

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

Second Quarter of FY2006

Submitted to PICA on February 15, 2006

February 27, 2006

PICA Staff Report on the City of Philadelphia's Quarterly Report Second Quarter of FY2006

This report focuses on how the quarterly reports' projections compare to projections included in the approved Five-Year Plan (Plan) and on significant financial and management issues.

The financial projections included in the City's Quarterly Report are consistent with the recently proposed Five-Year Plan for FY07-FY11.

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Projected General Fund Balance for FY2006
in Quarterly Report: **\$168.6 million**

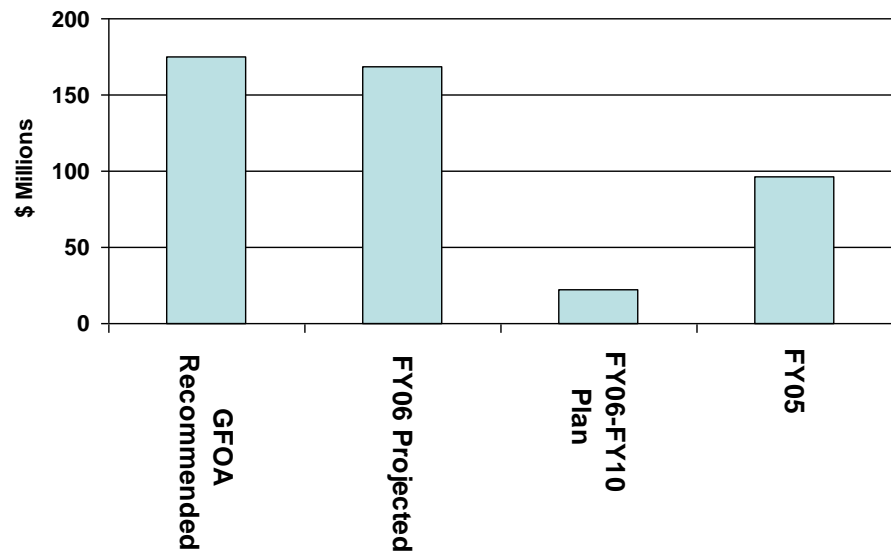
Projected General Fund Balance for FY2006
in Approved Plan: **\$22.2 million**

Change in General Fund Balance from Approved
Plan: **\$146.4 million**

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- While the projected FY06 fund balance is substantially larger than the amount projected in the approved FY06-FY10 Five-Year Plan, it is still slightly smaller than the amount recommended by the Government Finance Officer's Association.
- The GFOA recommends that fund balances equal at least five percent of revenues in order to provide contingencies against unexpected events during the course of the year. At \$168.6 million, the City's fund balance is about \$6 million lower than the minimum balance the GFOA recommends.

While the Projected Fund Balance is Much Larger Than Projected, It Is Not As Large As Recommended by the GFOA



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Major Changes in Revenue Projections

Projected General Fund Revenues for FY2006
in Quarterly Report: **\$3,495 million**

Projected General Fund Revenues for FY2006
in Approved Plan: **\$3,459 million**

Change in General Fund Revenues from Approved Plan:
\$ 36 million

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Major Changes in Obligations Projections

Projected General Fund Obligations for FY2006
in Quarterly Report: **\$ 3,440.4 million**

Projected General Fund Obligations for FY2006
in Approved Plan: **\$ 3,482.0 million**

Change in General Fund Obligations from Approved Plan:
(\$41.6 million)

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Major Changes in Revenue Projections: Taxes

- The biggest contributors to the increase in tax projections were the business privilege, real estate transfer and sales taxes.

