0	10.0	2.0	2.0	2.0	2.0
Parking						
Base	2.3	2.5	2.5	2.5	2.5	2.5
Revenue	2.3	15.3	2.5	2.5	2.5	2.5

Note:
[1] Represents projected growth in taxable assessed value net of the homestead exemption and projected appeal losses.
[2]Amounts shown are calculated prior to the impact of tax reform measures.

rates paid by residents and non-resident workers. These reductions were suspended in FY12 and FY13, due to the financial constraints the City faced in the wake of the recession. Beginning in FY14, the City resumed phased reductions in these taxes, although at modest rates. The Plan projects continued reductions through FY20. The resident tax rate is projected to decline from 3.9102 percent in FY16 to 3.7366 percent in FY20, and the non-resident rate from 3.4828 percent to 3.3282 percent over this period. The rate reductions beginning in FY17 are not currently legislated.

The City has also undertaken gradual reductions in the rates of the BIRT gross receipts and net income taxes since the mid-1990s. Prior to 2008, the reductions were limited to the gross receipts tax. Since 2007, reductions in the net income tax have been enacted. The Plan projects reductions in the net income portion of BIRT from 6.39 percent in FY16 to 6.20 percent in FY20. These reductions are consistent with current legislation. The Plan does not project any change in the BIRT gross receipts tax rate from its current level of 0.1415 percent.

Consistent with current legislation, the Plan projects the rate of the parking tax will increase from 20.0 percent in FY15 to 22.5 percent in FY16. This tax increase is projected to generate an additional $9.8 million in FY16, with gradual increases each year due to growth in the tax base. These additional revenues will be utilized to fund a $10 million annual increase in the City's appropriation to the School District.

Table 2.4 presents the Plan projections of tax base and revenue growth. Projected tax base growth represents projected annual growth in taxable economic activity. These projections are based on econometric modeling by IHS Global Insight and judgment of City officials. In addition, local economists provide input to City officials about base growth assumptions at an annual meeting sponsored by PICA and the Federal Reserve Bank of Philadelphia. Through this process of professional economic forecasting and review by officials and independent experts, the City has developed a sound process for developing revenue projections.[3]

The Plan projects annual tax base growth rate ranging from 1.4 to 4 percent, with the exception of the net profits and real property transfer taxes,

[3] The PICA Act requires, in section 209 (c)(2), that "[e] stimates of city-generated revenues shall be based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models."

Table 2.5 Projected General Fund Revenue Growth by Category, FY16-FY20 Five-Year Financial Plan (Percent)

	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est
Taxes	(0.5)	4.7	2.8	2.9	1.8	1.8
Locally-Generated Non-Tax	(0.2)	(8.5)	(0.2)	0.2	0.1	0.2
Revenues from Other Governments						
PICA	5.7	4.8	4.6	6.4	6.1	3.8
Other	(13.0)	(1.3)	0.1	0.9	0.2	0.2
Total	(4.0)	2.0	2.6	4.0	3.6	2.3
Revenues from Other Funds	53.0	1.5	0.9	0.7	0.8	0.8
Total General Fund Revenues	(0.5)	3.1	2.5	2.9	2.0	1.8

Source: PICA Staff.

which are projected to grow at higher rates in some years.

The revenue growth projections reflect the combined impact of base growth assumptions, tax rate assumptions, and other changes that affect revenue collections. These changes are particularly significant in the case of BIRT.

Under legislation enacted in 2012, two major structural changes were made to BIRT. The first was the implementation beginning in 2014 of tax relief for small businesses. The law specifies that the first $50,000 in taxable gross receipts will be exempt from taxation under the gross receipts tax. In addition, taxable net income for purposes of the BIRT net income tax will also be reduced proportionately. The amount of the gross receipts exemption increases to $75,000 in tax year 2015 and $100,000 in tax year 2016 and subsequent years. This provision should substantially reduce the impact of BIRT on small businesses. Another change in the 2012 legislation was the adoption of single sales factor apportionment for purposes of determining income under the net income portion of BIRT. This provision should reduce the cost of BIRT to businesses with a physical presence in the City, thereby reducing the locational impacts of the tax. The two changes collectively are estimated to reduce BIRT revenue by amounts ranging from $42 to $46 million annually in each year of the Plan. The projection of BIRT revenue takes these structural reforms into account.

The Plan projects the BIRT tax base will increase by 1.89 percent in FY16, while revenue will decline 2.7 percent, reflecting the impact of the tax reforms. In FY17 through FY20, the BIRT revenue is projected to increase at rates generally below the projected rate of growth of the tax base, reflecting annual reductions in the rate of the net income portion of BIRT.

Wage and earnings tax revenue growth is projected to range from 3.7 percent to 0.8 percent over the life of the Plan. These growth rates are generally below the projected tax base growth, due to the projected reductions in the resident and non-resident tax rates. The most significant difference between revenue and tax base growth are projected in FY19 and FY20, when projected rate declines are relatively large.

Sales tax revenue is projected to decline 45.3 percent in FY15 due to the dedication of $120 million in revenue to the School District of Philadelphia beginning that year. However, because the level of SDP-dedicated sales tax revenue remains constant at $120 million after FY15, sales tax revenues received by the City grow more rapidly than the projected growth in the tax base after FY15.

Locally-Generated Non-Tax. Locally generated non-tax revenue is projected to decline from $301 million in FY15 to $276 million in FY16. This reflects a non-recurring $29 million payment received in FY15 and categorized under the Department of Finance. An arbitration award allowed the release of these funds to the City, which was held in escrow to cover potential costs for the FOP health plan. Locally-generated non-tax revenue is projected to be stable after FY16.

Revenue from Other Governments. Revenue from other governments is projected at $639 million in FY15. A major component of this category is PICA revenue. PICA receives a dedicated portion of the wage, earnings, and net profits taxes, which is utilized to pay debt service on PICA bonds. The remaining revenue not utilized for debt service is returned to the City. As a result of tax base growth and declining debt service, PICA revenue is projected to increase at annual rates ranging from 3.8 to 6.4 percent over the Plan period.

Other components of revenue from other governments include state and federal assistance for public health services, state pension aid, state funding of certain court costs, the City's share of state gaming proceeds, an annual rental payment from PGW, and the City's share of revenue generated by the Philadelphia Parking Authority (PPA) from on-street parking. Overall revenue from other governments, excluding PICA revenue, is projected to decline 1.3 percent in FY16, and then increase modestly at rates ranging from 0.1 percent to 0.9 percent over the next four years. Overall revenue from other governments, including PICA revenue, is projected to increase at rates ranging from 2.0 percent to 4.0 percent during the FY16-FY20 period.

Revenue from Other Funds. Revenue from other funds is projected at $64 million in FY15. This category includes reimbursements to the General Fund for costs incurred in support of operations funded through other funds, including the Water and Aviation funds. Another major source of revenue from other funds is dedicated funding to support the 911 system. Revenue from other funds is projected to be relatively stable over the life of the Plan.

Obligations

The Plan projects General Fund obligations will increase from $3.866 billion in FY15 to $4.238 billion in FY20, an overall increase of 9.5 percent, an average annual increase of 1.9 percent. General Fund obligations are comprised of three major categories: agency obligations, employee benefits, and non-agency appropriations.

Agency Obligations. The General Fund includes appropriations to finance the operations of 51 City agencies. These agencies range from major departments to relatively minor commissions. Some are under the jurisdiction of the Mayor, while others are led by independently elected officials. However, all have employees paid at least in part through General Fund appropriations, and most have other direct expenditures for contracted services, materials and supplies. Agency obligations in FY15 are projected at $2.242 billion, which represents 58 percent of total General Fund obligations. Table 2.6 presents the Plan's projected agency obligations by major functional category.

Public Safety is the highest-spending category in agency obligations. It accounts for $841 million of the $2,242 billion total in agency obligations, which represents approximately 38 percent of the departmental spending. The Public Safety category involves the Police and Fire Departments, representing $613 million and $227 million, respectively.

Governance and Administration is projected to cost $428 million, which represents approximately 19 percent of total obligations. Judicial and corrections comes in close behind at $416 million. The remaining agency categories - Social Services, Culture and Recreation, Economic Development and Regulation, Transportation, and Solid Waste Management - account for the remaining $556 million, or one quarter, of agency obligations.

Employee Benefits. The General Fund also includes separate appropriations to fund various employee benefits. As shown in Table 2.6, employee benefits obligations for FY15 are projected at $1.112 billion. This category includes pension payments, employee health benefits, disability and workers' compensation, social security contributions, and unemployment compensation.

The largest category is pension payments, which are projected at $576 million in FY15. This amount includes the General Fund portion of the state-mandated minimum pension contribution and pension related debt service. Debt service on pension bonds in FY14 included both debt service on the City's 1999 Pension Obligation Bonds (POB) and payments for short term debt issued by the Philadelphia Authority for Industrial Development (PAID) to finance the repayment of previously deferred contributions. The decline in pension costs from FY14 to FY15 reflects the City's completion of payments for the PAID debt.

The second largest employee benefit category is shown as the employee welfare plan, projected at $403 million. This category includes health benefits for active workers and retirees, life insurance, legal insurance, tool allowances, and flex cash payments. Health benefits are provided under four plans covering members of the major municipal unions – FOP, IAFF, DC33, and DC47 – and a City-administered plan that covers non-represented, exempt, and unionized workers who opt out of the union plans. The City has been

Table 2.6. General Fund Obligations by Category, FY16-FY20 Five-Year Financial Plan Projections ($ in Millions)							
Function	FY14 Actual	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est.
Agencies[1]							
Public Safety	$835	$841	$862	$871	$878	$879	$880
Judicial and Corrections	407	416	422	428	428	428	428
Health and Human Services	275	284	285	285	285	285	285
Economic Development and Regulation	34	42	45	46	44	44	44
Culture and Recreation	93	100	104	104	104	104	104
Transportation and Sanitation	125	131	126	127	128	129	130
Central Services	250	259	259	257	262	264	267
Governance and Administration	152	169	168	165	165	163	165
Total	2,170	2,242	2,272	2,284	2,295	2,297	2,302
Employee Benefits							
Pension Payments	$646	$576	$612	$625	$634	$662	$674
Employee Welfare Plan	421	403	425	445	465	487	508
Disability/Workers' Compensation	56	56	58	60	61	62	64
Social Security	67	71	72	73	74	74	74
Unemployment Compensation	3	5	5	5	5	5	5
Total	1,194	1,112	1,172	1,207	1,239	1,290	1,323
Non-Agency Line Items							
Debt Service	216	245	246	260	279	268	259
Art Museum	3	3	3	3	3	3	3
Convention Center	15	15	15	15	15	15	15
Community College	26	27	30	29	29	29	29
School District	114	69	104	104	104	105	106
SEPTA	66	70	74	78	83	88	93
Legal Services	41	43	43	43	44	44	44
Indemnities	41	40	38	38	38	38	38
Transfer to Budget Stabilization Reserve Fund	--	--	--	--	--	--	26
Other[2]	0	1	1	1	1	1	1
Total	522	512	554	570	595	590	612
Total	3,887	3,866	3,998	4,062	4,128	4,176	4,238

Note:
[1] Definitions of agency categories are provided in Table 4-1. Indemnity costs are excluded from agency costs.
[2] Includes refunds, witness fees, Hero Awards, and scholarships.

successful in controlling employee health costs by adopting self-insurance for each of these plans except the DC 33 plan.

Non-Agency Appropriations. The non-agency appropriations are projected at $512 million in FY15. These appropriations include City funding for various non-City entities, debt service, indemnities, transfers to the Budget Stabilization Reserve, and other miscellaneous line items. The City supports various entities through direct appropriations, including: the School District of Philadelphia, Community College of Philadelphia, the Pennsylvania Convention Center, the Southeastern Pennsylvania Transportation Authority, and the Philadelphia Museum of Art. Through the Legal Services line item, the City provides support for the Defender Association of Philadelphia, Community Legal Services, and the Support Center for Child Advocates.

The largest line item in non-agency appropriations is debt service, projected at $245 million. The next largest are SEPTA ($70 million) and the School

District ($69 million). After indemnities, projected at $40 million, the remaining entities – Legal Services ($43 million), the Community College ($27 million), Convention Center ($15 million), and Art Museum ($3 million) – account for $89 million, or 5 percent of total non-agency spending.

Growth Rates. General Fund obligation growth overall is projected to decline over the life of the Plan. Table 2.7 shows growth rates analyzed for agencies, employee benefits, and non-agency line-items separately. In terms of agency spending, personal services obligations are projected to decline over the life of the Plan, as are other obligations related to contracted services, materials and supplies.

Employee benefits obligation growth overall is projected to decline over the life of the Plan. This category includes pension payments, health benefits, and unemployment compensation, among others. The greatest variation in this category can be seen in pension benefits, which are adjusted each year based on experience gains or losses. The gains and losses help determine the City's annually required minimum pension contribution. This line item also reflects pension payments that were deferred during the recession and recently paid.

Health benefits are projected to remain relatively stable, which is consistent with the trend of

Table 2.7. Projected General Fund Obligation Growth Rates, FY16-FY20 Five-Year Financial Plan

Function	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY19 Est.	FY20 Est.
Agencies						
Personal Services	3.6	2.1	1.4	0.4	0.0	0.0
Other than Personal Services	2.6	3.2	(1.3)	0.6	0.2	0.7
Total	3.3	2.5	0.5	0.5	0.1	0.2
Employee Benefits						
Pension Payments	(10.9)	6.2	2.1	1.5	4.4	1.7
Employee Welfare Plan	(4.3)	5.4	4.6	4.6	4.7	4.2
Disability/Workers' Compensation	(0.1)	3.7	2.5	2.5	2.5	2.5
Social Security	5.4	1.9	1.0	0.5	0.1	0.0
Unemployment Compensation	81.3	(9.8)	0.0	0.0	0.0	0.0
Total	(6.9)	5.4	2.9	2.6	4.1	2.6
Non-Agency Line Items						
Debt Service	13.5	0.4	5.8	7.1	(3.9)	(3.3)
Art Museum	0.0	0.0	0.0	0.0	0.0	0.0
Convention Center	0.0	0.0	0.0	0.0	0.0	0.0
Community College	1.9	12.6	(4.6)	0.0	0.0	0.0
School District	(39.4)	14.6	0.1	0.1	0.7	0.7
SEPTA	6.7	5.4	5.5	5.7	5.7	5.7
Legal Services	4.9	1.3	0.0	2.3	0.0	0.0
Indemnities	(3.4)	(4.2)	0.0	0.0	0.0	0.0
Transfer to Budget Stabilization Reserve Fund	--	--	--	--	--	--
Other[1]	54.1	0.0	0.0	0.0	0.0	0.0
Total	(1.9)	3.3	3.2	4.4	(1.0)	4.0
Total[2]	(0.5)	3.4	1.6	1.6	1.2	1.5

Note:

[1] Includes refunds, witness fees, Hero Awards, and scholarships.

[2] Includes agencies, employee benefits, non-agency line items, and transfer to Budget Stabilization Reserve Fund.

minimal growth in this area in recent years – approximately 0.4 percent annually (please see the discussion on health benefits in Section III of this report).

Non-agency obligations – including debt service, indemnities, reserves, and entities receiving funding from the City – are projected to increase 4 percent through the end of the Plan. The most variation in this category is in debt service. Legal Services is the only area in the category that is projected to carry a consistent, yet minimal increase. The Art Museum, Convention Center, Community College, and Indemnities obligations are projected at zero growth, particularly in the final three years of the Plan.

III. Risks to the Plan

PICA staff's analysis of the Plan is based in significant part on the risk assessment in this section. The PICA Act requires that the Plan projections of revenues and obligations be based on reasonable assumptions and methods of estimation. This requirement was included in the Act to ensure that the *Five-Year Financial Plan* process works to provide adequate assurance that the City will continue to maintain financial stability. Without reasonable assumptions and methods of estimation, the Plan process cannot provide assurance that the City can maintain General Fund balance over the next five years without additional budget balancing measures.

The discussion below focuses on key risks to the Plan. They include: wage costs, economic growth, School District of Philadelphia finances, indemnity costs, health benefit costs, the impact of business tax reform, real estate assessment appeals, pension costs, Department of Human Services costs, and the impact of tax enforcement.

The impact of potential wage increases is quantified, resulting in an estimate of this risk on the Plan fund balance. The other risks are not quantified.

