

PICA Staff Report
on the
City of Philadelphia's
Quarterly City Manager's Report

First Quarter of FY2007

Submitted to PICA on November 15, 2006

November 22, 2006

PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2007

Overview

The Quarterly Report projects that the City's fund balance will drop by \$56 million during FY07, in large part because the costs of employee healthcare, pensions and debt service are growing much faster than revenues.

While the projected \$198 million fund balance is lower than FY06's ending balance, it is almost \$30 million higher than the amount projected in the FY07-FY11 Plan.

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Projected General Fund Balance for FY2007
in Quarterly Report: **\$198.4M**

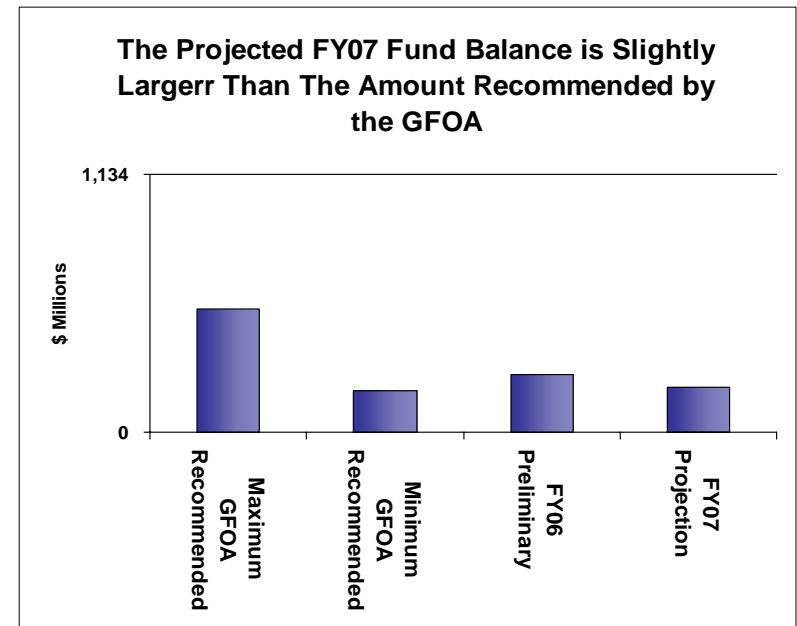
Projected General Fund Balance for FY2007
in the Plan: **\$166.1M**

Change in General Fund Balance from the Plan:
\$ 32.3M

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Fund Balance

- The projected FY07 fund balance is slightly larger than the minimum amount recommended by the Government Finance Officer's Association.
 - The GFOA recommends that fund balances be 5% -15% of revenues in order to provide contingencies against unexpected events in the year;
 - At \$198M, the City's projection is about \$18M higher than the minimum balance that the GFOA recommends, but still over \$340M lower than the high end of the Association's guidelines.
- While the City's projected FY07 fund balance exceeds the minimum level recommended by the GFOA, it almost certainly will fall well below that level in FY08 and the other years included in the Plan.



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Major Changes in Revenue Projections

Projected General Fund Revenues for FY2007
in Quarterly Report: **\$3,600.4M**

Projected General Fund Revenues for FY2007
in the Plan: **\$3,615.2M**

Change in General Fund Revenues from the Plan:
\$ (14.8M)

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Major Changes in Obligations Projections

Projected General Fund Obligations for FY2007
in Quarterly Report: **\$ 3,674.5M**

Projected General Fund Obligations for FY2007
In the Plan: **\$ 3,668.7M**

Change in General Fund Obligations from the Plan:
\$ 5.8M

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Key Revenue Projections: Taxes

- Based on higher than anticipated FY06 collections, the Quarterly Report projects that taxes will exceed the amounts projected in the approved Plan.
- The report projects that wage and business privilege tax collections will each be over \$20 million higher than the amounts projected in the Plan.

<u>Tax</u>	<u>FY07 Plan</u>	<u>FY07 Quarterly Report</u>	<u>Change (in millions)</u>
Wage and Earnings	\$ 1,118.9	\$1.140.4	\$21.5
Business Privilege	\$ 378.9	\$399.5	\$20.6

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Key Revenue Projections: Local Non-Taxes

- The Quarterly Report projects receipt of the Eagles' \$8M rent in FY07. The rent was initially due in FY02, but is now the subject of a legal dispute between the Eagles and the City.
- The quarterly report projects that the City will receive \$6 million from the sale of City assets, but no revenue from a strategic marketing initiative. The strategic marketing initiative had been projected to generate \$2.5 million and the sale of assets was projected to produce \$10 million.
- The Quarterly Report reduces the amount of projected revenue from court costs, fees and charges by \$3 million because of a delay in the implementation of a rate increase.