<u>Tax</u>	<u>Adopted Budget</u>	<u>Current Projection</u>	<u>Change</u>
Business Privilege	\$ 316.2 M	\$371.3 M	\$55.2 M
Real Estate Transfer	\$ 147.5	\$210.0	\$62.5
Sales	\$ 114.8	\$122.9	\$8.1

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Major Changes in Revenue Projections: Local Non-Taxes

- The Quarterly Report shows the receipt of Eagle's rent being moved from FY05, as projected in the adopted budget, to FY06. 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 asset sales will fall \$14 million short of the Budget's \$20 million projection and that strategic marketing will fall \$7.5 million short of projection. The revised projections are another indication that the Administration has not been sufficiently aggressive in pursuing implementation of its revenue-generating initiatives.

<u>Item</u>	<u>Adopted Budget</u>	<u>Current Projection</u>	<u>Change</u>
Eagle's Rent	\$ 0 M	\$ 8.0 M	\$8.0 M
Strategic Marketing	\$7.5	\$.0	(7.5)
Asset Sales	\$ 20.0	\$6.0	(\$14.0)
Interest Earnings	\$ 13.0	\$22.0	\$9.0

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Major Changes in Revenue Projections: Revenues from Other Governments

- The Administration now projects that it will be reimbursed for highway patrol costs beginning in FY07. The FY06 State budget, however, provided funding to allow the Pennsylvania State Police to provide that patrol directly rather than having the State reimburse the City.
- A projected \$139 million shortfall against budget in federal reimbursements for DHS costs will only partially be offset by State funding that is projected to be more than \$50 million above budget.
- The projected \$18 million in parking violation revenue is \$7 million below the amount included in the Budget, but \$3.5 million above the amount received in FY05.

<u>Item</u>	<u>Adopted Budget</u>	<u>Current Projection</u>	<u>Change</u>
Highway Patrol Reimbursement	\$5.6 M	\$.0 M	(\$5.6 M)
Human Services Reimbursements	\$ 612.4	\$525.3	(\$87.1)
Pension Aid – State Act 205	\$ 48.6	\$ 57.0	\$ 8.4
Parking Violation Fines	\$ 25.0	\$18.0	(7.0)

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Major Changes in Obligations Projections

- Pension costs are projected to decrease because the fund's earnings have strengthened as the stock market improved.
- The Administration limited the negative impact of rapidly increasing gas prices by entering into an agreement that locked in prices at lower than market costs.

<u>Item</u>	<u>Approved Plan</u>	<u>Current Projection</u>	<u>Change</u>
Employee Disability	\$40.9 M	\$45.9 M	\$5 M
Pension	\$279.3	\$271.7	(\$7.6)
Fleet/Gas Costs	\$38.7	\$43.8	\$5.1
Vehicle Purchases	\$ 6.5	\$ 13.6	\$ 6.8

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Major Changes in Obligations Projections (continued)

- In response to cuts in federal funding, the Administration substantially reduced spending for the Department of Human Services. The Quarterly Report says the Department will reduce projected costs by eliminating planned program expansions.
- The increase in Emergency Shelter and Services costs is primarily the result of a transfer of funding from the Department of Human Services.
- Increases in overtime costs, in part caused by delays in implementing the Administration's proposed restructuring plan, have pushed the Fire Department's costs over budget.