Table 3.1. Terms of Current Contracts Relating to Wages, by Bargaining Unit

Bargaining Unit	Term	Wage Provisions[1]
FOP-Police	7/1/14-6/30/17	3% 7/1/14 3.25% 7/1/15 3.25% 7/1/16
FOP-Sheriff	7/1/14-6/30/17	2.5% 7/1/14 3% 7/1/15 3.25% 7/1/16
FOP-Register of Wills	7/1/14-6/30/17	Same as DC 33
IAFF	7/1/13-6/30/17	3% 7/1/13 3% 7/1/14 3.25% 7/1/15 Reopener to determine wages in FY17
DC 33	7/1/09-6/30/16	3.5% 9/1/14 2.5% 7/1/15
DC 33 - Local 159	7/1/14-6/30/17	3% 7/1/14 3.25% 7/1/15 3.25% 7/1/16
DC 47	7/1/09-6/30/17	3.5% Spring 2014[2] 2.5% 7/1/15 3.0% 7/1/16
DC 47 - Local 810	7/1/14-6/30/16	2.5% 7/1/14 2.5% 7/1/15

Notes:
[1] Only provisions that affect the union pay plan are described. Some unions received lump sum bonuses, but these provisions are not included.
[2] Wage increase occurred 30 days after ratification of the contract.

Table 3.2. Wage Risk by Bargaining Unit, FY16-FY20 Five-Year Financial Plan ($ in Millions)						
	FY16 Est.	FY17 Est..	FY18 Est.	FY19 Est.	FY20 Est.	FY16-FY20 Total
FOP-Police	–	–	9.0	18.1	27.5	54.6
FOP-Sheriff	–	–	0.3	0.7	1.1	2.1
FOP-Register of Wills	–	0.1	0.2	0.2	0.3	0.8
IAFF	–	3.0	6.0	9.0	12.2	30.1
DC 33	–	4.1	8.2	12.5	16.8	41.6
DC 33 - Local 159	–	–	2.6	5.2	7.9	15.6
DC 47	–	–	3.1	6.2	9.3	18.6
DC 47 - Local 810	–	0.4	0.7	1.1	1.5	3.6
Total	–	7.5	30.0	53.0	76.5	167.0

Source: PICA staff estimates. Risk is calculated as the impact of a 2 percent wage increase in years for which the proposed Plan does not assume any increase. Amounts exclude FICA tax.

Wages

Among the most significant risks faced by the Plan is that actual wage increases could exceed projections. As shown in Table 3.1, current contracts for each of the City's eight major bargaining units expire at the end of FY16 or FY17. For each of these bargaining units, the Plan does not assume any wage increase beyond the period covered by these contracts. In the case of the International Association of Fire Fighters (IAFF), the current contract covers the period through the end of FY17, but only determines wages through the end of FY16. Wages in the final year of the contract will be determined through a separate arbitration process that will occur in 2016. In the case of this contract, the Plan assumes only the wage increases that are determined through the end of FY16.

In previous years, the *Five-Year Financial Plan* has included a cost reserve to cover potential future labor costs for unresolved and future contracts. The FY15-FY19 Plan approved by PICA on July 21, 2014 included a reserve of $213.6 million. In the revision to the FY15-FY19 Plan approved by PICA in October 2014, the labor cost reserve increased to $284.5 million. The increase reflected higher than anticipated costs for the new DC33 contract, inclusion of new costs associated with wages for exempt workers, and the inclusion of potential costs of unresolved contracts for DC33 Local 159, FOP-Sheriff's Deputies, and FOP-Register of Wills. The reserve also included costs to cover a 2.5 percent wage increase for the IAFF bargaining unit in FY14 and FY15.

The proposed FY16-FY20 Plan does not include a reserve for potential future labor costs. This is a concern for PICA staff. In a previous report, PICA staff argued for the benefits of including reasonable assumptions about future labor cost growth as part of a baseline five-year forecast.[4]

The potential for additional wage increases after the expiration of current labor contracts represents the most significant risk to the obligation projections in the Plan. This risk can be quantified. For illustrative purposes, Table 3.2 estimates the impact on the Plan of 2 percent annual increases for all unionized workers in years not covered by

[4] *Staff Report on the City of Philadelphia's Five-Year Financial Plan for Fiscal Year 2014-Fiscal Year 2018*, September 2013, pp. 5-8.

a current labor contract.[5] The analysis indicates that 2 percent annual increases would result in additional costs of $167 million over the life of the Plan. The assumption of 2 percent growth is consistent with regional inflation over the most recent five years.[6] Current union contracts contain annual raises that range from 2.5 to 3.25 percent.

Table 3.3 presents the impact of the Plan's wage risk on fund balance. The wage risk shown in Table 3.2 is $7.5 million in FY17, and increases over time as the impact of each year cumulates. The cumulative impact of the assumed wage increases is 37.5 million in FY18, 90.5 million in FY19, and 167.0 million in FY20. The proposed Plan's fund balances are reduced by these amounts in each fiscal year. In addition, the result of lower fund balances is that the City will not be required to make its projected $26.0 million contribution to the Budget Stabilization Reserve Fund (BSRF) in FY20. Eliminating this contribution has the effect of increasing fund balance.

With the additional wage costs and the elimination of the BSRF contribution, PICA's staff analysis estimates that the projected fund balances will remain positive in each year of the Plan, albeit extremely low. Fund balances, assuming annual wage increases for each bargaining unit, would decline from $69.3 million in FY16 to a low of $3.9 million in FY19, and increase to $12.6 million in FY20.

This analysis suggests that even with modest wage increases, the City is not financially prepared for the impact of any adverse events that could substantially impact General Fund revenues or expenditures. As detailed in the discussion below, there are a number of risks facing the Plan. They include the potential for slower-than-projected economic growth, more rapid growth than projected for health benefit costs, continuing delays with processing real estate appeals, pension cost growth beyond Plan projections, among others.

Perhaps the greatest concern is that five years after the official end of the recession of 2008-2009, the City remains in a financially delicate position. There is simply very little room within the Plan as proposed to cover adverse contingencies. In the event of another recession or even a significant

Table 3.3. Potential Impact of Wage Risk on Plan Fund Balance, FY16-FY20 Five-Year Financial Plan ($ in Millions)

	FY16 Est.	FY17 Est..	FY18 Est.	FY19 Est.	FY20 Est.
Wage Risk					
Annual Impact	--	$7.5	$30.0	$53.0	$76.5
Cumulative Impact	--	7.5	37.5	90.5	167.0
Plan Fund Balance as Submitted	$69.3	34.0	47.2	94.4	153.5
Revised Fund Balance After Taking Wage Risk Into Account	69.3	26.5	9.7	3.9	(13.5)
Contribution to Budget Stabilization Reserve Fund in Proposed Plan	--	--	--	--	26.0
Revised Fund Balance After Taking Wage Risk Into Account and Eliminating Contribution to Budget Stabilization Reserve Fund	69.3	26.5	9.7	3.9	12.6

Source: PICA staff estimates.

[5] In the case of the IAFF, a 2 percent wage increase is assumed in the final year of its contract. The actual wage increase for this year will be determined by a separate reopener arbitration.

[6] The Consumer Price Index for the Philadelphia region increased at an annual rate of 1.8 percent from 2010 to 2014.

Table 3.4. Tax Base Growth Rates: FY16-FY20 Five-Year Financial Plan Estimates (Percent)[1]		
Tax	FY10-FY15 Estimated	FY15-FY20 Estimated.
Wage and Earnings[2]	3.4	3.7
Real Estate Transfer	11.2	3.6
Sales	2.1	2.8

Notes:
[1] FY10-FY15 estimate is based on Five-Year Financial Plan estimate for FY15.
[2] Includes PICA Portion
Source: PICA staff.

economic slowdown, the City is likely to be faced with the need to solve a substantial General Fund deficit. The types of disruptions that may be felt by beneficiaries of City services, and by taxpayers, will likely be much more serious than would have been the case had the City used the period after the Great Recession to build up a financial reserve.

Economic Growth

As is typically the case with any five year fiscal projection, another significant risk is the possibility that slower than projected economic growth could result in actual tax revenues below Plan projections. As shown in Table 2.4, the Plan assumes growth in all major tax bases over the next five fiscal years. However, City tax bases and revenues are sensitive to macroeconomic trends. The business income and receipts tax (BIRT) and real estate transfer tax are particularly volatile, with the BIRT highly sensitive to the business cycle, and the real estate transfer tax sensitive to the housing market.

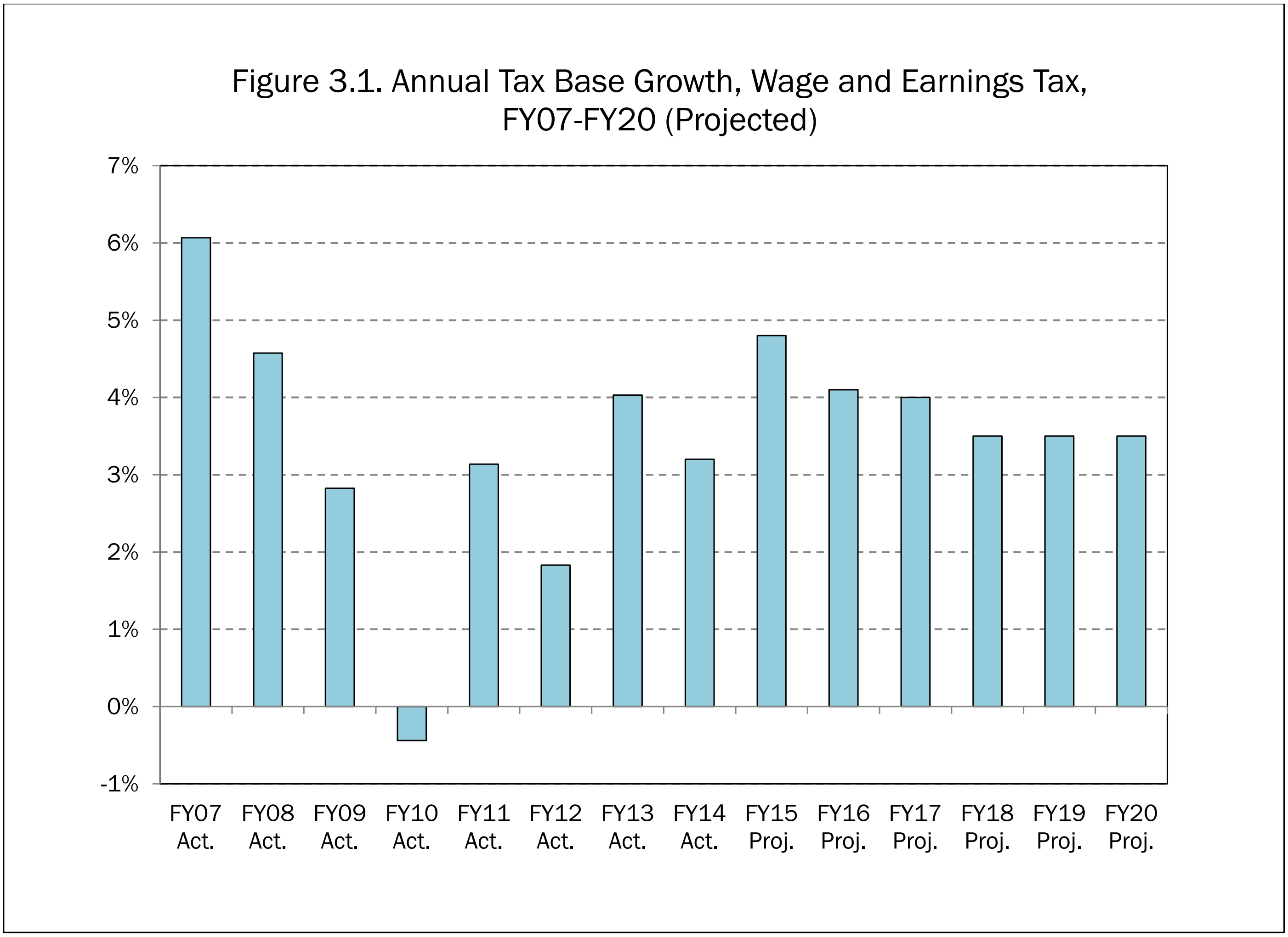
The revenue forecasting process involves two key elements. The first is forecasting growth in the economy and tax base. The second is applying projected tax base growth to an appropriate model that accounts for changes in tax rates, tax structure, and any administrative factors that may significantly impact collections, including enforcement. As discussed further below, the City's revenue model is particularly a concern in the case of the business income and receipts tax, due to ongoing structural reforms. In the case of the real estate tax, administrative concerns are salient due to the 2014 City-wide property reassessment and ongoing problems with resolving assessment appeals. This issue is also described below.

The City has generally improved its process for macroeconomic projections in recent years. It has hired a professional forecasting firm, IHS Global insight, to prepare economic forecasts. These forecasts are reviewed by economists and Revenue Department officials at a meeting sponsored by PICA and the Federal Reserve Bank of Philadelphia. There is a significant level of expert input into the base growth forecasts. Nonetheless, the forecasts do not guarantee performance.

As shown in Table 3.4, for the wage and earnings and sales taxes, the Plan's FY15-FY20 projected base growth rate exceeds FY10-FY15 growth rates, albeit by a small margin.[7] This illustrates the central risk of the Plan's revenue forecasts: Any significant slowdown or a recession during the next five years will have a significant impact on revenues and could result in actual revenues below Plan projections.

Figures 3.1 through 3.3, respectively, present annual tax base growth for the wage and earnings, real

[7] The FY10-FY15 growth rate is calculated based on the Plan's projected FY15 base growth rate. Wage and earnings tax collections through June 2015 are in line with the Plan projection. Sales tax collections through June are slightly below the Plan projection.



estate transfer, and sales taxes. They present actual growth from FY07 through FY14, and projected growth from FY15 through FY20 based on the Plan projections. The figures illustrate the impact of the 2008-2009 recession, and the housing crisis of 2007-2009, on City tax bases. The housing crisis had a significant impact on the real estate transfer tax base, with the base declining by more than 30 percent in FY09. The recession's impact on the sales tax base was also significant, with a decline of more than 8 percent in FY10. While the wage and earnings tax base declined nominally in only one year, FY10, as a result of the recession, the rate of growth is clearly sensitive to the macro-economy, as indicated by the steep decline in growth rates from FY07 to FY10 and the gradual increase from FY10 to FY15.

Particularly in light of the fact that the current economic expansion has been ongoing for five years, the assumption of continued economic growth over the full five years of the Plan is a potential risk factor. Ongoing monitoring of City tax revenue collections will remain essential, along with continued efforts to assure accurate economic forecasting.