<u>Item</u>	<u>FY07 Plan</u>	<u>FY07 Quarterly Report</u>	<u>Change (in millions)</u>
Strategic Marketing	\$2.5	\$ 0.0	(\$2.5)
Asset Sales	\$10.0	\$6.0	(\$4.0)
Court Costs Fees and Charges	\$20.5	\$17.5	(\$3.0)

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Key Revenue Projections: Revenues from Other Governments

- The City is estimating that, in part because of reduced projected costs, the City's reimbursements for costs incurred by the Department of Human Services will drop by almost \$28 million from the amount included in the Plan.
- The City projects that revenues from the Philadelphia Parking Authority and reimbursements for costs incurred by the Department of Public Health will each be \$3 million lower than projected.

<u>Item</u>	<u>FY07 Plan</u>	<u>FY07 Quarterly Report</u>	<u>Change (in millions)</u>
Human Services Reimbursements	\$ 574.9	\$547.0	(\$27.9)
Parking Authority	\$25.0	\$22.0	(\$3.0)
Health Department Reimbursements	\$ 58.6	\$55.3	(\$3.3)

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Major Changes in Obligations Projections

- The largest estimated obligations increases from Plan are for prisons and homeless services, where increases in average daily populations have led to faster than anticipated growth in expenditures.
- The largest estimated obligations reduction from the Plan is for the Department of Human Services. Costs are lower than projected because of delays in program expansions and start ups.

<u>Item</u>	<u>FY07 Plan</u>	<u>FY07 Quarterly Report</u>	<u>Change (in millions)</u>
Prisons	\$194.2	\$206.0	\$11.8
Homeless	\$29.5	\$33.5	\$4.0
Department of Human Services	\$609.5	\$589.7	(\$19.8)

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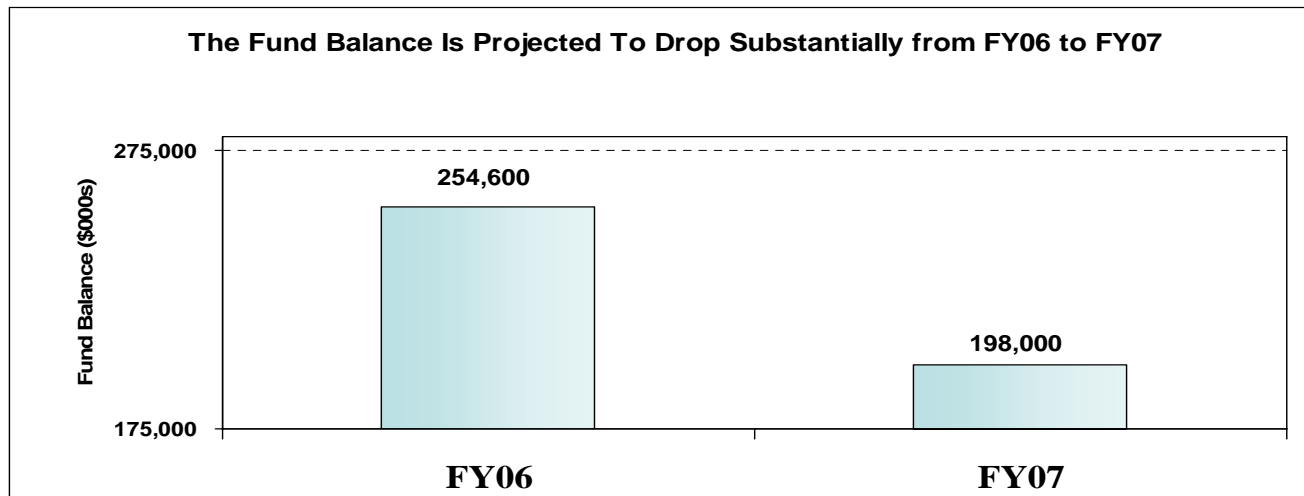
Key Financial Issues Raised in Quarterly Report:

- Reduction in Fund Balance
- Expenditure Growth
- Volatile Revenue Sources
- Reduced Reliance on Wage Tax
- Cuts in Federal Reimbursements
- Philadelphia Parking Authority

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Key Financial Issues Raised in Quarterly Report: Declining Fund Balance