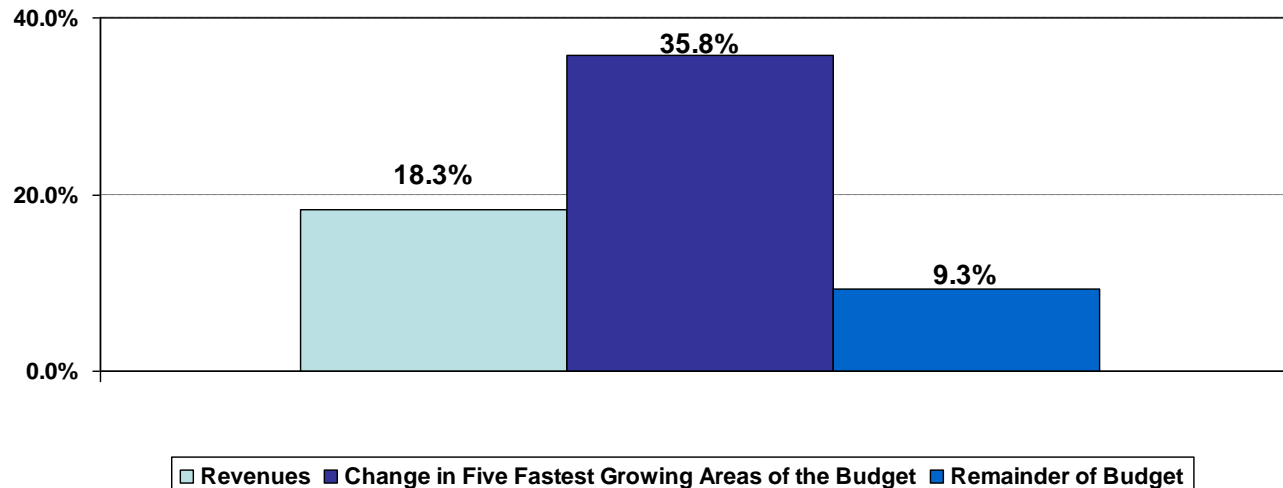
<u>Item</u>	<u>Approved Plan</u>	<u>Current Projection</u>	<u>Change</u>
Human Services	\$655.6	\$559.3	(\$96.3)
Emergency Shelter and Services	\$17.9	\$29.3	\$11.4
Fire	\$169.9	\$173.4	\$3.5

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Key Financial Issues Raised in Quarterly Report

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. That trend appears to be continuing in FY06. These five expenditure items are projected to account for 45.3% of FY06 expenditures, up from 38% in FY01.

**Expenditure Growth in Five Areas
Far Outstripped Revenue Growth
FY01 to FY06 Projected**

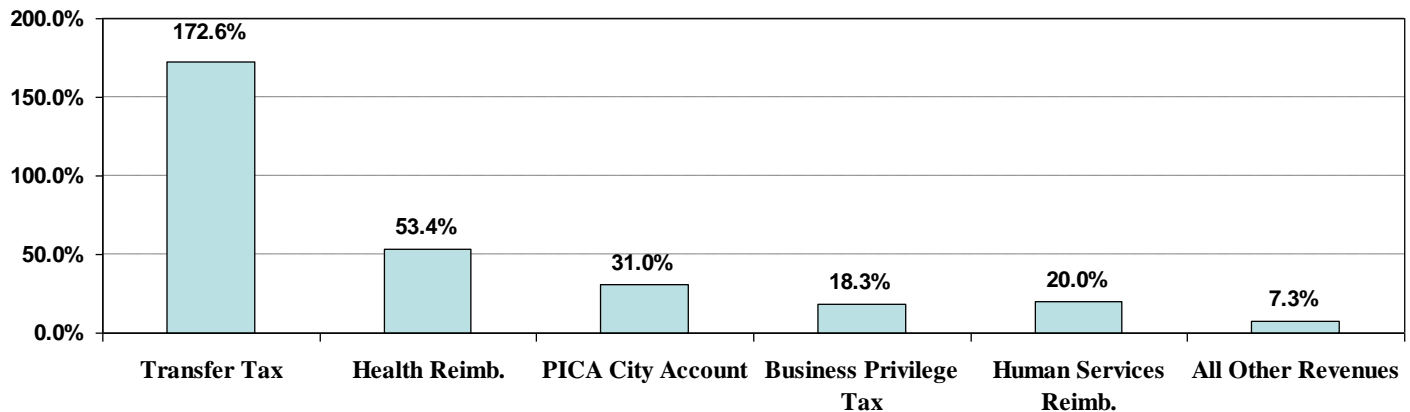


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Key Financial Issues Raised in Quarterly Report (continued)

The City's general fund is dependent on a small number of mostly volatile revenue sources for its growth. Almost two-thirds of the growth in revenues from FY01 through the FY06 projections are from only five sources. Four of those sources – the transfer tax, the business privilege tax, and state and federal reimbursements for health and human services costs are all highly volatile. BPT revenues and the state and federal reimbursements have all had years since FY01 when they declined and the transfer tax is highly dependent on the continuing strength of the real estate market. Excluding these five areas, revenues have grown by less than 1.5% annually.