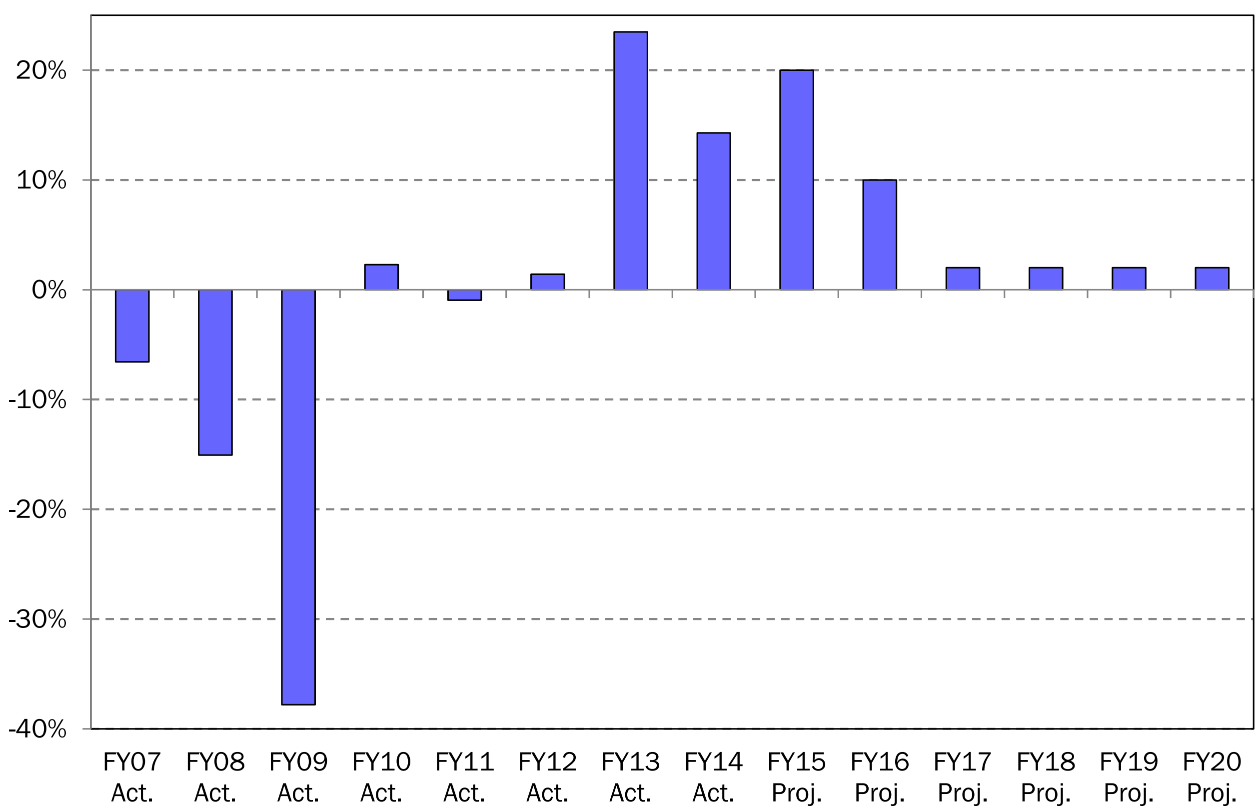
School District Financial Stability

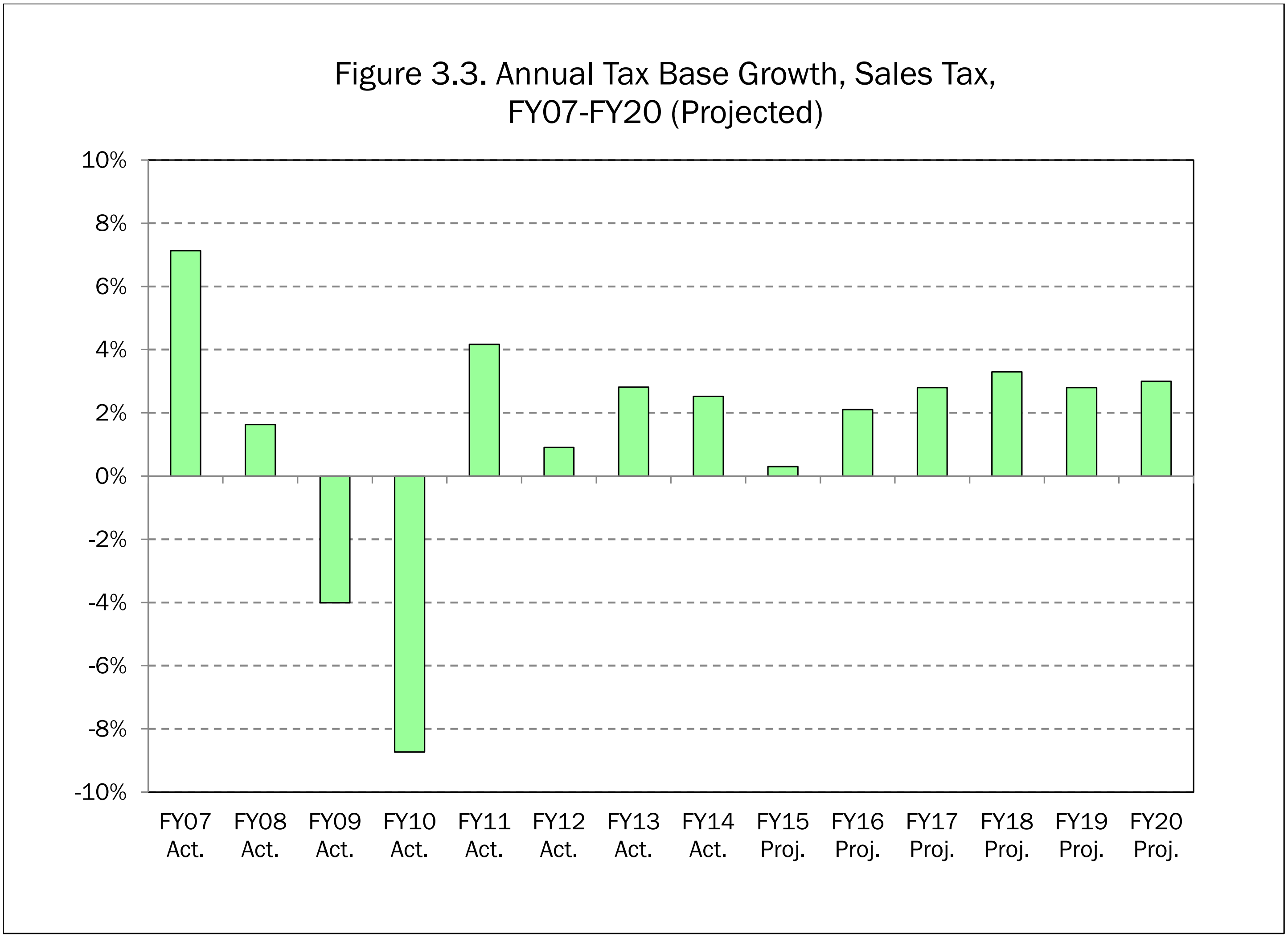
The City in recent years has struggled with the need to provide adequate resources to the School District of Philadelphia (SDP). Substantial additional resources have been provided to the District since FY12. Additional tax revenues have been allocated through increases in SDP real estate and use and occupancy tax rates, the enactment of a new local cigarette tax, and dedication of $120 million in local sales tax revenue to SDP. The City's direct appropriation to SDP has increased from $38.6 million in FY11 to a projected $104.2 million in FY16.[8] In FY16, increased City appropriations to the District will be financed through increases in the City real estate and parking tax rates. SDP has also received an additional allocation of revenue from the Philadelphia Parking Authority. Further, the District has been relieved of the requirement to reimburse the City for the cost of services provided by the Office of Property Assessment and the City Controller's Office. Moreover, under state Act 46 of 1998, the City cannot reduce the rate of any local tax dedicated to SDP, nor can it reduce any grants provided to the District. As a result, the increases in SDP tax rates and City appropriations to SDP cannot be reversed, absent a change to state law.

The District remains challenged financially, and will continue to be under pressure to deliver adequate and competitive educational services. The risk to the *Five-Year Financial Plan* is that the financial needs of SDP will reduce the ability of the City to raise revenue to support its own operations over the next five years. Given the City's already high tax rates and tax effort, there is limited ability for either the City or SDP to continue to generate additional resources through taxes. The outcome of ongoing debate over school funding in Harrisburg will play an important role in determining the extent to which SDP continues to present a financial risk for the City.

[8] The FY16 amount includes $25 million that is included in the City Council appropriation but will be transferred to SDP.

Figure 3.2. Annual Tax Base Growth, Real Estate Transfer Tax, FY07-FY20 (Projected)





Indemnities

Indemnities are projected to stay relatively level, at $38 million, throughout the life of the Plan (see Table 2.7 in Section II). However, trends have pointed to an increase in General Fund indemnities in recent years, with actual figures reaching $41 million in FY14, compared to $24.7 million in FY08 - an increase of approximately 60 percent.

The Departments with the most significant contributions to the total indemnity cost from the FY14 General Fund, beginning with the largest, are: Police ($19.2 million), Streets ($13.9 million), Parks and Recreation ($1.8 million), and Public Property ($1.7 million). Generally, these Departments consistently account for the majority of the cost in most years. The remaining Departments represent amounts below $1 million each.

The Law Department manages cases involving indemnities by decreasing settlement costs, while strategizing on which cases to litigate to conclusion in order to limit costs most efficiently.

PICA is concerned that although the costs are being managed on the back end, there does not seem to be an equally resolute, diligent cost-saving strategy on the front end to avoid the occurrence of incidents or conditions that would lead to indemnities in the first place. The City should implement initiatives that would strive to lower indemnity costs. Concurrently, the City should make realistic projections for indemnities, especially in light of consistently low fund balances. There is a realistic potential for increases in indemnities in this Five Year Plan period in particular due to two very big events occurring in the city – the Pope's visit and the Democratic National Convention – which are not projected in the Plan.

Ultimately, PICA advocates for the simultaneous effort of reducing indemnity costs, while also planning for potential contingencies.

Employee Health Benefit Costs

Employee health benefit cost growth has been minimal in recent years. Health benefits for active and retired works are currently projected to cost $386.4 million in FY15, an increase of 2.5 percent over the FY09 actual. This translates into an annual increase of 0.4 percent, well below the rate of overall General Fund obligation growth.

The low growth rate in recent years reflects structural changes in the way health benefits are administered. As a result of arbitration awards and collective bargaining, three of the City's union health plans – the FOP, IAFF, and DC47 plans – have converted to a self-insurance model under which the City pays the costs of claims and administration rather than a fixed monthly fee per covered employee. This new administrative model resulted in substantial cost savings for the FOP plan after it was implemented in July 2010. The IAFF and DC47 plans, implemented in early 2015, also promise to result in savings. The City continued to make monthly per-employee payments for the DC33 health plan.

In conjunction with self-insurance, these plans have utilized competitive bidding and other procedures to ensure competitive rates with service providers. In addition, other programs have been implemented to incentivise healthy behavior. The City administered health plan has also adopted a number of changes to contain cost, including increased employee contributions.

The Plan projects the cost of health benefits will increase at an average annual rate of 5.0 percent from FY15 through FY20. The projection incorporates separate projections for the four union plans and the City-administered plan that covers non-represented workers. The DC47, IAFF, and FOP plans are projected to grow at rates ranging from 6 to 8 percent annually, reflecting the City's assumption about medical cost inflation for these self-insured plans. The City administered plan is projected to grow at 2 percent annually, reflecting the assumption that cost growth will be tempered by administrative or policy changes that are within the City's control. No cost increase is projected for the DC33 plan, which continues to be financed through a monthly per employee payment.

The risk associated with this projection is that the low cost growth of recent years may not continue and that in fact actual growth over the next five years will exceed 5 percent. The City's health care consultant has projected health cost inflation at rates ranging between 6 and 8 percent for the self-insured plans. It is possible the City will not be able to achieve overall health costs growth, for all five plans in aggregate, at 5 percent.

Impact of Tax Reform

Two significant reforms to the business income and receipts tax (BIRT) have been implemented in recent years. The first is the adoption of single sales factor apportionment to determine taxable net income for purposes of the net income portion of BIRT. The second reform is tax relief for small businesses. Under this provision, firms will be allowed to exempt the first $50,000 in gross receipts from the gross receipts tax under BIRT in tax year 2014. The exemption will increase to $75,000 in 2015 and $100,000 in 2016. In addition, firms will be eligible for a proportionate reduction in taxable net income for purposes of the BIRT net income tax. The Plan estimates these reforms will reduce revenues by $21 million in FY15, $43 million in FY16, and $47 million in FY17 and beyond.

The City has not yet determined the actual impact of the reforms in FY15. While actual BIRT revenue exceeded the initial FY15-FY19 Plan estimate, there is a concern that as the level of the exemption increases over the next two years, that the actual impact could exceed estimates. Because of the complexity of the reforms and the uncertain behavioral response to them, they pose a risk to estimates of BIRT revenue.

Real Estate Tax Appeals

The City continues to face uncertainty relating to the slow pace of resolving a substantial number of appeals related to the 2014 and 2015 real estate tax assessments. The City's Actual Value Initiative (AVI), first implemented in 2014, resulted in significant changes in assessed values for all properties, due to the ending of the previous fractional assessment system. Many property owners faced increased property tax liabilities and subsequently appealed the Office of Property Assessment certified value. The Board of Revision of Taxes (BRT), which has authority to hear appeals of assessments, continues to hear appeals. As of this writing, appeals on assessments with a $4.7 billion value in aggregate remain unresolved Further, the Plan assumes losses from delayed appeals of 16 percent, with a reduction in market value of $1.4 billion. The current percentage of loss to date is 14.9 percent, which would result in a reduction of market value of $1.3 billion.

Because property owners with assessments under appeal are permitted to pay taxes based on the 2013 liabilities, without incurring any interest and penalties, even if they lose their BRT appeal, FY15 revenues have been reduced due to the delay in appeal processing by the BRT. The City expects that the appeals will be resolved by the end of this calendar year.

The risk to the Plan is that the appeals process will continue to challenge the City's ability achieve increases in real estate tax revenue on a timely basis due to increased assessments. The Plan assumes continual increases in aggregate taxable market value, both due to the expiration of abatements on new construction and increases in market values on existing property. If the appeals process at BRT fails to resolve assessment appeals on a timely basis, there may continue to be a lag between market value growth and the realization of revenue by the City. An effective property tax system requires that assessments rise and fall along with market values. Policy makers should be able to set tax rates based on assessed values that accurately reflect market values for the most recent time period. The process of resolving assessment appeals must be effective and timely to allow this process to function optimally.

City officials have argued that delays in processing appeals will not be as significant a problem in the future. The extraordinary nature of the 2014 reassessment, with the elimination of fractional assessments and major changes in tax liabilities across the City, resulted in a very high volume of appeals. In the future, with annual reassessments building on a generally more accurate assessment base, appeals would likely be fewer. Therefore, City officials suggest delays are unlikely to impact collections significantly. PICA staff will continue to monitor this situation.

Pension Projections

The Plan's projected pension costs reflect the City's policy of making annual contributions to the pension system equal to the state mandated minimum contribution, known as the "minimum municipal obligation." This contribution is annually projected by the consulting actuary to the Board of Pensions and Retirement. The actuary's projection is based on a number of key assumptions, which include: demographic experience, including mortality, retirement rates, and disability rates; economic experience, including salary growth, inflation, and the rate of return on Pension Fund investments. If actual experience deviates from these assumptions, actual required pension contributions could exceed the Plan projection.

Two of the most critical actuarial assumptions are related to investment returns and mortality. The investment return assumption is currently 7.8 percent, net of fees. If actual returns are below the assumption, the City will be required to make higher contributions to assure that adequate funding progress is made. As of February 2015, the Fund had achieved a fiscal year to date return of 0.5 percent. This suggests that the Fund will incur an experience loss related to investments for FY15. This will negatively impact the actuarial value of assets over the next 10 years, as the losses are incrementally recognized under the City's ten-year asset smoothing policy. As the losses are recognized, they will then be amortized over a 20 year period, with higher annual required contributions. Additional losses in any of the years of the Plan will result in higher required contributions.

The Plan's projection also assumes a mortality assumption based on the most recent experience study, conducted for the five year period ending June 30, 2013. The City's approach to projecting mortality is to assume the most recent mortality rates will continue indefinitely. In effect, only the most recent levels of mortality are considered, not the long-term trend. Actuarial standards have recently been revised to recommend that actuaries consider the potential for mortality improvements in the future. Not including an assumption with respect to mortality improvement could result in continued demographic experience losses.

The City's pension fund represents a long-term financial risk to the City, one that can be addressed through a variety of steps, including: more conservative actuarial assumptions, new funding sources, increased employee contributions, and adoption of a new, less costly benefit structure for new employees.[9] The City should continue to seek reforms of this nature to preserve the viability of the system. For purposes of the FY16-FY20 Plan, the risk relates primarily to the possibility of required contributions that are higher than projected.

Department of Human Services Obligations

The Plan projects a minimal growth in Department of Human Services obligations. Total DHS obligations for FY20 are projected at $103.2 million, just 3.0 percent higher than FY14 actual obligations. This projection appears quite optimistic in light of recent increases in costs and caseloads resulting, in part, from new state legislation expanding child abuse reporting mandates. Dependent placements increased by more than 25 percent from the end of FY12 to the end of the third quarter of FY15. Obligations in all operating funds, following five years of decline, increased 3.9 percent in FY14. General Fund obligations are projected to increase 2.5 percent in FY15. These trends raise concerns about the ability of the Department to limit obligation growth over the next five years.

It is possible that the Department may be able to respond to increased placement costs by reductions in non-mandated preventive services. However, this course of action may not be advisable from a policy standpoint, and could also increase costs over the long term.

Revenue Enforcement

The Plan assumes that an additional $20 million in tax revenue will be received over a five-year period due to the implementation of the Revenue Department's data warehouse project. The basis for this estimate is unclear. There is clearly potential for improvement in the level of tax enforcement in the city.[10] However, the exact nature of the

[9] These options are detailed in a PICA staff report on the City's pension system. See *Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability*, Pennsylvania Intergovernmental Cooperation Authority, Staff Report, January 2015.

[10] In recent years, a series of *Philadelphia Inquirer* investigative reports, a City Controller audit, and research conducted by the Philadelphia Research Initiative of the Pew Charitable Trusts have

initiatives that will occur as a result of the data warehouse, and how they will improve on existing enforcement processes, has not been detailed to PICA staff. As such the projected $20 million in taxes resulting from this project is a risk to the Plan.

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documented the City's tax enforcement problems. See Office of the Controller, City of Philadelphia, Department of Revenue. *Delinquent Real Estate Taxes: Changes Required to Improve Collectability*, November 2013; Thomas Ginsberg, *Delinquent Property Tax in Philadelphia: Stark Challenges and Realistic Goals* (Philadelphia: Pew Charitable Trusts, Philadelphia Research Initiative, June 2013); and Patrick Kerkstra, "Taxes Wither on the Vine," Philadelphia Inquirer, August 13, 2011.

IV. Spending and Personnel Trends

This section discusses trends in General Fund spending and personnel levels by major category. The review of obligations covers actual spending from FY09 to FY14 and projected spending for FY15 and FY16. Personnel trends from FY09 to FY14 are also discussed. The purpose is to provide perspective on recent trends in costs and changes in budgetary priorities.[11]

For purposes of the analysis, General Fund obligations are classified into three broad categories: agencies; employee benefits; and all other. Agencies have been classified into eight functional categories. The classification of costs by category is shown in Table 4.1.