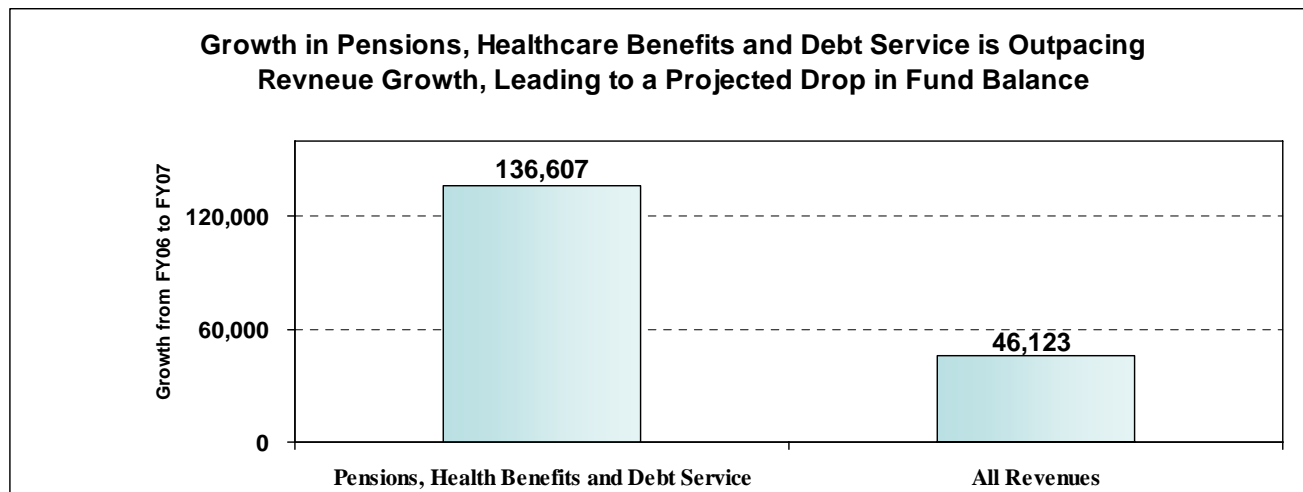
The quarterly report projects a \$56 million drop in the City's fund balance as expenditures are projected to grow more quickly than revenues. If the City does not correct that imbalance between revenues and expenditures, it is likely that the City would run deficits before the end of the plan period.



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Key Financial Issues Raised in Quarterly Report: Declining Fund Balance

The fund balance is declining in large part because pensions, health benefits and debt service costs are growing far faster than revenues. These items are projected to grow by a combined \$136 million from FY06 to FY07 while revenues are projected to grow by \$46 million.

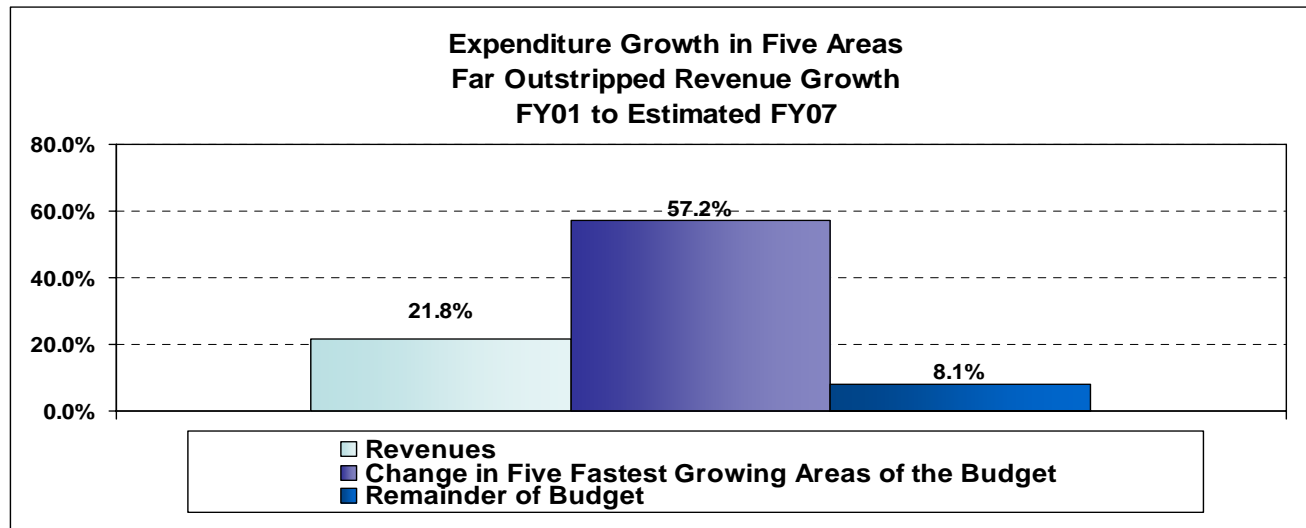


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Key Financial Issues Raised in Quarterly Report:

Expenditure Growth

Previous PICA Staff Reports on Quarterly Reports demonstrated that five areas of the budget – the Department of Human Services, pensions, health/medical costs, prisons and debt service – were growing far faster than revenues and other obligations areas. Even with the reduction in projected Human Services spending in FY07, these five expenditure items are projected to account for 47% of FY07 expenditures, up from 38% in FY01.