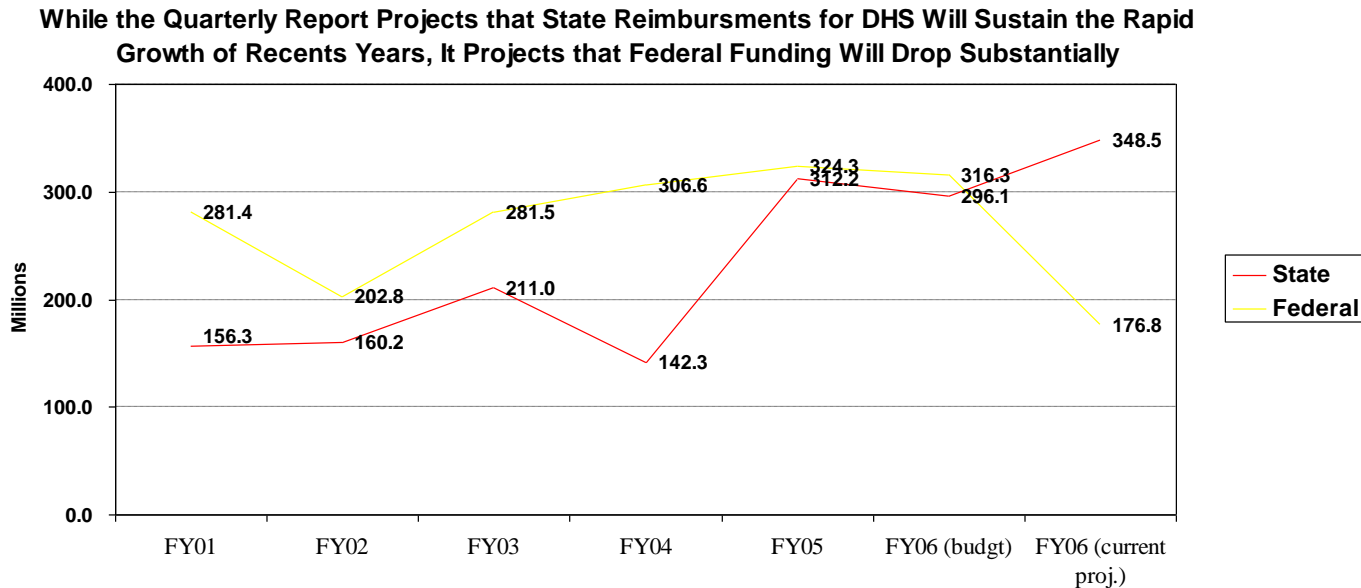
**The General Fund is Very Dependent on a
Small Number of Sources for Its Revenue Growth**



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Key Financial Issues Raised in Quarterly Report (continued)

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 now projected to drop over 45 percent from FY05 to FY06 and to fall \$139 million short of budget.



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Key Financial Issues Raised in Quarterly Report (continued)