General Fund Obligations

Table 4.2 presents overall General Fund obligation trends from FY09 to FY16.[12] Total General Fund obligations increased 14.2 percent from FY09 to FY14, an average annual rate of 2.7 percent. Obligations are projected to decline 0.7 percent in FY15, reflecting the end of repayments of deferred FY10 and FY11 pension contributions. Obligations are projected to increase 3.6 percent in FY16.

While overall obligations have increased since FY09, the distribution of obligations across major categories – agency obligations, employee benefits, and other obligations – has not changed significantly. Agency costs were 57.7 percent of General Fund costs in FY09, and are projected to be 55.7 percent of the total in FY16. Employee benefits were 29.4 percent of General Fund obligations in FY09, and are projected at 30.1 percent in FY16. Other obligations were 13.0 percent of the total in FY09 and are projected at 14.2 percent in FY16.[13]

Agency Obligations

Public Safety. In FY14, Public Safety General Fund obligations totaled $835 million, 21.5 percent of total General Fund obligations, and 39.3 percent of agency obligations. This category of spending increased 15.5 percent from FY09 to FY14, for an average annual rate of increase of 2.9 percent.

Wages and salaries are the primary factor determining spending growth in the Police and Fire departments. In FY14, personal services made up 97 percent of Police Department obligations, and 90 percent of Fire Department obligations. Personal services costs reflect filled positions, salary scales, and administrative factors that affect overtime and other non-base salary costs. Police Department General Fund filled positions declined 4.7 percent from FY09 to FY14, while Fire Department positions declined 9.1 percent. Offsetting these declines have been consistent wage growth required under arbitration awards. The Police and Fire pay scales have increased every year since FY09, with the exception of FY10. The City's ability to maintain Police and Fire services in the future will depend on its ability to manage growth in the salary schedule.

Judicial and Corrections. Judicial and Corrections obligations in the General Fund totaled $407 million in FY14, 10.5 percent of total General Fund obligations, and 19.7 percent of agency obligations. Spending in this category declined 1.2 percent from FY09 to FY14, primarily due to a 10.5 percent

[11] Appendix x provides detailed information on expenditures and personnel levels by agency for the General Fund and all operating funds.

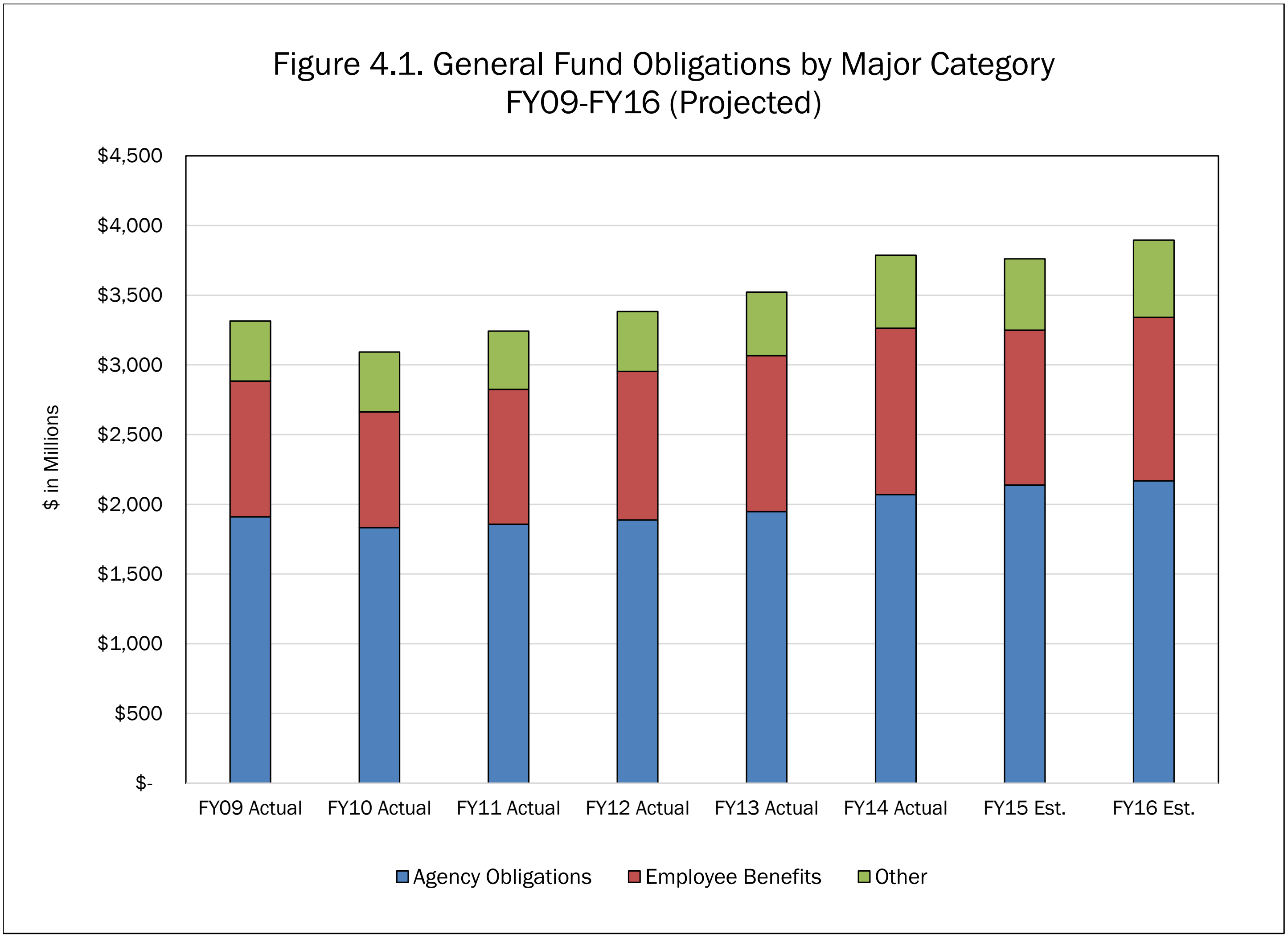
[12] The amounts shown exclude Department of Human Services (DHS) spending within the Health and Human Services category. Beginning in FY12, most grant-funded DHS obligations were recognized in the Grants Revenue Fund. Because of this accounting change, it is necessary to exclude DHS to present an accurate comparison over time.

[13] The FY16 budget included $25 million in assistance for the School District of Philadelphia. This amount was included in the City Council appropriation. For purposes of the analysis here, this amount was shown as part of the City appropriation to the School District, as part of the other obligations category.

Table 4.1. General Fund Obligation Categories

Function	Agencies Included	
Agencies		
Public Safety	Police Department	Fire Department
Judicial and Corrections	First Judicial District Prisons Department District Attorney's Office	Register of Wills Office of the Sheriff
Health and Human Services	Department of Human Services Office of Supportive Housing Department of Public Health Department of Behavioral Health Office of Housing and Community Development	Commission on Human Relations Office of Community Empowerment and Opportunity Youth Commission
Economic Development and Regulation	Department of Commerce Department of Licenses and Inspections City Planning Commission Historical Commission Zoning Board of Adjustment	Zoning Code Commission Office of Sustainability Board of Building Standards Board of Licenses and Inspections Review
Culture and Recreation	Free Library Department of Parks and Recreation Office of Arts and Culture	Mural Arts Program Philadelphia History Museum Camp William Penn[1]
Transportation and Sanitation	Department of Streets	Office of Transportation and Utilities
Central Services	Department of Public Property Capital Program Office[1]	Office of Innovation and Technology Office of Fleet Management
Governance and Administration	Office of the Mayor City Council Office of the City Controller Managing Director's Office Office of the Director of Finance Board of Ethics Board of Revision of Taxes Office of the City Commissioners City Treasurer's Office	Civil Service Commission Office of the Inspector General Office of Labor Relations Law Department Human Resources Department Procurement Department Office of Property Assessment Department of Records Department of Revenue
Employee Benefits		
Pension Contributions Pension Obligation Bond Debt Service Health and Medical Employee Disability Social Security		Unemployment Compensation Group Life Group Legal Tool Allowance Flex Cash Payments
Other Categories		
Debt Service Art Museum Pennsylvania Convention Center School District of Philadelphia Community College of Philadelphia Southeastern Pennsylvania Transportation Authority		Legal Services Budget Stabilization Reserve Fund Refunds Witness Fees Hero Awards Scholarships

Note:
[1] These agencies are not part of the FY16 budget. The Capital Program Office was divided between the Office of the Director of Finance and the Department of Public Property in FY10. City contributions to Camp William Penn ended in FY10.



decline in First Judicial District (FJD) obligations. Considering all operating funds, FJD obligations have declined 8.0 percent.

The period from FY09 to FY14 was one of significant reform within the criminal justice system. New policies have been implemented to improve the efficiency of case processing and reduce length of stay for the pre-trial population in the prison system. These reforms have helped the system maintain performance while reducing costs.

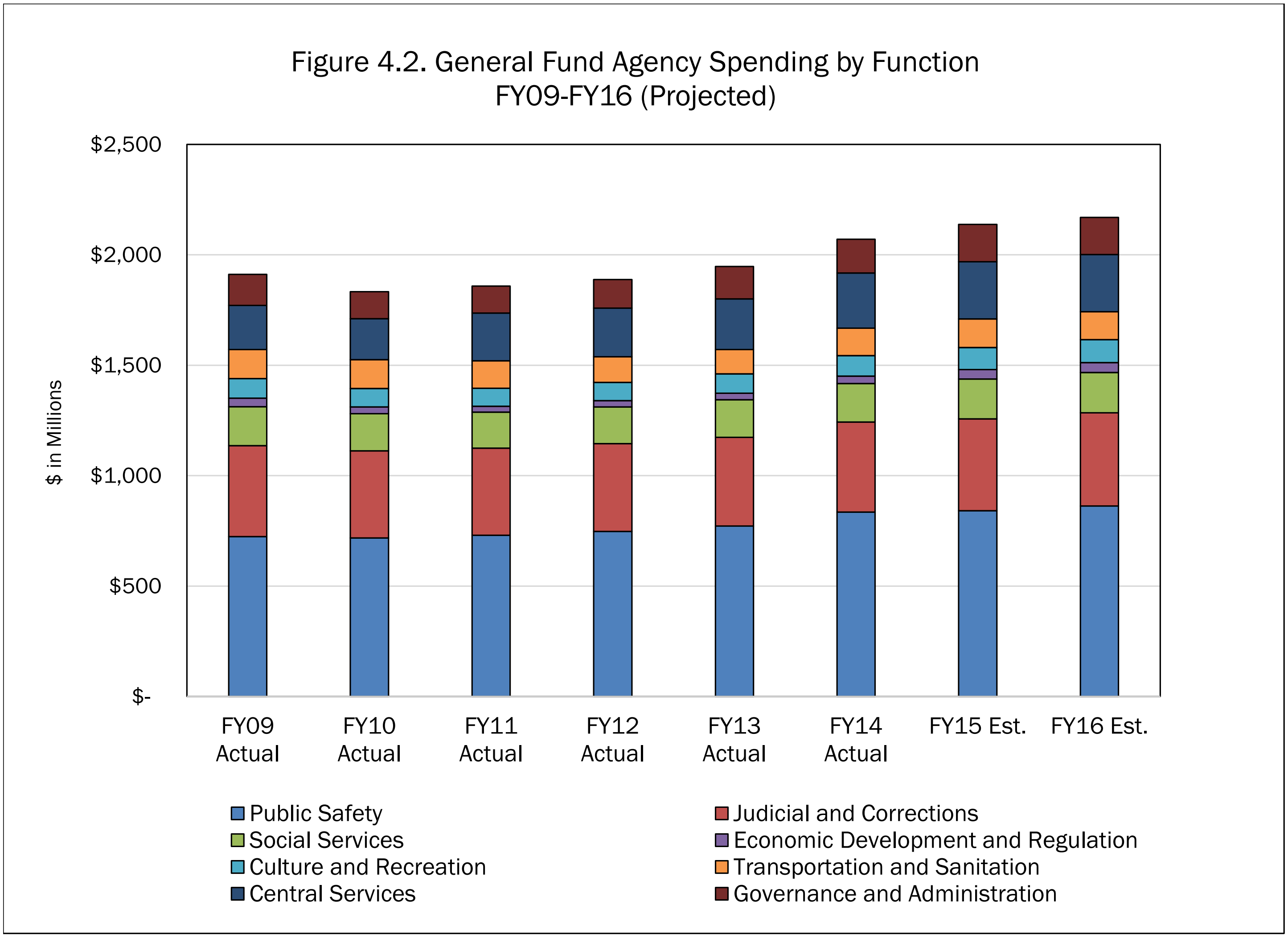
Health and Human Services. General Fund obligations for Health and Human Services totaled $175 million in FY14, 4.6 percent of General Fund spending, and 8.4 percent of agency spending. Obligations declined 0.9 percent from FY09 to FY14, primarily due to a decline in Department of Public Health spending.

In FY14, General Fund obligations comprised only 14 percent of total Health and Human Services obligations in all operating funds. This reflects the high level of federal and state grant funding that supports these services.

Economic Development and Regulation. Economic Development and Regulation spending in FY14 totaled $34 million, 0.9 percent of total General Fund obligations, and 1.6 percent of agency obligations. General Fund spending declined 14.3 percent from FY09 to FY14. In this category, General Fund spending represents 14 percent of spending in all funds. The primary component of non-General Fund spending is expenditures related to the Philadelphia International Airport,

Table 4.2. Obligations by Category, General Fund, FY09-FY16 ($ in Millions)								
	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Est.
Agencies								
Public Safety	723	718	730	747	772	835	841	862
Judicial and Corrections	412	394	394	398	402	407	416	422
Health and Human Services	176	169	164	166	170	175	181	182
Economic Development and Regulation	39	31	26	29	29	34	42	45
Culture and Recreation	88	83	82	83	88	93	100	104
Transportation and Sanitation	132	131	125	116	110	125	130	126
Central Services	199	185	216	220	230	250	259	259
Governance and Administration	141	122	121	129	147	152	169	168
Total	1,912	1,833	1,858	1,888	1,948	2,070	2,138	2,169
Employee Benefits								
Pension Payments	459	347	490	548	619	646	576	612
Health and Welfare	393	362	351	392	375	421	403	425
Disability/Workers' Compensation	49	50	55	54	57	56	56	58
Social Security	69	65	65	67	65	67	71	72
Unemployment Compensation	4	5	6	5	3	3	5	5
Total	973	830	967	1,066	1,119	1,194	1,112	1,172
Other								
Art Museum	3	2	2	2	2	3	3	3
Community College	26	26	25	25	25	26	27	30
School District	38	39	39	49	69	114	69	104
Convention Center	23	24	15	15	15	15	15	15
Indemnities	35	33	34	33	30	41	40	38
Legal Services	37	36	37	37	39	41	43	43
PGW Payments	18	20	2	--	--	--	--	--
Debt Service	187	185	198	201	210	216	245	246
Transit	63	64	66	66	65	66	70	74
Other	0	0	0	0	0	0	1	1
Total	431	430	417	429	456	522	512	554
Total	3,315	3,093	3,242	3,383	3,523	3,786	3,762	3,895

Note: Agency obligations from FY09 to FY14 from the *Supplemental Report of Revenues and Obligations* are adjusted to remove indemnity costs. All indemnity costs are shown under other obligations. Department of Human Services obligations are excluded from all years to allow comparability.
Sources: FY09-FY14 actual obligations from *Supplemental Report of Revenues and Obligations*. FY15 and FY16 obligations estimates from FY16-FY20 *Five-Year Financial Plan*. Indemnity costs by agency for FY09 to FY14 provided by Office of Budget and Program Evaluation, Office of the Director of Finance, City of Philadelphia.



which are recognized in the Aviation Fund. The airport budget is included within the budget for the Commerce Department.