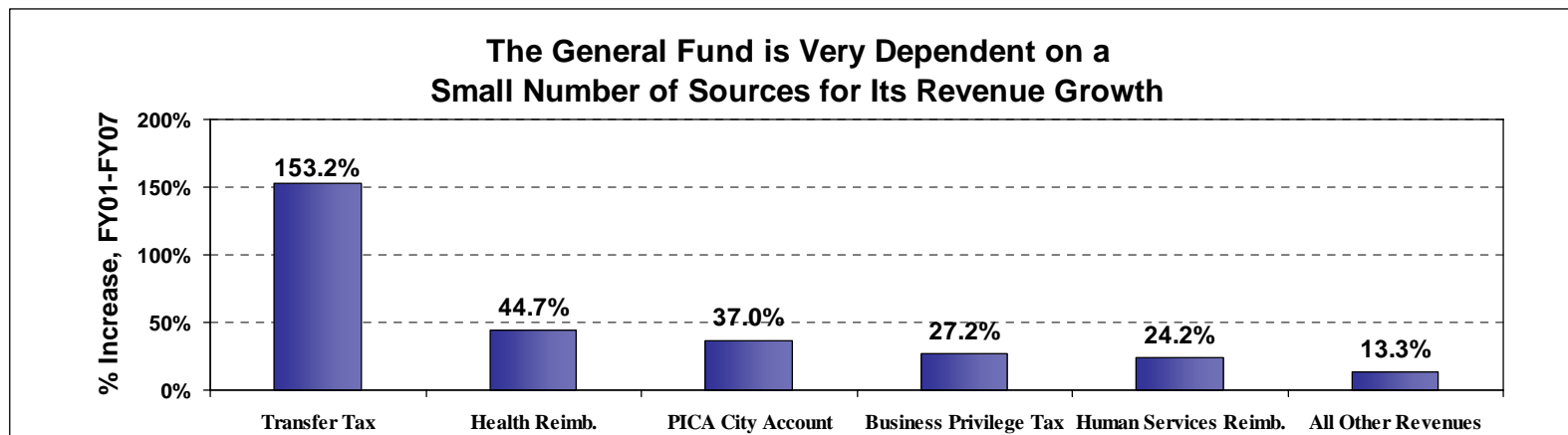


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Key Financial Issues Raised in Quarterly Report:

Volatile Revenue Sources

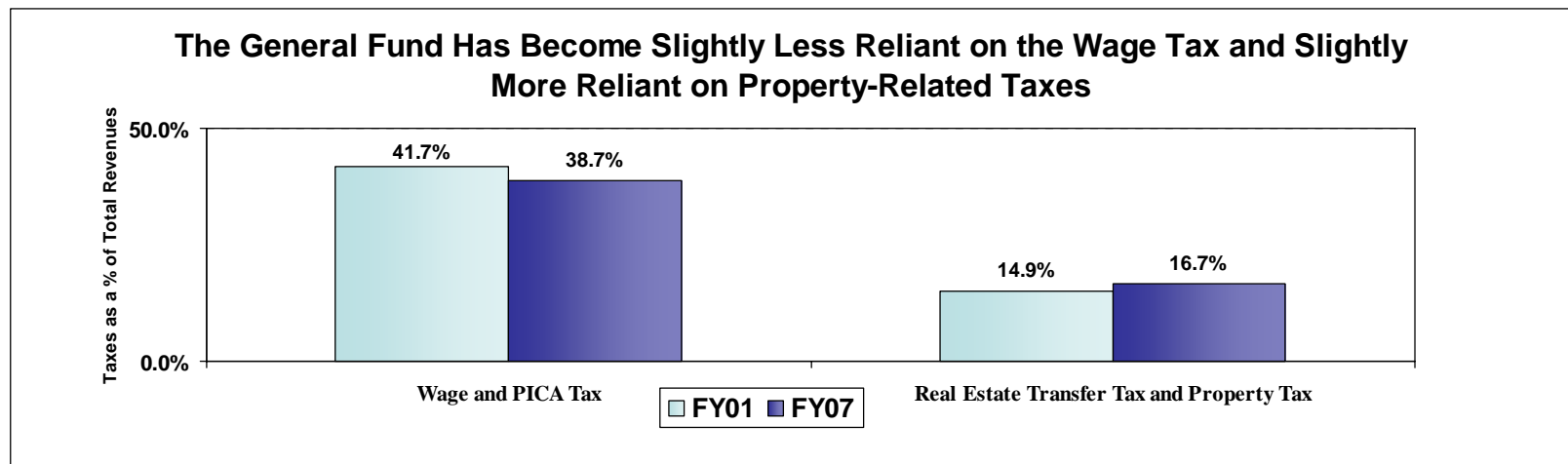
- Sixty percent of the growth in revenues from FY01 through the FY07 projections are from only five sources (*see below*).
- With the exception of the PICA City Account, all of these revenue sources are highly volatile. BPT revenues and the state and federal reimbursements each have declined in at least one year since FY01 and the transfer tax, which is highly dependent on the continuing strength of the real estate market, dropped in both September and October.
- Excluding these five areas, revenues are projected to have grown by less than 2% annually from FY01 through FY07.