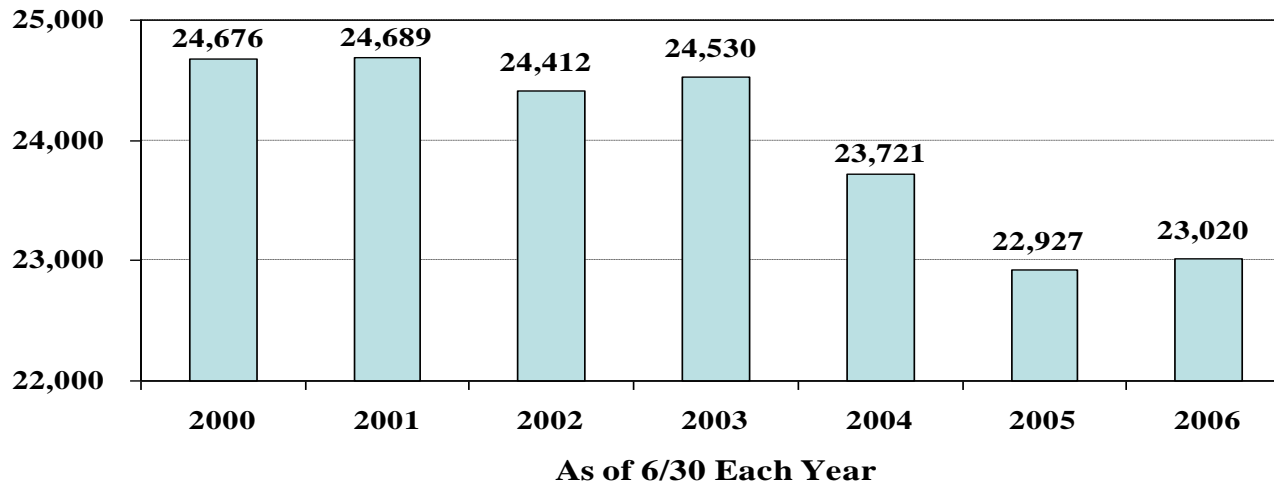
- The City projects that it will receive \$18 million in parking violation fines from the Parking Authority, up from \$14.5 million in FY05, but \$7 million below the amount included in the FY06 budget.

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Key Managerial Issues Raised in Quarterly Report

- The City reduced staffing substantially from the end of FY03 to the end of FY05, but projects that staffing will increase slightly during FY06.
- Staffing is projected to increase largely because of additions to handful of departments including the Free Library (99 positions), Fire (94 positions), the Board of Revision of Taxes (30 positions), Human Services (25 positions) and Streets (35 positions). Excluding those five agencies, staffing is projected to drop by 90 positions.

**The Number of General Fund Employees
Has Dropped Substantially Since FY03**



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Key Managerial Issues Raised in Quarterly Report (continued)

- Overtime is projected to increase by \$8.6 million in FY06 to \$117.7 million after having dropped by \$13 million in FY04 and another \$12 million in FY05.
 - The overtime increase is largely the result of a projected \$5 million jump in Police Department overtime to \$46.1 million..
 - Fire Department overtime is projected to increase \$2.5 million in FY06 to \$24.1 million. As recently as FY03, Fire overtime was just under \$10 million. Overtime in the Fire Department has increased dramatically because of a change in sick leave policy and because the Fire Department reconfiguration plan has not been implemented.

- The average monthly inmate population in the Prison System continues to increase. The population is projected to increase over three percent in FY06 and, if the projection is accurate, the average census will be almost nine percent higher in FY06 than it was in FY04. At the same, prisons expenditures are projected to be about \$6.5 million or 3.5% higher in FY06 than they were in FY04.

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Key Managerial Issues Raised in Quarterly Report (continued)

- The report does not show sufficient progress in the implementation of management and productivity initiatives. For example, the strategic marketing and asset sales initiatives are now projected to generate a combined \$6 million in FY06, \$21.5 million less than budgeted.

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Key City Budget Characteristics

Cost Areas Projected to Exceed \$100 Million in FY2006

Item	Amount (in millions)	% of Budget
Human Services	\$559.3	16.3%
Police	\$498.5	13.8%
Pensions Plus Pension Obligation Bonds	\$342.2	9.9%
Health/Medical Benefits	\$298.6	8.7%
Prisons	\$191.0	5.5%
Fire	\$173.4	5.0%
Debt Service	\$169.3	4.9%
Courts	\$110.7	3.2%
Health	\$107.2	3.1%
Public Property (excl. Septa Subsidy)	\$106.6	3.1%

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Key City Budget Characteristics (continued)