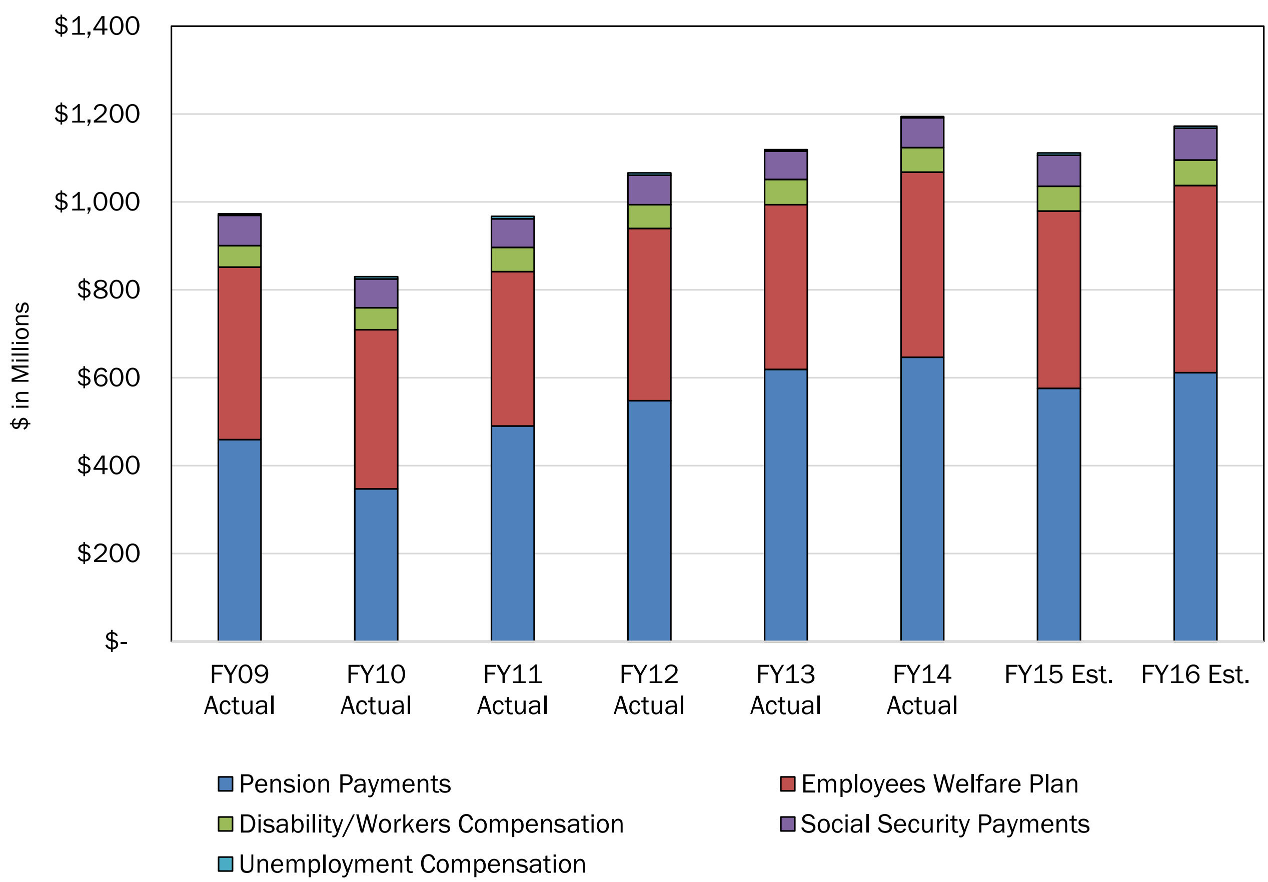
Many economic development initiatives are implemented through the Philadelphia Industrial Development Corporation (PIDC). The City provides a General Fund subsidy to PIDC through the Commerce Department budget. However, the majority of PIDC's financial activity is not included in the City budget.

Culture and Recreation. General Fund obligations for Culture and Recreation totaled $93 million in FY14, 2.4 percent of General Fund obligations, and 4.5 percent of agency obligations. In this category, General Fund spending increased 4.6 percent from FY09 to FY14.

Spending and personnel for the Free Library and Department of Parks and Recreation declined from FY09 to FY10, largely as a result of budget-balancing actions taken by the City in response to the recession. In subsequent years, spending for both agencies gradually increased. By FY14, Free Library obligations had nearly returned to the pre-recession, FY09 level. They are projected to increase further in FY15 and FY16. Similarly, FY14 obligations for the Department of Parks and Recreation had surpassed the FY09 level, and are also projected to increase in FY15 and FY16.

Transportation and Sanitation. Total General Fund obligations for Transportation and Sanitation were $125 million in FY14, 3.3 percent of General Fund spending, and 6.0 percent of agency spending. Obligations declined 5.3 percent from FY09 to FY14, due to reductions in personnel and contract

Figure 4.3. General Fund Employee Benefit Spending by Category
FY09-FY16 (Projected)



services. Reductions in contract costs reflect a $11.6 million reduction in waste disposal fees.

Central Services. Central Services includes internal services that support the operation of other City departments. General Fund obligations for Central Services were $250 million in FY14, representing 6.6 percent of total General Fund spending, and 12.1 percent of agency spending. Spending in this category increased 25.6 percent from FY09 to FY14. This increase primarily reflects two factors. First, the centralization of the City's information technology budget in the Office of Innovation and Technology beginning in FY11, resulted in a shift of costs from agencies to OIT. Second, there was a significant increase in Department of Public Property expenditures in FY14 that reflected a non-recurring distribution of proceeds from the sale of a parking garage.

Governance and Administration. Governance and Administration spending in FY14 totaled $168.2 million, 4.0 percent of total General Fund spending, and 7.4 percent of agency spending. Spending in the category increased 8.1 percent from FY09 to FY14.

Growth in this category reflected several key administrative reforms. The Office of Property Assessment (OPA) was created in FY11 to implement more accurate assessments for real estate tax purposes. Combined costs for the OPA and the Board of Revision of Taxes, which continues to administer assessment appeals, increased $3.1 million from FY09 to FY14. Office of Inspector General obligations increased to $1.4 million in FY14. Managing Director's Office obligations increased $13.9 million over this period.

Table 4.3. Agency Filled Full-Time Positions: General Fund	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Public Safety	9,702	9,565	9,365	9,297	9,318	9,148
Judicial and Corrections	4,819	4,819	4,729	4,802	4,871	4,937
Health and Human Services	949	842	829	865	882	860
Economic Development and Regulation	395	392	368	368	363	374
Culture and Recreation	1,248	1,211	1,227	1,199	1,194	1,225
Transportation and Sanitation	1,727	1,701	1,697	1,690	1,703	1,697
Central Services	607	589	649	645	651	656
Governance and Administration	1,529	1,427	1,488	1,505	1,566	1,712
Total	20,976	20,546	20,352	20,371	20,548	20,609

Note: Figures represent filled, full-time General Fund positions as of June 30. Amounts exclude Department of Human Services.
Source: *Quarterly City Managers Report*, Office of Budget and Program Evaluation, Office of the Director of Finance, City of Philadelphia.

Employee Benefits Obligations

The largest employee benefits category, pension costs, declined from 47.2 percent of total employee benefits in FY09 to 41.8 percent in FY10, due to the state-authorized deferral of $150 million in contributions. The share increased to 54.1 percent in FY14, and is projected to decline to 51.8 percent in FY15, reflecting the full repayment of the deferred contributions by the end of FY14. Pension payments are projected to increase to 52.2 percent of total employee benefits in FY16. The share of costs allocated to health and welfare has declined from 40.4 percent in FY09 to 36.3 percent in FY14, due to the conversion of employee health benefit plans to self-insurance and other efficiencies.

Other Obligations

Among other categories, the most significant change has been an increase in the City's appropriation to the School District of Philadelphia. This appropriation has increased from 8.9 percent of other expenditures in FY09 to 18.8 percent in FY16.[14]

[14] The FY16 amount includes a $25 million appropriation to the School District, which is included within the City Council budget.

General Fund Personnel

As shown in Table 4.3, total General Fund positions declined from 20,976 at the end of FY09 to 20,352 at the end of FY11. Filled positions increased in each of the next three fiscal years, reaching 20,609 in FY14.

The largest component of positions is Public Safety, which declined from 46.3 percent of total General Fund positions in FY09 to 44.4 percent in FY14. Although these departments have a declining share of personnel, they represent an increasing share of agency costs, with their share increasing from 37.8 percent to 39.4 percent over the same period.[15]

Judicial and Corrections increased from 23.0 percent to 24.0 percent of agency personnel from FY09 to FY14. Governance and Administration increased from 7.3 percent to 8.3 percent over this period. The share of other functional categories did not change significantly over this period.

[15] This calculation adjusts for the $33.5 million in retro-active wage and salary payments made in FY14.

V. Indicators of Financial Health

This section discusses trends in key indicators of the City's financial health. The indicators are presented in two categories: economic and financial. The economic indicators are measures of Philadelphia's economic health in relation to the region and the nation as a whole. The financial indicators are focused on key aspects of fiscal stability and sustainability, including General Fund balance, debt, pension liabilities, and liabilities arising from other post-employment benefits.

Economic Indicators

Major indicators of the city's economic health include payroll employment, the unemployment rate, the poverty rate, and median household income. Trends in these indicators are described in this section.

Employment. Table 5.1 presents average monthly payroll employment for the city, the Philadelphia region, and the nation. Average monthly payroll employment in the city increased from 657,000 in 2010 to 675,000 in 2014.

Since 2005, the City's share of regional employment has remained fairly constant, ranging from 23 to 24 percent. The city's share increased somewhat during the early years of the recession in 2009 and 2010 and has since declined slightly.

As a share of national payroll employment, city employment declined from 0.493 percent in 2005 to 0.485 percent in 2014. While the city's share of national employment did increase from 2008 to 2010, it has since declined, indicating that the city may be returning to the long term trend of a declining share of national employment. The general loss of employment share relative to the nation over the last decade is an indication that the city's economy continues to face challenges relative to the nation as a whole.

Unemployment Rate. Table 5.2 presents average annual unemployment rates in the city, region, and nation from 2005 to 2014. After peaking at 10.9 percent in 2012, the city's unemployment rate declined to 8.0 percent in 2014. The city's unemployment rate has been consistently higher than both the regional and national rates. In 2005, the city's average unemployment rate was 30 percent higher than the region, while in 2014, the city's rate was 23 percent above the region. The gap between the city and region narrowed substantially during the recession, with the city's rate 15 percent higher than the region in 2009.

The gap between city and national unemployment rates also narrowed considerably during the recession, with the city rate only 5 percent above the national rate in 2009. Since 2009, the city's rate relative to the nation has increased, with the city's

Table 5.1. Non-Farm Payroll Employment, Philadelphia City, Region, and Nation, 2005-2014.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
City (Thousands)	660	663	663	663	652	657	660	662	665	675
Region (Thousands)	2,774	2,798	2,811	2,808	2,711	2,697	2,708	2,725	2,751	2,784
Nation (Millions)	134.0	136.4	137.9	137.2	131.2	130.3	131.8	134.1	136.4	139.0
City as Percent of Region	23.8	23.7	23.6	23.6	24.1	24.4	24.4	24.3	24.2	24.2
City as Percent of Nation	.493	.486	.480	.484	.497	.504	.501	.494	.488	.485

Source: Bureau of Labor Statistics, Current Population Survey. Philadelphia region is the Philadelphia-Wilmington-Camden PA-NJ-DE-MD metropolitan statistical area. Amounts are annual averages, seasonally adjusted.

Table 5.2. Unemployment Rate, Philadelphia City, Region, and Nation, 2005-2014.										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
City	6.7	6.2	6.1	7.1	9.8	10.6	10.7	10.9	10.4	8.0
Region	4.7	4.5	4.3	5.3	8.3	8.8	8.5	8.5	7.8	6.2
Nation	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2
City as Percent of Region	141	138	142	134	118	121	126	129	133	130
City as Percent of Nation	132	135	132	122	105	110	119	135	141	130
Source: Bureau of Labor Statistics, Local Area Unemployment Statistics and Current Population Survey. Philadelphia region is the Philadelphia-Wilmington-Camden PA-NJ-DE-MD metropolitan statistical area. Amounts are annual averages of monthly unemployment rates. Amounts for City and Region are not seasonally adjusted, while amounts for Nation are seasonally adjusted.										

rate 22.5 percent higher than the nation in 2014. By 2013, the gap between the city and national unemployment rate had returned to pre-recession levels. As the nation and city recover from the recession, it can be expected that both the city and national unemployment rates will continue to decline. The relationship between the city and national rates will remain an important indicator of the strength of the city economy relative to the nation's.

Poverty Rate. Table 5.3 presents trends in the poverty rate in the city compared to that of the Commonwealth of Pennsylvania and the nation as a whole. The city's poverty rate has historically been substantial - representing nearly one quarter of its population - while simultaneously increasing over the past decade, from 24.5 percent in 2005 to 26.3 percent in 2013, the most recent year for which data are available. Over the same period, the state poverty rate increased from 11.9 percent to 13.7 percent, while the national rate increased from 13.3 percent to 15.8 percent. The overall increase reflects primarily the impact of the recession. The city's rate decreased from 28.4 percent in 2011 to 26.3 percent in 2013, potentially indicating the impact of the economic recovery.

The city's poverty rates have consistently been significantly higher than the state and national

Table 5.3. Poverty Rate and Median Household Income, Philadelphia, Pennsylvania, and Nation, 2005-2013.									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poverty Rate (Percent)									
City	24.5	25.1	23.8	24.1	25	26.7	28.4	26.9	26.3
State	11.9	12.1	11.6	12.1	12.5	13.4	13.8	13.7	13.7
US	13.3	13.3	13.0	13.2	14.3	15.3	15.9	15.9	15.8
City as Percent of State	206	207	205	199	200	199	206	196	192
City as Percent of US	184	189	183	183	175	175	179	169	166
Median Household Income									
City	32,573	33,229	35,365	36,976	37,045	34,400	34,207	35,386	36,836
State	44,537	46,259	48,576	50,713	49,520	49,288	50,228	51,230	52,007
US	42,242	48,451	50,740	52,029	50,221	50,046	50,502	51,371	52,250
City as Percent of State	73 %	72	73	73	75	70	68	69	71
City as Percent of US	70 %	69	70	71	74	69	68	69	70
Source: US Bureau of the Census, Small Area Income and Poverty Estimates.									

Table 5.4. General Fund Year-End Fund Balance and Total Obligations, FY05-FY14 ($ in Millions)										
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Fund Balance	96.2	254.5	297.9	119.5	(137.2)	(114.0)	0.1	146.8	256.9	202.1
Obligations	3,386.3	3,426.0	3,736.7	3,919.8	3,915.3	3,653.7	3,785.3	3,484.9	3,613.3	3,886.6
Fund Balance as a Percent of Obligations	2.8	7.4	8.0	3.0	(3.5)	(3.1)	0.0	4.2	7.1	5.2%
Source: *Comprehensive Annual Financial Report*, Office of the Director of Finance, City of Philadelphia, various years.										

poverty rates since 2005. Over this period, the city rate has generally been about twice that of the state. The city's rate relative to the national rate has improved since 2006, with the gap between the city and nation declining from 89 percent in 2006 to 69 percent in 2012. The declining gap relative to the nation may be an indication that the impact of the recession was less severe in the city than in the nation as a whole.

Overall, the city has one of the highest poverty rates among the major cities. Since poverty rates tend to move consistently with macroeconomic trends, it could be expected that the city rate will decline as the nation and city recover from the recession. However, the gap between Philadelphia and other cities, the state, and the nation, will be an important indicator of the health of the city's economy, the effectiveness of state and local anti-poverty strategies, and the overall integration of the population into the labor market. Perhaps the most effective anti-poverty strategy for the city will be an effort to improve the overall economic competitiveness of the city relative to the state and nation.

Median Household Income. The city's median household income is an indicator of the overall economic well-being of residents. This measure includes both earned and unearned income and transfer payments. As such, it is influenced both by economic trends and federal and state policies that influence the availability of transfer payments and the extent to which households participate in programs for which they are eligible.
The city's median household income in 2013 was $36,836, compared to the 2005 level of $32,573. However, median income without inflation is currently lower than before the recession. Median household income in Philadelphia peaked at $37,045 in 2009 and declined through 2011. The increase in 2012 was the first annual increase since 2009, indicating recovery from the recession. State and national median household income peaked in 2008. However, at the state and national level, income declined through 2010 and began to increase in 2011, while the city's increase did not begin until 2012. The later decrease and subsequent increase of median income in Philadelphia, as compared to the state and nation, may indicate that the city experienced a lag in the timing of both the onset and recovery of the recession.

Consistent with the other economic indicators above, median household income trends suggest that the impact of the recession on the city was less pronounced and delayed, as compared to the region and nation. City median household income as a percentage of state income increased from 73 percent in 2005 to 75 percent in 2009, and declined to 69 percent in 2012, after which it increased slightly in 2013 to 71 percent. Similarly, city income as a percent of the nation increased from 70 percent in 2005 to 74 percent in 2009 and declined to 69 percent in 2012, after which it increased slightly to 70 percent. The recession's impact on household income in Philadelphia may have been less severe, in part due to the relative stability of the city economy during the recession, or generally lower median income, as compared to the state and nation. Also, household income in the city may have been less impacted by the recession due to a large proportion of income from transfer payments.