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Key Financial Issues Raised in Quarterly Report: Reduced Reliance on Wage Tax

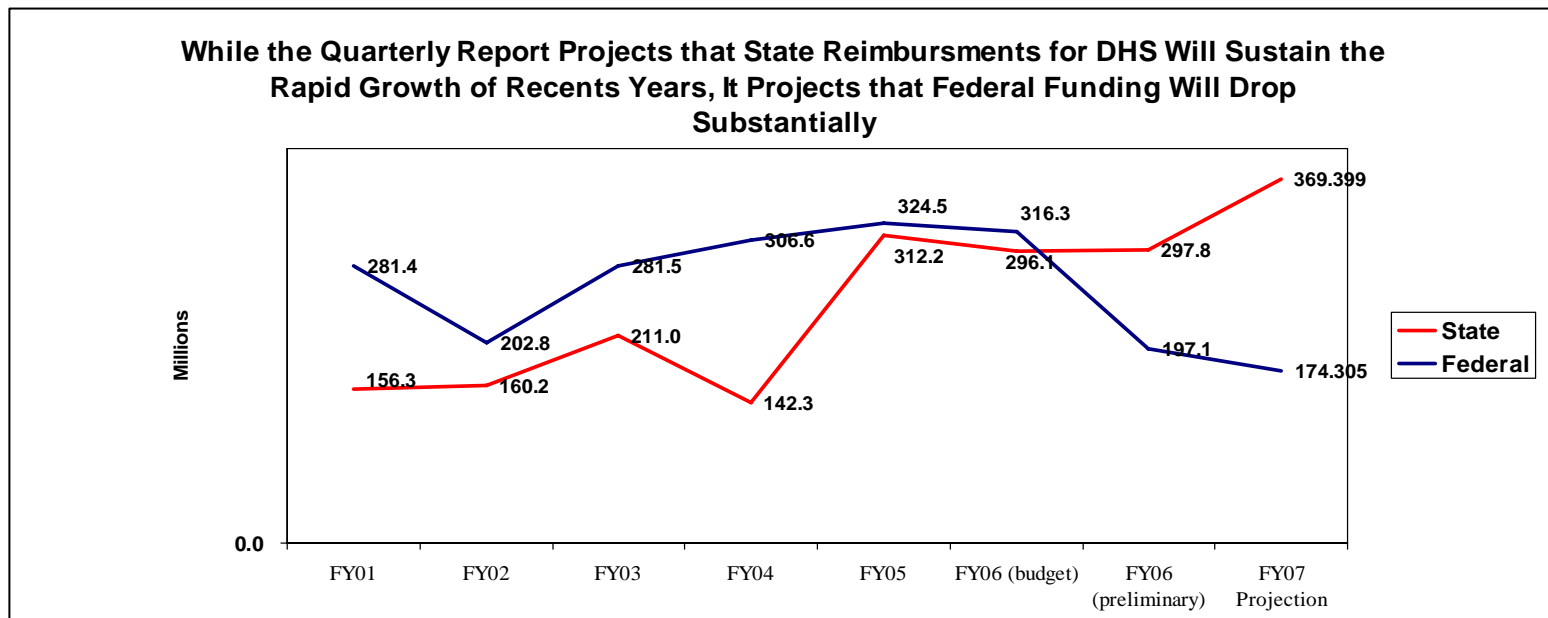
The dramatic increases in real estate transfer tax collections combined with smaller increases in property tax collections and the continuing cuts in wage tax rates have led to a small, but real, shift for the general fund towards more reliance on property based taxes. The shift makes the city less vulnerable to changes in income but more vulnerable to downturns in real estate.