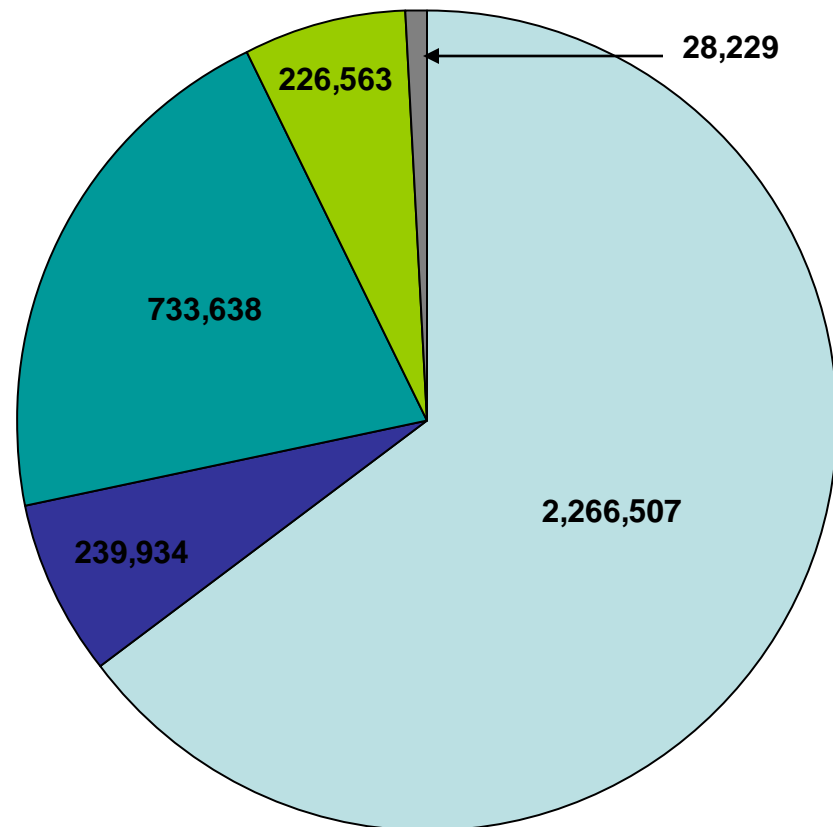
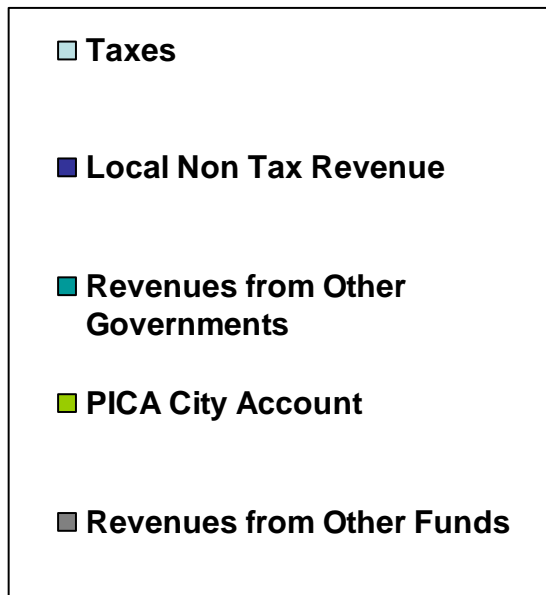
Revenue Areas Projected to Exceed \$100 Million in FY2006

Item	Amount (in millions)	% of Budget
Wage and Net Profits Tax	\$1,102.9	31.6%
Human Services Reimbursement	\$525.3	15.0%
Property Tax	\$394.8	11.3%
Business Privilege Tax	\$371.3	10.6%
PICA City Account	\$226.6	6.5%
Real Property Transfer Tax	\$210.0	6.0%
Sales Tax	\$122.9	3.5%

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Key City Budget Characteristics (continued)

FY2006 Sources of City Revenues
(\$000)



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Key City Budget Characteristics (continued)

**Distribution of FY06
Expenditures (\$000)**