Table 5.5. Debt Indicators, City and School District of Philadelphia, 2005-2014.										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt Outstanding ($ in Millions)										
City Pension-Related	1,430	1,439	1,445	1,447	1,444	1,428	1,407	1,379	1,171	1,121
City Other	2,629	2,544	2,801	2,689	2,867	2,843	2,876	2,764	3,109	3,156
School District	2,318	2,315	2,587	2,557	2,755	2,932	2,866	3,039	3,231	3,139
Total	6,377	6,299	6,833	6,693	7,067	7,204	7,149	7,182	7,511	7,416
Debt Per Capita										
City	2,723	2,676	2,843	2,758	2,846	2,794	2,782	2,672	2,750	2,741
School District	1,555	1,555	1,733	1,705	1,819	1,918	1,862	1,960	2,076	2,012
Total	4,278	4,231	4,576	4,462	4,665	4,713	4,644	4,632	4,827	4,753
Debt as a Percent of Personal Income										
City	8.9	8.3	8.3	7.5	7.6	7.2	6.9	6.5	6.5	6.4
School District	5.1	4.8	5.1	4.6	4.8	4.9	4.6	4.7	4.9	4.7
Total	13.9	13.1	13.4	12.1	12.4	12.1	11.5	11.2	11.5	11.1
City Debt Service as a Percent of General Fund Obligations										
Pension-Related Debt	2.4	2.5	2.4	2.4	2.5	3.1	3.0	3.0	5.6	5.6
Other	5.8	5.6	5.5	5.2	5.6	6.0	6.1	5.9	6.0	5.7
Total	8.1	8.0	7.9	7.6	8.2	9.1	9.1	8.9	11.5	11.3

Note: Measures of City indebtedness include only debt related to governmental activities. Personal income for 2013 is a PICA staff estimate based on past trends. To ensure comparability, General Fund obligations exclude Department of Human Services (DHS) obligations. DHS grant-funded obligations were recognized in the Grants Revenue Fund beginning in FY12.
Source: *Comprehensive Annual Financial Report* for City and School District of Philadelphia; US Census Bureau population estimates; US Bureau of Economic Analysis estimates of personal income.

Financial Indicators

Fund Balance. A primary measure of the City's financial stability is the General Fund balance as a percentage of total obligations. This indicator suggests the extent to which the fund balance provides an adequate level of resources to cover the financial impact of events that could adversely affect revenues or expenses. Table 5.4 presents a ten-year trend of General Fund balance, obligations, and fund balance as a percentage of obligations.

Since FY05, the fund balance has generally moved in a pattern consistent with the macro-economy. The city's fund balance increased from FY05 to FY07, indicating the broad pattern of economic growth in that period. Fund balance began to decline in FY08, and the City incurred deficits in FY09 and FY10, primarily as a result of the recession. Another factor influencing the negative fund balance in FY10 was the timing of state and federal grants to reimburse costs of services offered by the Department of Human Services. The fund balance turned positive in FY11 and increased from FY11 to FY13, and again declining in FY14.

As a percentage of General Fund obligations, the fund balance peaked at 8.0 percent in FY07, before declining to negative 3.5 percent in FY09. The fund balance since increased to 7.1 percent of obligations in FY13, but again declined to 5.3 percent in 2014.

There are a number of factors that could negatively impact fund balance trends in the future, including labor contracts, pension obligations, unexpected indemnities, and slower economic growth or a recession. These risk factors are discussed in Section III and Section VI of this report. The Plan, as submitted, projects fund balances ranging from $34 million in FY17 to $153 million in FY20, making this year's fund balances lower than those in last year's Plan. The actual fund balances may vary, if the risks described in Section III actually occur, and the City does not take other measures to reduce expenses or increase revenues.

The relatively low fund balances in the Plan, combined with the significant risks detailed in Section III, underscore the need for the City to take measures to ensure that it will build up an adequate fund balance to cover unexpected costs and major adverse events such as a recession. The City Charter was amended in 2011 to establish a Budget Stabilization Reserve Fund. This is an important institutional change to promote fiscal stability, requiring the City to make contributions to the Fund when its fund balance exceeds 3 percent of appropriations. Appropriations from the Fund will only be allowed in cases of lower-than-budgeted revenues, in the event of emergencies, or if necessary to avoid service disruptions. To date, no contributions have been made to the Reserve due to low fund balances.

However, the FY16-FY20 Plan, as submitted to PICA on June 19, contains a projected contribution to the Fund in FY20 ($26 million). PICA commends the City's effort to allocate money to the Reserve. Over the course of the upcoming fiscal years, the City should take steps to ensure that contributions to this fund will occur each year, either through revisions in spending plans, adoption of new revenue sources, or improvements in collections of existing revenues. The current period of economic stability is an opportunity for the City to build up its General Fund balance and make contributions to the Budget Stabilization Reserve to ensure that funds are available to provide stability in the future.

Debt. Another indicator of the City's financial health is the total debt outstanding, measured in relation to the City's ability to service that debt. Table 5.5 presents several measures of City indebtedness. For purposes of this measure, debt includes outstanding obligations of the City and the School District of Philadelphia (SDP). SDP is a coterminous local government, and its debt is paid in part through taxes levied on City residents and businesses. As such, SDP should be included in an overall measure of local government debt in Philadelphia.

The capacity to pay debt service is assessed by presenting outstanding debt on a per capita basis and as a percentage of resident personal income. Debt burdens are also assessed by presenting General Fund debt service as a percentage of total General Fund obligations.

At the end of FY14, City and SDP debt outstanding was $7.416 billion. This amount represented $4,753 per capita and 11.1 percent of resident personal income. Total City debt service payments totaled 11.3 percent of General Fund obligations. Philadelphia's total local government debt burden per capita increased 10 percent from FY05 to FY14, compared to an increase in the Consumer Price Index of 20.9 percent.[16] Local government debt, as a percentage of personal income, declined from 13.9 percent in FY05 to 11.1 percent in FY14.

City debt service, as a percentage of General Fund obligations, increased from 8.1 percent in FY05 to 11.3 percent in FY14. The increase occurred primarily between FY12 and FY13 due to a temporary increase in pension-related debt service. This increase reflected the cost of debt service on bonds issued to finance repayment of pension payments that were deferred during FY10 and FY11.

The City will need to ensure that debt levels remain manageable so that adequate resources are available in the General Fund to finance current services.

[16]US Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, Philadelphia-Wilmington-Atlantic City metropolitan area.

Table 5.6. Pension Funding Status, 2005-2014 ($ in Millions).										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actuarial Value of Assets	4,160	4,168	4,422	4,624	4,042	4,381	4,719	4,717	4,799	4,815
Actuarial Liability	7,851	8,084	8,197	8,402	8,975	9,317	9,487	9,800	10,126	10,522
Unfunded Actuarial Accrued Liability	3,692	3,915	3,775	3,779	4,933	4,936	4,768	5,083	5,327	5,707
Actuarial Funded Ratio	53.0	51.6	53.9	55.0	45.0	47.0	49.7	48.1	47.4	45.8
Covered Payroll	1,271	1,319	1,352	1,457	1,463	1,421	1,371	1,372	1,430	1,495
Unfunded Liability as a Percent of Covered Payroll	291	297	279	259	337	347	348	370	373	382
Minimum Municipal Obligation (MMO)	294	307	400	412	439	447	511	507	492	523
City Funding Policy	349	381	484	518	516	546	675	683	693	769
Amount Paid	309	332	432	427	455	313	470	555	782	553
Percent of City Funding Policy Paid	88.5	87.1	89.4	82.4	88.2	57.3	69.6	81.4	112.9	71.9
Percent of MMO Paid	105.0	108.1	108.0	103.5	103.8	69.9	92.0	109.6	158.9	105.7

Note: Minimum Municipal Obligation shown is prior to deferred amounts in FY10 and FY11. Amount paid includes repayment of deferred amounts in FY13.
Source: City of Philadelphia Municipal Retirement System Actuarial Valuation Reports, Official Statement, Redevelopment Authority City Service Agreement Revenue Refunding Bonds Series 2015A and 2015B.

Pension Funding Status. The funded status of the City's Municipal Retirement System (MRS) is one of the most critical financial challenges facing the city. Table 5.6 presents a multi-year trend in the primary indicators of pension funding status.

The City's funding is determined by state law, which mandates that the City annually contribute a minimum municipal obligation (MMO) to the Pension Fund. The MMO includes the normal cost and an amortization payment sufficient to amortize the unfunded liability of the MRS over a defined period, as determined by an actuarial valuation.

An actuarial model of the MRS makes various assumptions that determine the City's MMO requirement each year. The assumptions address returns of pension fund investments, timing of retirement, salary growth, mortality and disability rates, among other factors. Based on these assumptions and standard actuarial methods, the actuary calculates, as of June 30 of each year, the value of assets, liabilities, funded ratio of the System, MMO contribution, and contribution required under the City Funding Policy.

City payments to the Pension Fund were based on the Funding Policy until 2003, when the City began contributing the MMO. The Funding Policy amounts are generally higher than the MMO amounts. The Funding Policy requires amortization of the unfunded liability as of July 1, 1985 over 34 years ending in 2019. The MMO subsequently required amortization of the unfunded liability as of July 1, 2009 over 30 years ending in 2039. In 2009, the City received state authorization to re-amortize the unfunded liability for purposes of calculating the MMO. This had the effect of reducing the MMO contribution.
From 2005 to 2014, the actuarial value of assets of MRS increased from $4.160 billion to $4.815 billion.

Table 5.7. Other Post-Employment Benefits (OPEB) Funding Status, 2008-2014 ($ in Millions)							
	2008	2009	2010	2011	2012	2013	2014
Actuarial Value of Assets	--	--	--	--	--	-	
Actuarial Liability	1,156	1,120	1,170	1,213	1,512	1,704	
Unfunded Actuarial Accrued Liability	1,156	1,120	1,170	1,213	1,512	1,704	
Actuarial Funded Ratio	0	0	0	0	0	0.0	
Covered Payroll	1,457	1,462	1,420	1,469	1,372	1,417	
Unfunded Liability as a Percent of Covered Payroll	79.4	76.6	82.4	82.5	110.2	120.2	
Annual OPEB Cost	83.4	98.7	93.8	101.7	105.8	114.4	129.3
Payments Made	79.7	81.3	71.7	65.5	76.3	57.1	67.1
Percentage of OPEB Cost Paid	95.6	82.3	76.4	64.4	72.1	49.9	51.9

Note: Amounts are disclosed as required under GASB Statement 45. Source: *Comprehensive Annual Financial Report*, City of Philadelphia, various years.

The actuarial liability increased from $7.851 billion to $10.522 billion over the same period. The funded ratio of the system declined from 53.0 to 45.8 percent. The unfunded liability increased from 291 to 382 percent of covered payroll.

The City's actual payments to the Pension Fund were higher than the MMO from 2005 through 2009. In 2010 and 2011, actual payments were below the MMO due to a state-authorized deferral of $150 million in 2010 and $80 million in 2011. These deferred amounts were repaid, with interest, in 2013. Actual payments in 2013, accordingly, were 158.9 percent of the MMO. Actual payments have been below the City Funding Policy in every year since 2005, with the exception of 2013, due to the repayment of deferred contributions in that year. The adoption of the less stringent MMO funding standard in 2003, combined with the 2009 relaxation of the MMO requirement due to the re-amortization of the unfunded liability as of July 1, 2009, has resulted in less rapid funding progress for the system.

Despite Act 205 of 1984, which mandated the gradual reduction of the unfunded liability of the system through the MMO amortization payment, the actual funded ratio of the system has declined over the past decade. This decline reflects, in part, the adoption of more conservative actuarial assumptions with respect to the rate of return on investments. It also reflects average actual investment returns that have been below the assumed rate.

Going forward, a primary agenda item for the MRS should be to ensure that all of its actuarial assumptions are realistic. The City has consistently reduced its assumed rate of investment return in recent years. Continued reductions will decrease the likelihood of experience losses causing higher contributions in the future. They will also increase the probability that Pension Fund will achieve the actuary's projected increases in the funded ratio.

Other Post-Employment Benefit Funding Status. The City has a substantial unfunded liability related to future obligations to pay for post-employment benefits other than pensions, referred to as "other post-employment benefits" (OPEB). For City retirees, these benefits include health coverage in the first five years after retirement and life insurance. The City finances OPEB on a pay-as-you-go basis, rather than on an actuarial basis. Under GASB Statement 45, the City is required to disclose actuarial liabilities related to OPEB. Table 5.7 presents trends in these liabilities since 2008.

The total OPEB liability has increased from $1.156 billion in 2008 to $1.704 billion in 2013. This entire liability is unfunded. The liability increased from 79.4 to 120.2 percent of covered payroll from 2008 to 2013. Under GASB Statement 45, the City is required to report an annual OPEB cost, which is the contribution that would be required to fund OPEB liabilities on an actuarially sound basis. Since the City finances OPEB on a pay-as-you-go basis, actual payments have been below the annual OPEB cost since 2008, reaching 51.9 percent in the most recent year. In FY14, the City's actual payments were $67.1 million, 51.9 percent of the annual OPEB cost, which is down from a healthy 95.6 percent in FY08.

In the future, to promote the long term sustainability of its OPEB commitments, the City may need to consider funding OPEB on an actuarial basis.

VI. Policy and Management Issues that Impact Philadelphia's Future

This Section discusses policy and management issues that are important from the standpoint of PICA and the City's fiscal health: the fund balance and Budget Stabilization Reserve, issues surrounding L & I, and the Pension Adjustment Fund. In this Section, the issues are discussed from the perspective of PICA staff. These issues are important not only to the City's financial condition over the life of the FY16-FY20 Plan, but also over the very long term.

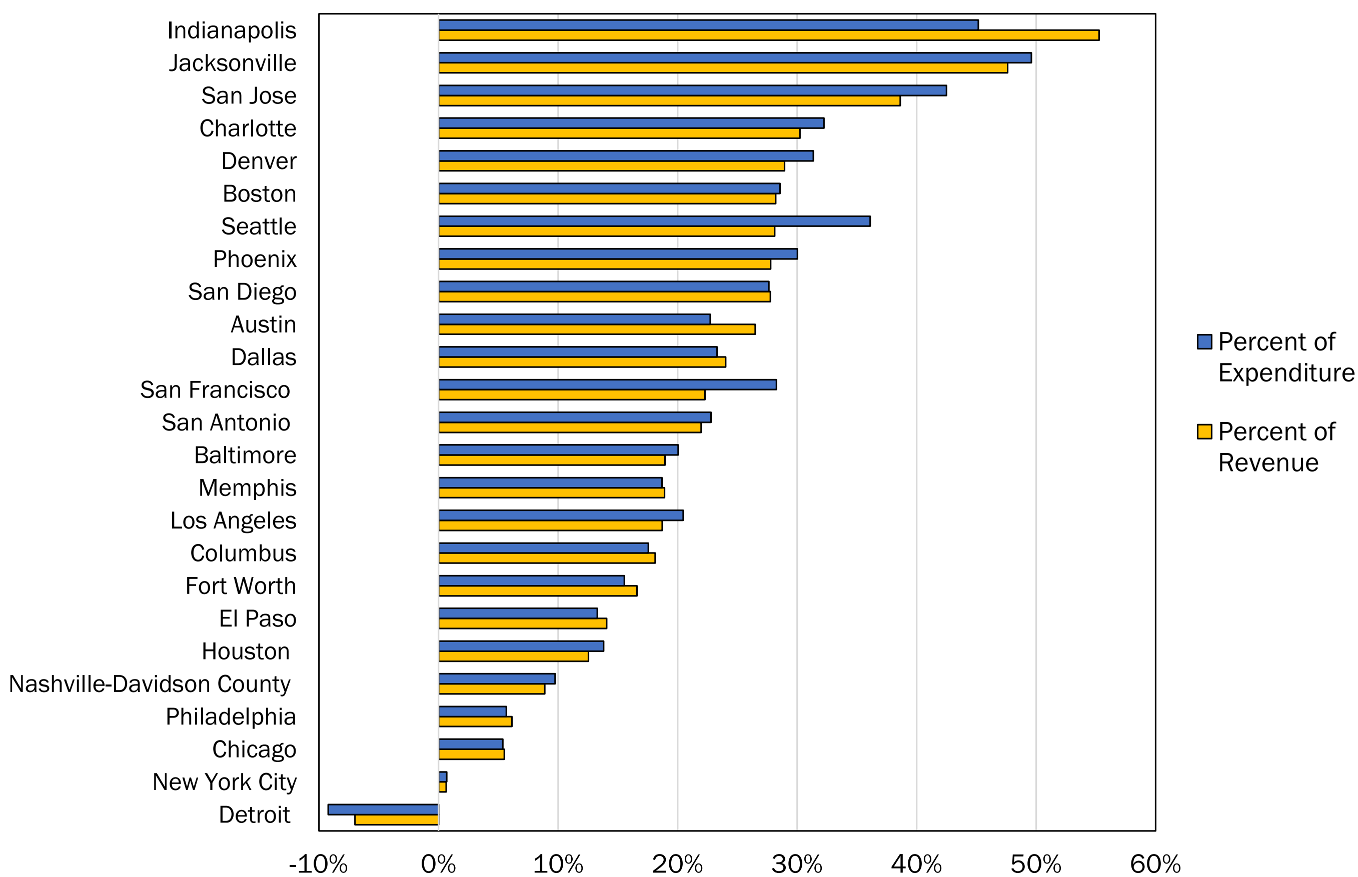
Fund Balance & Budget Stabilization Reserve

The Budget Stabilization Reserve policy was enacted by City Council in April 2011. It was subsequently approved by voters during the November 2011 election, as an amendment to the Philadelphia Home Rule Charter. Prior to 2011, the City did not have an official reserve policy.