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Key Financial Issues Raised in Quarterly Report: Cuts in Federal Reimbursements

The quarterly report demonstrates the risk of being dependent on a small number of revenue sources for growth by showing that one of those sources – federal reimbursements for human services costs -- is projected to be \$150 million lower in FY07 than it was in FY05.



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Key Financial Issues Raised in Quarterly Report:

Philadelphia Parking Authority

- The City projects that it will receive \$22M in parking violation fines from the Parking Authority in FY07, up from \$18.6M in FY06, but \$3M below the amount included in the original FY07 budget.
- Legislation enacted in the spring will increase parking fines and help increase the amount of revenue the City receives.

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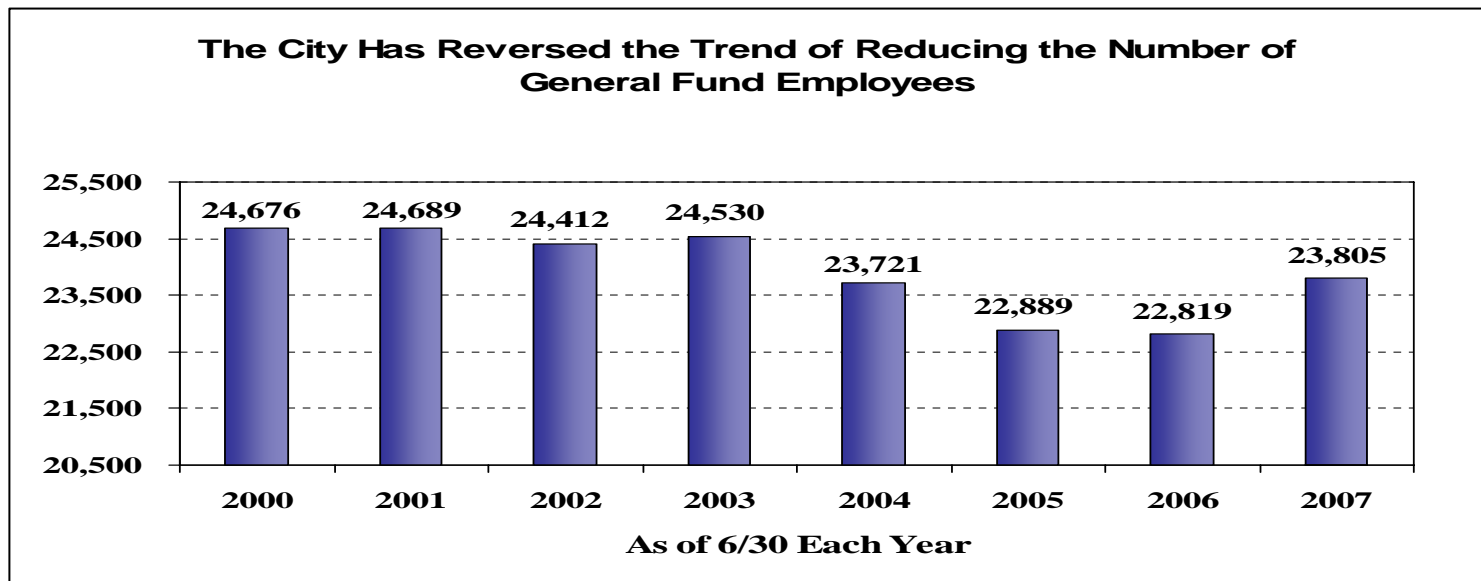
Key Managerial Issues Raised in Quarterly Report:

- Staffing Increases
- Increases in Overtime
- Other Managerial Issues

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Key Managerial Issues Raised in Quarterly Report Staffing Increases

- The City reduced staffing substantially from the end of FY03 to the end of FY05, but staffing remained virtually unchanged in FY06 – dropping by 70 positions -- and is projected to increase by almost 1,000 positions in FY07. The increase would undo a substantial portion of the progress the City had made in cutting the size of its workforce.



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Key Managerial Issues Raised in Quarterly Report Staffing Increases

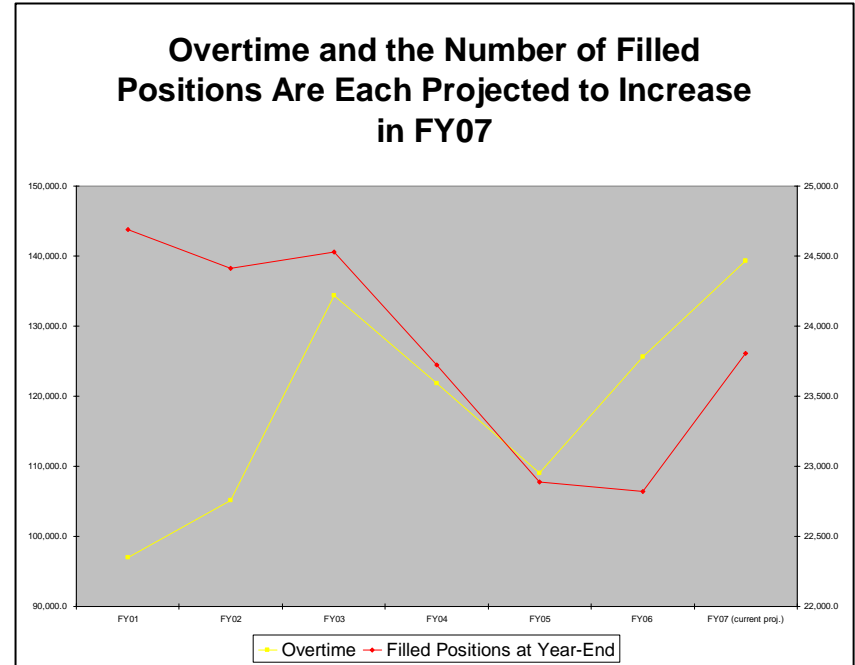
- While 21 departments are projected to add at least 10 full time employees during FY07, well over 600 of the almost 1,000 projected added jobs would be in only six departments.

<u>Department</u>	<u>FY06 Year-End</u>	<u>FY07 Quarterly Report Projection</u>	<u>Change</u>
Fire	2,270	2,455	185
Human Services	1,703	1,772	69
Police	7,287	7,408	121
Prisons	2,225	2,300	75
Public Health	622	740	118
Streets	586	649	63
Total of Six Departments	14,693	15,324	631

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Key Managerial Issues Raised in Quarterly Report: Increases in Overtime

- The increase in staffing is not projected to reduce overtime. In fact, overtime and staffing are each projected to increase in FY07. Overtime is projected to increase by over \$13.5m. Overtime and staffing each dropped in both FY04 and FY05.
 - While overtime is projected to be increased in a number of departments, the largest projected increases are \$7.3 in the Police Department (to \$56M), \$3.3m in the Prisons System (to \$22.6M) and \$3.2 million in the Fire Department (to \$28.6M);
 - As recently as FY03, Fire overtime was just under \$10M. The Department's overtime has risen in large part because of a change in sick leave policy and because the Fire Department reconfiguration plan was not implemented.



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Key Managerial Issues Raised in Quarterly Report:

Other Management Issues

- The average monthly inmate population in the Prison System continues to increase. The Quarterly Report projects a 5.5% increase in FY07 and a 9.6% increase in just two years. At the same time, prisons expenditures are projected to be about \$11.8M over budget.
- The average number of employees on light duty status because of injuries is projected to jump from 255 in FY06 to 300 in FY07 after having dropped slightly from 284 in FY05. At the same time, the number of employees on no duty status is projected to increase to 200 after having jumped from 158 in FY05 to 190 for FY06.

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Key Managerial Issues Raised in Quarterly Report:

- The average number of emergency shelter beds is projected to increase to 2,800, a 10% increase in just two years.
- The number of food complaints investigated by the Health Department which dropped by almost 20% in FY06, is projected to jump from 770 to 1,000 in FY07. At the same time, the average amount of time between inspections is projected to drop from 16.6 months to 12 months.

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Key City Budget Characteristics

Cost Areas Projected to Exceed \$100M in FY2007

Item	FY07 Plan (Ms)	% Of Budget	FY07 QR (Ms)	% of Budget
Human Services	\$609.5	16.6%	\$589.7	16.1%
Police	\$491.9	13.4%	\$493.5	13.4%
Pensions Plus Pension Obligation Bonds	\$419.1	11.4%	\$419.2	11.4%
Health/Medical Benefits	\$322.7	8.8%	\$323.9	8.8%
Prisons	\$194.2	5.3%	\$206.1	5.6%
Fire	\$180.5	4.9%	\$182.3	5.0%
Debt Service	\$191.8	5.2%	\$191.8	5.2%
Courts	\$111.1	3.0%	\$111.1	3.0%
Health	\$114.3	3.1%	\$113.9	3.1%
Public Property (excl. Septa Subsidy)	\$112.4	3.1%	\$116.2	3.2%