Although City Council enacted, and the voters approved, the Budget Stabilization Reserve, the City has not been able to allocate money to it because the fund balance has not reached the requisite surplus to allow a contribution to date.[17] This is in direct conflict with PICA recommendations over the years. Narrow fund balances, combined with a lack of money in the

[17] This may change with the current Five Year Plan, which does project a contribution to the Reserve in one of its years; however, future Five Year Plans would ideally make these contributions annually.

Figure 6.1. General Fund Balance in Large Cities



Source: Comprehensive Annual Financial Reports, most recent year.

Reserve, pose a risk to the financial stability of the City, both in the long-term and the short-term. Moreover, the City's Five Year Financial Plans have historically lacked information on where savings will come from in the future. It is concerning that the fund balance is consistently narrow each year, while the Plan simultaneously assumes insufficient amounts to cover potential and increasing labor costs, indemnities, and contingencies.

While the lack of a reserve is a concern, the City has historically been able to address low fund balances through controlled spending and managing the budget. However, PICA would prefer to see this process become more institutionalized and systematic than it has been thus far.

The Government Finance Officers Association (GFOA) has written extensively on public reserve policies and is a guiding source on the subject. Generally, the GFOA recommends that city governments, regardless of size, maintain "unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[18] This recommended target brings to light a threshold issue that needs to be determined by any government when setting a reserve policy: whether to measure the fund balance as a percentage of annual revenues or expenditures. This decision should be made based on an assessment of the overall volatility of revenues versus expenditures – the selection should be based on the set of numbers that is most stable. The assessment includes an analysis of the potential impact of nonrecurring major expenses, revenue and expenditure patterns of other funds, liquidity levels, and future commitments.

The methodology for the comparison in Figure 5.1 was to rank the top 25 cities in the country based on fund balance as a percentage of revenues and as a percentage of expenditures, respectively. Because cities are able to measure their fund balances in either of these two ways, and because that determination is unique to each city based on its specific financial traits, we chose to show both comparisons. Generally, the cities that ranked lowest remained static in both calculations. There was more variation as the rankings became increasingly favorable. This may reflect the overall financial vulnerability of the lower-ranked cities.

Philadelphia ranks 22nd out of the top 25 cities in the nation in terms of its fund balance as a percentage of expenditures, as well as fund balance as a percentage of revenues. Only Chicago, New York City, and Detroit rank below Philadelphia under both comparisons (as previously mentioned, low-ranked cities remained relatively static through both comparisons). Out of these three similarly-ranked cities, Chicago is most comparable to Philadelphia in terms of the dollar amounts and percentage of revenues and expenditures.

New York City's revenues and expenditures are roughly 20 times the amount of Philadelphia's and Chicago's. In fact, New York City is an outlier in terms of magnitude when compared to all of the cities in the sample. The GFOA explains that cities with very large amounts in revenues and expenditures have inherently more flexibility in addressing contingencies and shortfalls, and have higher borrowing capacity simply due to the size of their budgets.[19]

Detroit, the other city ranked below Philadelphia, is also an outlier because it is the only city in the sample with a deficit, as evidenced by its recent bankruptcy.

Under this comparison, the median for fund balance as a percentage of revenues is San Antonio, at 21.98 percent. The median for fund balance as a percentage of expenditures is Austin, at 22.73 percent. Baltimore, which is often considered as one of the cities most comparable to Philadelphia in terms of both size and demographics, well-outpaces Philadelphia's performance on level of reserves and ranks near the median, based on both revenues (18.96 percent) and expenditures (20.04 percent). Philadelphia is well-below both

[18] GFOA, *Appropriate Level of Unrestricted Fund Balance in the General Fund*.

[19] Additionally, New York City prepays some of its debt service, which makes its fund balances appear lower.

measures, at 6.13 percent in terms of revenues and 5.68 percent in terms of expenditures.

There are a number of reasons, apart from the most obvious need to guard against contingencies, for maintaining municipal reserves, including: cash availability, favorable credit ratings, generating investment earnings, and avoiding interest costs. Several of the risk factors given as examples for the need for higher reserves by the GFOA are particularly relevant to Philadelphia.

First, leverage is a risk factor, including unfunded asset maintenance, pension obligations, OPEB liabilities, or long-term debt. When these problem areas are prevalent and a government is highly leveraged as a result, higher reserves are necessary to facilitate financial flexibility. Another relevant example given by the GFOA relating to leverage is an aging infrastructure. In Philadelphia's case, there are significant liabilities arising from pension obligations, OPEB and debt. In addition, the City's aging infrastructure poses a significant risk that should be balanced with higher reserves.

Second, certain revenue sources that are "inherently volatile" require higher reserve levels in order to prevent the need to cut services in the event that revenues dip significantly enough to require it. The example specifically cited by the GFOA was a tax structure heavily reliant on an occupation tax, similar to Philadelphia's wage tax.

A third risk consideration is if a city undergoes significant development, economic expansion, or especially population growth, it will need an increased level of reserves to accommodate a new, expanded need for city services. Higher reserves are especially important for filling the time lapse before newly increased revenues, resulting from the growth, are collected.

Finally, another type of risk to consider is the potential for spikes in expenditures due to non-recurring, special circumstances, most typically weather-related. Two notable upcoming events – the 2015 World Meeting of Families and the 2016 Democratic National Convention – provide a potential for significant, nonrecurring increases in expenditures. As Philadelphia continues to strive to attract similar events and increase tourism, it will need to be prepared for potential significant spikes in spending related to those endeavors.

In consideration of these risk factors, all of which are particularly relevant to Philadelphia, PICA strongly advocates for a dedication to allocating money to the Budget Stabilization Reserve Fund, as well as maintaining healthy fund balances in future Five Year Plans.

Licenses & Inspections: Fulfilling Mandated Duties

In response to the tragic building collapse of 2013, both the Mayor and City Council conducted studies of the Department Licenses and Inspections. The members of the Special Investigation Committee for City Council's report were: Curtis Jones, Maria Quinones-Sanches, Jim Kenney, Bobby Henon, and Jannie Blackwell. Their report contained 71 recommendations, which mostly focused on demolitions.

Mayor Nutter created an Implementation Task Force to institute recommendations that arose from the L&I study that he initiated. This Task Force formulated the 2015 Plan for a Safer City. L&I implemented the recommendations into its strategic plan by converting them into goals with timelines for meeting them. Multiple recommendations from the aforementioned Council-sponsored study and those from the Implementation Task Force overlapped due to the nature of the subject-matter, although the studies were independently conducted.

There has been no shortage of coverage of L&I's functions before and since the collapse, both from the media and through audits conducted by the City Controller. However, despite the two recent studies and the implementation of one of them into the Plan for a Safer City, L&I remains seriously challenged in its task to secure the City's most dangerous buildings. The following are the most recent figures for unsafe, imminently dangerous, and vacant properties:

- Total number of unsafe buildings 5,090
- Total number of imminently dangerous buildings: 311 (this number may vary as the unsafe buildings above progress to imminently dangerous status)
- This past fiscal year, L&I demolished 666 imminently dangerous buildings; the 331 figure above reflects the number remaining to be demolished
- Total number of vacant properties: 25,131 (this number is derived from the most recent city survey of vacant properties, conducted in 2011, thus the current total may be different)
- Beginning in March 2015, L&I has inspected 1,411 vacant properties as of June 15, 2015. The target for the period ending in March 2016 is 6,000

One key issue with this data is that it is not consistently measured, either in terms of regularity or intervals of time. First, the numbers are not always up-to-date and are not measured consistently and frequently enough between the different categories. Second, figures are measured in different intervals of time – some on a fiscal year basis, others on a March-to-March basis, and still others are extremely outdated, as mentioned above (i.e. the vacant property inventory total). This manner of tracking progress does not lend itself to either precision or efficiency. L&I is in the process of implementing a new data management system – eClipse – which will hopefully address these issues.

The City has allocated additional funding to the Department in the new Five Year Plan to address its numerous challenges. The cuts to L&I's budget during the recession injured the Department's already limited capacity to fulfill its functions. The new funding will largely go to the creation of jobs for additional inspectors and newly required training programs. The funding will add 110 total positions to L&I, as well as Law, Fire, and several other departments that will facilitate L&I's work. Although this is a necessary step, some experts disagree on the level of staffing needed.[20]

The Department has also been under scrutiny for prioritizing collecting fees for small infractions over the more pressing tasks of securing imminently dangerous buildings and other threats to public safety. It is essential for L&I to both address serious safety issues, and to collect revenues necessary for funding the Department.

Furthermore, the impetus for the Plan for a Safer City arose from the 2013 building collapse, making the Plan for a Safer City's goals heavily weighted toward addressing construction and demolition safety, while also prioritizing the closely related topic of vacant properties. It is certainly essential that L&I address these urgently important matters, however, there is more to building safety than solely the regulation of construction and demolition.

In a 2006 audit conducted by the City Controller, it was noted that L&I is not up-to-date on its annual, proactive, and most significantly, mandated fire code inspections of residential and commercial buildings. These are buildings that are frequented and/or inhabited by people on a daily basis. "The Philadelphia Fire Code regulations mandate annual inspections of various residential and commercial facilities within the City for code compliance. These facilities range in type from residential high rise and single family tenant buildings to day care centers and homeless shelters to facilities where mass assemblies occur, including night clubs and large entertainment facilities."[21] The Controller concluded that: "L&I has frequently not kept pace with its schedule or program inspections... When program inspections are not done annually as required, public safety is compromised."

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[20] "Report: $13.9 million and 110 New Workers Needed to Fix L&I," *Philadelphia Inquirer*, February 4, 2015; "Controller Says L&I Needs Inspectors, Better Data," *Philadelphia Inquirer*, February 13, 2015.
[21] City of Philadelphia, Office of the Controller, *Licenses & Inspections Assessment of Housing Inspection and Enforcement Process*, 2006.

Thus, in addition to creating a streamlined, conscientious process for evaluating construction and demolition plans – which by nature largely involve vacant properties – L&I must also not lose sight of regulating occupied properties and their compliance with numerous safety standards and codes.

"Moreover, L&I is not always aware of the total number of facilities requiring inspections," the Controller's report continues, referring to the fact that L&I is not fully aware of all operating landlords, day-care centers, or other types of businesses, due to their non-compliance with business licensing requirements. This is a problem area that has not been adequately addressed for decades.

PICA believes that L&I needs to extend and enhance its proactive approach to overseeing that the fire code, and the areas of building safety overlooked by the Plan for a Safer City, are properly regulated and strictly enforced. An integral part of the proactive approach includes strengthening business licensing compliance for purposes of identifying the buildings that require proactive, annual inspections.

Notably, there have been several recent studies - by the Pew Philadelphia Research Initiative and NYU's Furman Center – showing that the homeownership rate in Philadelphia is steadily declining, while renting is becoming more prevalent.[22] This points to an increased need for building safety regulation through the currently mandated annual proactive inspections.

The Plan for a Safer City does briefly address the necessary tasks of inspecting for compliance with the fire code in existing and occupied properties around the city in one of its goal areas – the remaining goals outlined in the Plan predominantly deal with construction, demolition, and staffing issues. There are other areas of building safety for existing structures – including electrical, gas-related, carbon monoxide detection, etc. – that are not addressed in the Plan for a Safer City. The goal outlined in the Plan concerning fire safety is of great importance, and the new effort to team up with the Fire Department to train inspectors to specialize in this area is a very significant step. However, enforcement of the fire code in the past, as well as going forward, heavily relies on individuals to file complaints in order to bring attention to the properties that might be unsafe.

Although the Plan for Safer City addresses the well-documented severe lag on timely and follow-up inspections through the implementation of a new data system (eClipse) and increases in staffing – the complaint-driven approach, as a strategy, creates a notable lapse in regulation. First, it assumes that residents or patrons of buildings around the city are aware of, and moreover make an effort to observe, the code practices being followed in the buildings they are inhabiting or visiting. Second, it does not incentivise landlords or other businesses to feel accountable for making their properties safe due to a grossly apparent lack, in their eyes, of oversight and regulation. Ultimately, this means that many renters and patrons in Philadelphia, a city that is home to some of the oldest buildings in the country, are left vulnerable to the goodwill and presence of mind of business owners and landlords, who have no expert knowledge on building safety themselves.

PICA recognizes that the Department is undergoing a transitional and restructuring period, therefore, staff makes a two-tiered recommendation. Because of current under-staffing and a lack of availability of resources, the Department cannot feasibly begin door-to-door inspections of all city properties. Therefore, PICA staff proposes that the Department initiate a self-reporting scheme, similar to that conducted annually by the IRS with tax returns. This process heavily relies on self-reporting and voluntary compliance in the face of being subjected to audits and incurring heavy fines. These same tactics

[22] The Pew Charitable Trusts, *Homeownership in Philadelphia on the Decline*, July 2014; NYU Furman Center, *Renting in America's Largest Cities*, May 28, 2015.

Table 6.1. Pension Adjustment Fund Disbursements, 1999-2015 ($ in Thousands)		
PAF Payment Date	*PAF Disbursement Amount*	*Funded Ratio*
April 30, 1999	$22,333	76.7%
June 30, 2000	20,684	76.9
March 30, 2001	36,785	77.5
March 28, 2002	13,281	72.7
May 30, 2008	24,540	55.0
February 27,2009	24,790	45.0
April 30, 2010	7,441	47.0
April 30, 2015	29,350	45.8
Total	179,207	

Note: The funded ratio for 2015 is not yet known, the figure provided is the most recent available (2014).
Sources: City of Philadelphia Board of Pensions and Retirement; City of Philadelphia Municipal Retirement System, Actuarial Valuation Reports

can be applied to the sphere of building safety of occupied buildings in Philadelphia. Each building owner – whether landlord, business owner, private individual, condominium association, etc. – should self-report on the status of his compliance with building safety codes on an annual basis.

Self-reporting would accomplish several things: 1) create a sense of accountability among building owners; 2) encourage compliance before the annual filing period; 3) potentially uncover non-compliance through voluntary self-identification; and 4) reveal which owners, through their practice of non-filing, are potentially non-compliant with building codes. The next step in this two-tiered recommendation is that the Department conduct random site visits throughout the city, based on the self-reported information elicited from building owners.

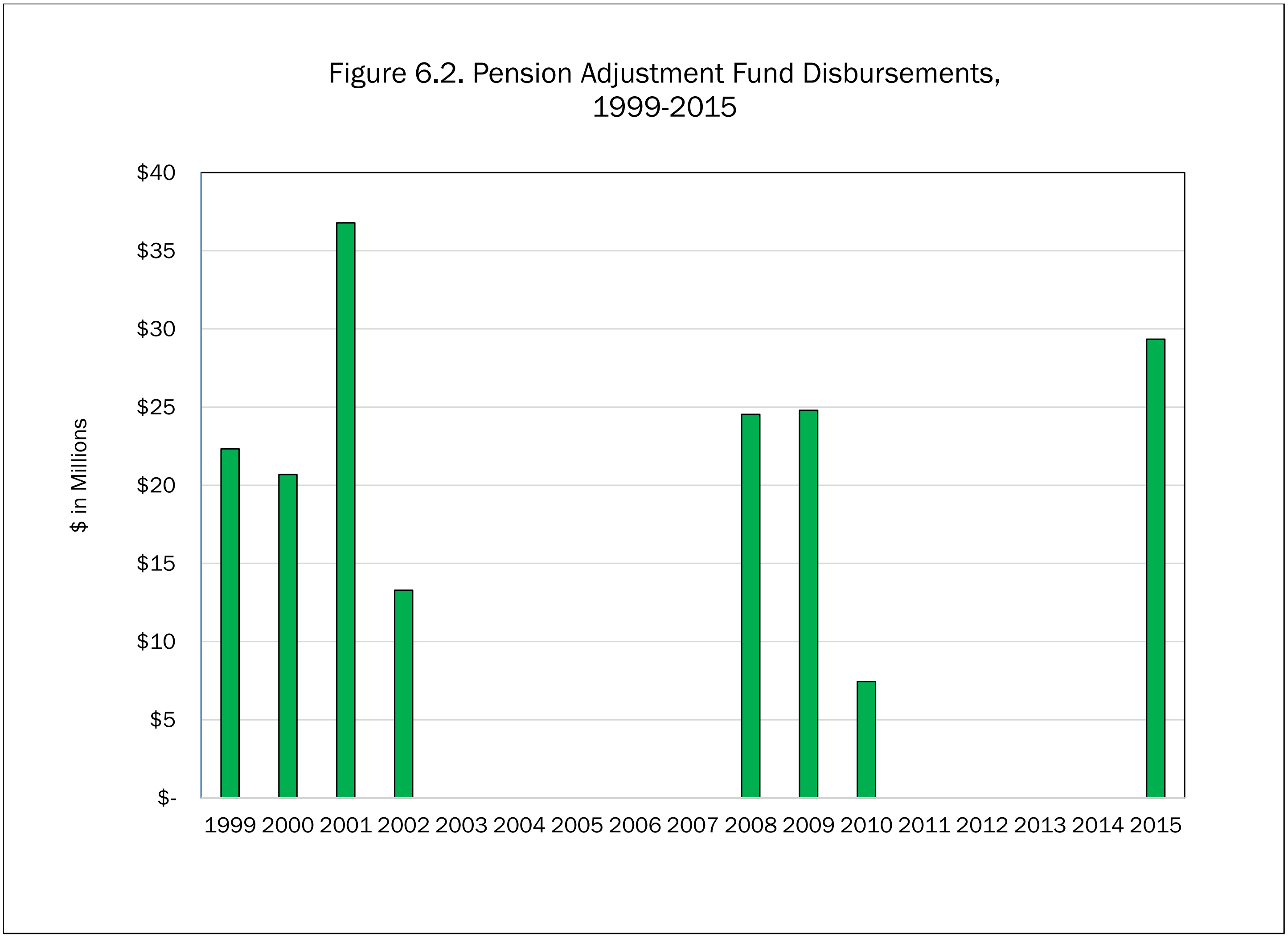
Finally, the Department should implement and enforce stringent consequences for businesses who do not obtain and renew licenses in a timely manner. The result of non-compliance with licensing requirements is diminished control over proactive annual inspections, as they are currently mandated This is a well-known and studied area of non-compliance and represents a quick and simple way for the City to raise revenue through both license fees and fines, which would assist L&I in the execution of its revamped functions and reforms.