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Key City Budget Characteristics (continued)

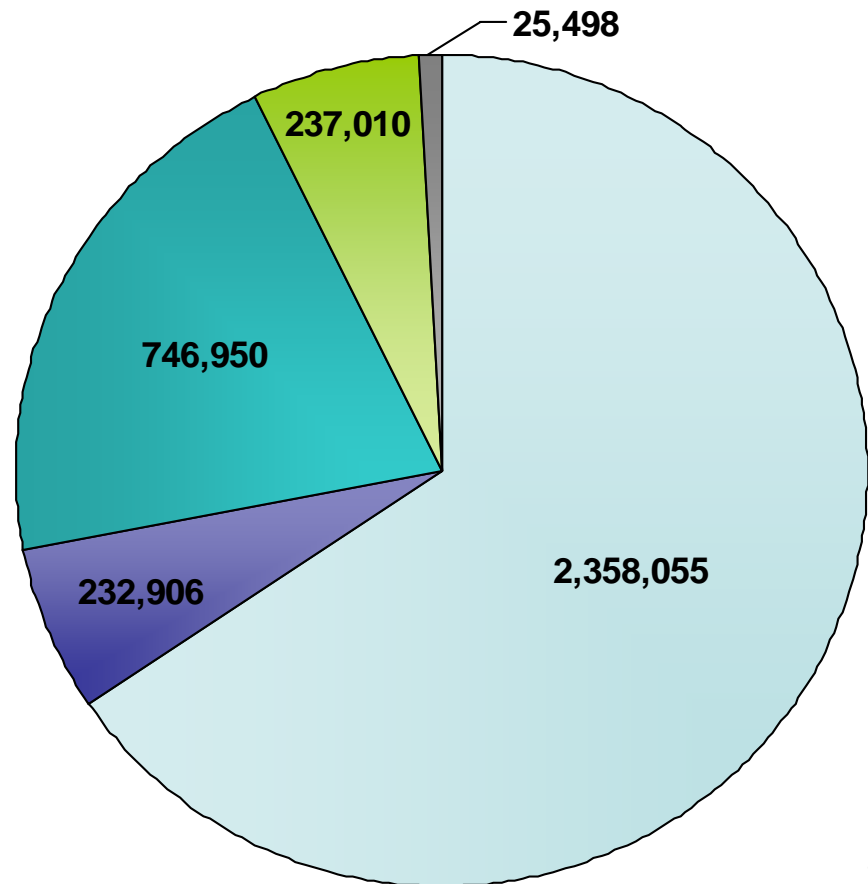
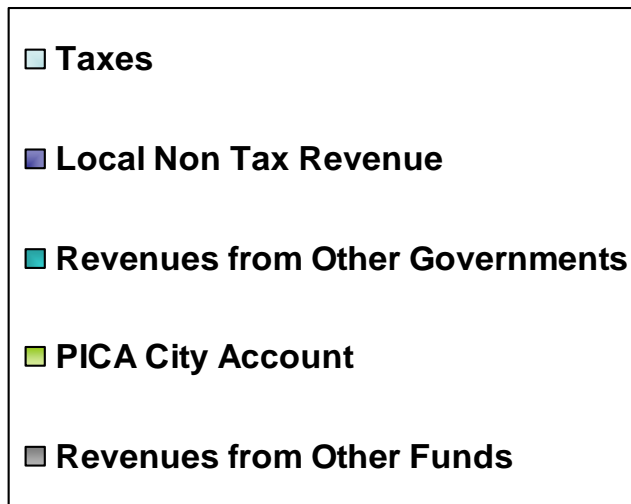
Revenue Areas Projected to Exceed \$100M in FY2007

Item	FY07 Plan (Ms)	% Of Budget	FY07 QR (Ms)	% of Budget
Wage and Net Profits Tax	\$1,133.8	31.4%	\$1,155.0	32.1%
Human Services Reimbursement	\$574.9	15.9%	\$543.7	15.1%
Property Tax	\$409.6	11.3%	\$407.6	11.3%
Business Privilege Tax	\$378.9	10.5%	\$399.5	11.1%
PICA City Account	\$242.2	6.7%	\$237.0	6.6%
Real Property Transfer Tax	\$195.0	5.4%	\$195.0	5.4%
Sales Tax	\$129.0	3.6%	\$131.0	3.6%

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Key City Budget Characteristics (continued)

FY2007 Sources of City Revenues
(\$000)



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Key City Budget Characteristics (continued)

Distribution of FY07
Expenditures (\$000) -- \$3.42 Billion