Pension Adjustment Fund

The Pension Adjustment Fund (PAF), established in 1999, is a type of periodic supplemental benefit for retirees in the Philadelphia retirement system.

Contributions are made to the PAF when the pension fund's annual actual earnings come in above projections by at least 1 percent. An ordinance amended the PAF in 2007 regarding when deposits would be made into the fund. Previously, there was a minimum funded ratio that the pension fund had to reach before the PAF would receive contributions– that level was based on the 76 percent funded level of the pension fund in July 1999. The 2007 amendment passed over the veto of the Mayor by a two-thirds vote in City Council.

In 2009, Mayor Nutter attempted to restore the original rule that required a minimum funded ratio before PAF contributions would be set aside. He also attempted to change the valuation of the



PAF contributions to be conducted over a 10 year period, rather than a five year period. The Mayor did not succeed on either of these points, and the 2007 amendment remains in effect.

An analysis of the PAF by Boomershine Consulting Group, commissioned by PICA to evaluate the City Pension Fund, concluded that potential positive impact on the pension fund from investments that come in above projections becomes limited by the PAF disbursements. Instead of allowing that money to go into the pension fund, earn a return, and help increase the funded ratio, the earnings go to the PAF and get paid out as supplemental benefits to retirees. In effect, contributions to the PAF reduce the money available to fund the pension liability.

There have been eight total disbursements from the PAF since its implementation. Four of them occurred before the 2007 amendment, and four of them occurred thereafter. The total disbursements from the PAF have amounted to $179,207,407. This total, over the period of seventeen years, does not indicate as deep of an impact on the unfunded liability - currently at $5.7 billion - as has been widely believed.

Ultimately, PICA's recommendation would be to reinstate the original intent of the PAF enabling legislation and require that the funded ratio reach a predetermined level of 76 percent before contributions to the PAF can be made, due to the currently very low funded ratio of 45 percent. PICA recognizes the importance of providing a supplemental benefit to employees, as long as the funded ratio is healthy.

Appendix A:

Spending and Personnel Trends by Agency

FY09-FY16 (Projected)

Appendix A: Spending and Personnel Trends by Agency

Agency Obligations: General Fund ($ in Millions)[1]	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Est.
Public Safety								
Police Department	$534	$529	$536	$552	$572	$588	$613	$643
Fire Department	189	189	194	195	200	248	227	219
Total	723	718	730	747	772	835	841	862
Judicial and Corrections								
First Judicial District[2]	121	112	115	117	111	109	109	110
Department of Prisons	241	234	231	232	241	245	247	254
Other[3]	50	49	48	49	50	54	60	58
Total	412	394	394	398	402	407	416	422
Health and Human Services								
Department of Human Services	600	561	543	102	90	100	103	103
Office of Supportive Housing	39	38	36	38	42	45	45	46
Department of Public Health	116	111	109	107	109	110	116	116
Department of Behavioral Health	14	14	14	14	14	14	14	14
Office of Housing and Community Development	4	3	2	4	3	4	3	4
Other[4]	2	2	2	2	2	2	3	3
Total	776	730	707	268	260	275	284	285
Economic Development and Regulation								
Department of Commerce[5]	8	4	4	4	5	5	10	9
Department of Licenses and Inspections	27	23	18	21	21	25	29	31
Other[6]	4	4	4	3	3	3	3	4
Total	39	31	26	29	29	34	42	45

Notes:

[1] Indemnity costs excluded.

[2] Includes Clerk of Quarter Sessions.

[3] Includes Office of District Attorney, Office of the Register of Wills, and Office of the Sheriff.

[4] Includes Commission on Human Relations, Office of Community Empowerment and Opportunity, and Youth Commission.

[5] Includes City Representative.

[6] Includes City Planning Commission, Historical Commission, Zoning Board of Adjustment, Zoning Code Commission, Office of Sustainability, Board of Building Standards, and Board of Licenses and Inspections Review.

Agency Obligations: General Fund (Continued)	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Est.	FY16 Est.
Culture and Recreation								
Free Library	$37	$32	$33	$33	$34	$36	$40	$40
Department of Parks and Recreation	50	45	46	45	51	53	54	58
Other[7]	1	5	4	4	4	4	6	6
Total	88	83	82	83	88	93	100	104
Transportation and Sanitation								
Streets Department	131	130	124	116	109	124	129	125
Office of Transportation and Utilities	0	0	0	0	1	1	1	1
Total	132	131	125	116	110	125	130	126
Central Services								
Department of Public Property	105	99	103	101	106	123	116	114
Capital Program Office	3	--	--	--	--	--	--	--
Office of Innovation and Technology	36	39	61	63	63	64	82	84
Office of Fleet Management	55	47	52	56	61	63	61	62
Total	199	185	216	220	230	250	259	259
Governance and Administration								
Office of the Mayor	6	4	4	4	4	5	5	5
City Council	15	13	14	14	13	14	17	42
Office of the City Controller	8	7	8	7	7	7	8	8
Managing Director's Office	20	17	16	22	34	34	35	36
Office of the Director of Finance	20	14	16	15	17	19	19	18
Other[8]	73	68	64	67	72	72	84	85
Total	141	123	122	129	147	152	169	193

Notes:

[7] Includes Office of Arts and Culture and the Creative Economy, Mural Arts Program, Philadelphia History Museum, and Camp William Penn.

[8] Includes Board of Ethics, Board of Revision of Taxes, Office of the City Commissioners, City Treasurer's Office, Civil Service Commission, Office of the Inspector General, Office of Labor Relations, Law Department, Department of Human Resources, Procurement Department, Office of Property Assessment, Department of Records, and Department of Revenue.

Agency Obligations: All Funds ($ in Millions)[1]	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Public Safety						
Police Department	$559	$554	$560	$580	$601	$616
Fire Department	195	195	200	203	209	263
Total	754	750	761	783	810	879
Judicial and Corrections						
First Judicial District[2]	145	139	143	143	136	134
Department of Prisons	241	235	233	232	242	245
Other[3]	64	60	61	62	63	64
Total	451	435	437	437	441	442
Health and Human Services						
Department of Human Services	609	575	554	532	529	550
Office of Supportive Housing	69	76	81	74	71	75
Department of Public Health	240	291	336	329	327	334
Department of Behavioral Health	1,335	1,061	1,115	1,074	1,049	1,133
Office of Housing and Community Development	167	163	142	159	115	113
Other[4]	7	15	8	6	6	14
Total	2,447	2,181	2,237	2,173	2,097	2,219
Economic Development and Regulation						
Department of Commerce[5]	174	172	189	192	185	201
Department of Licenses and Inspections	27	24	33	27	37	28
Other[6]	5	5	4	4	4	4
Total	207	201	226	223	226	233

Notes:

[1] Indemnity costs excluded.

[2] Includes Clerk of Quarter Sessions.

[3] Includes Office of District Attorney, Office of the Register of Wills, and Office of the Sheriff.

[4] Includes Commission on Human Relations, Office of Community Empowerment and Opportunity, and Youth Commission.

[5] Includes City Representative.

[6] Includes City Planning Commission, Historical Commission, Zoning Board of Adjustment, Zoning Code Commission, Office of Sustainability, Board of Building Standards, and Board of Licenses and Inspections Review.

Agency Obligations: All Funds (Continued)	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Culture and Recreation						
Free Library	$50	$43	$43	$42	$42	$44
Department of Parks and Recreation	57	53	56	54	59	61
Other[7]	1	6	4	4	4	4
Total	108	102	102	100	104	109
Transportation and Sanitation						
Streets Department	161	162	156	147	144	161
Office of Transportation and Utilities	0	1	1	1	1	1
Total	162	163	157	148	146	162
Central Services						
Department of Public Property	139	117	124	132	131	150
Capital Program Office	3	--	--	--	--	--
Office of Innovation and Technology	39	62	121	111	112	111
Office of Fleet Management	66	60	64	67	72	74
Total	247	239	309	309	315	336
Governance and Administration						
Office of the Mayor	7	5	5	5	5	7
City Council	15	13	14	14	13	14
Office of the City Controller	8	8	8	8	7	8
Managing Director's Office	23	20	20	26	40	37
Office of the Director of Finance	35	18	19	18	20	22
Other[8]	122	112	93	99	108	113
Total	209	177	159	169	194	201

Notes:

[7] Includes Office of Arts and Culture and the Creative Economy, Mural Arts Program, Philadelphia History Museum, and Camp William Penn.

[8] Includes Board of Ethics, Board of Revision of Taxes, Office of the City Commissioners, City Treasurer's Office, Civil Service Commission, Office of the Inspector General, Office of Labor Relations, Law Department, Department of Human Resources, Procurement Department, Office of Property Assessment, Department of Records, and Department of Revenue.

Agency Filled Full-Time Positions: General Fund	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Public Safety						
Police Department	7,443	7,378	7,219	7,225	7,193	7,095
Fire Department	2,259	2,187	2,146	2,072	2,125	2,053
Total	9,702	9,565	9,365	9,297	9,318	9,148
Judicial and Corrections						
First Judicial District[1]	2,008	1,862	1,869	1,957	1,909	1,866
Department of Prisons	2,067	2,254	2,166	2,144	2,248	2,268
Other[2]	744	703	694	701	714	803
Total	4,819	4,819	4,729	4,802	4,871	4,937
Health and Human Services						
Department of Human Services	1,741	1,751	1,668	804	377	382
Office of Supportive Housing	126	124	116	147	145	154
Department of Public Health	675	662	661	669	673	659
Department of Behavioral Health	26	22	21	19	19	15
Office of Housing and Community Development	0	0	0	0	0	0
Other[3]	122	34	31	30	45	32
Total	2,690	2,593	2,497	1,669	1,259	1,242
Economic Development and Regulation						
Department of Commerce[4]	29	31	29	24	28	34
Department of Licenses and Inspections	309	305	290	298	292	296
Other[5]	57	56	49	46	43	44
Total	395	392	368	368	363	374

Notes:

[1] Includes Clerk of Quarter Sessions.

[2] Includes Office of District Attorney, Office of the Register of Wills, and Office of the Sheriff.

[3] Includes Commission on Human Relations, Office of Community Empowerment and Opportunity, and Youth Commission.

[4] Includes City Representative.

[5] Includes City Planning Commission, Historical Commission, Zoning Board of Adjustment, Zoning Code Commission, Office of Sustainability, Board of Building Standards, and Board of Licenses and Inspections Review.

Agency Filled Full-Time Positions: General Fund (Continued)	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Culture and Recreation						
Free Library	629	602	619	608	609	609
Department of Parks and Recreation	602	590	590	574	568	600
Other[6]	17	19	18	17	17	16
Total	1,248	1,211	1,227	1,199	1,194	1,225
Transportation and Sanitation						
Streets Department	1,719	1,693	1,689	1,682	1,690	1,684
Office of Transportation and Utilities	8	8	8	8	13	13
Total	1,727	1,701	1,697	1,690	1,703	1,697
Central Services						
Department of Public Property	135	123	126	122	123	133
Capital Program Office	24	--	--	--	--	--
Office of Innovation and Technology	146	174	258	255	255	259
Office of Fleet Management	302	292	265	268	273	264
Total	607	589	649	645	651	656
Governance and Administration						
Office of the Mayor	71	38	33	33	36	44
City Council	185	176	182	175	173	169
Office of the City Controller	124	120	113	111	118	111
Managing Director's Office	128	112	153	145	156	279
Office of the Director of Finance	143	141	140	156	163	170
Other[7]	878	840	867	885	920	939
Total	1,529	1,427	1,488	1,505	1,566	1,712

Notes:
[6] Includes Office of Arts and Culture and the Creative Economy, Mural Arts Program, Philadelphia History Museum, and Camp William Penn.
[7] Includes Board of Ethics, Board of Revision of Taxes, Office of the City Commissioners, City Treasurer's Office, Civil Service Commission, Office of the Inspector General, Office of Labor Relations, Law Department, Department of Human Resources, Procurement Department, Office of Property Assessment, Department of Records, and Department of Revenue.

Agency Filled Full-Time Positions: All Funds	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Public Safety						
Police Department	7,605	7,546	7,384	7,390	7,357	7,260
Fire Department	2,221	2,256	2,218	2,144	2,202	2,249
Total						
Judicial and Corrections						
First Judicial District[1]	2,459	2,410	2,372	2,460	2,360	2,331
Department of Prisons	2,067	2,254	2,166	2,144	2,248	2,268
Other[2]	857	811	804	811	819	887
Total	5,383	5,475	5,342	5,415	5,427	5,486
Health and Human Services						
Department of Human Services	1,807	1,803	1,716	1,634	1,549	1,564
Office of Supportive Housing	171	168	160	191	154	163
Department of Public Health	890	875	885	893	842	828
Department of Behavioral Health	270	258	253	251	244	239
Office of Housing and Community Development	75	74	72	72	58	56
Other[3]	206	109	104	103	111	65
Total	3,419	3,287	3,190	3,144	2,958	2,915
Economic Development and Regulation						
Department of Commerce[4]	789	760	760	755	811	811
Department of Licenses and Inspections	323	316	302	310	300	303
Other[5]	62	60	52	49	46	47
Total	1,174	1,136	1,114	1,114	1,157	1,161

Notes:

[1] Includes Clerk of Quarter Sessions.

[2] Includes Office of District Attorney, Office of the Register of Wills, and Office of the Sheriff.

[3] Includes Commission on Human Relations, Office of Community Empowerment and Opportunity, and Youth Commission.

[4] Includes City Representative.

[5] Includes City Planning Commission, Historical Commission, Zoning Board of Adjustment, Zoning Code Commission, Office of Sustainability, Board of Building Standards, and Board of Licenses and Inspections Review.

Agency Filled Full-Time Positions: All Funds (Continued)	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual
Culture and Recreation						
Free Library	716	678	682	671	631	629
Department of Parks and Recreation	623	613	612	596	589	622
Other[6]	17	19	18	17	17	17
Total	1,356	1,310	1,312	1,284	1,237	1,268
Transportation and Sanitation						
Streets Department	1,719	1,693	1,689	1,682	1,690	1,684
Office of Transportation and Utilities	8	9	10	10	15	15
Total	1,727	1,702	1,699	1,692	1,705	1,699
Central Services						
Department of Public Property	135	123	126	122	123	133
Capital Program Office	24	--	--	--	--	--
Office of Innovation and Technology	162	190	325	322	324	330
Office of Fleet Management	359	352	331	334	345	331
Total	680	665	782	778	792	794
Governance and Administration						
Office of the Mayor	74	41	37	37	39	47
City Council	185	176	182	175	173	169
Office of the City Controller	124	120	113	111	118	111
Managing Director's Office	131	127	170	162	178	302
Office of the Director of Finance	149	145	143	159	163	170
Other[7]	1,167	1,138	1,163	1,181	1,215	1,224
Total	1,830	1,747	1,808	1,825	1,886	2,023

Notes:

[6] Includes Office of Arts and Culture and the Creative Economy, Mural Arts Program, Philadelphia History Museum, and Camp William Penn.

[7] Includes Board of Ethics, Board of Revision of Taxes, Office of the City Commissioners, City Treasurer's Office, Civil Service Commission, Office of the Inspector General, Office of Labor Relations, Law Department, Department of Human Resources, Procurement Department, Office of Property Assessment, Department of Records, and Department of Revenue.