

PICA Staff Report
on the
City of Philadelphia's
***Quarterly City Managers Report
for the Second Quarter of FY2010***

Submitted to PICA on February 16, 2010

February 23, 2010

Changes from Five-Year Plan Projections and Previous Quarterly Report

- General Fund revenues are projected at a level \$22.4 million higher than the projection in the Five-Year Plan, and obligations are projected to be \$31.3 million higher than the Plan.
- The operating surplus for FY10 is projected at \$64.1 million, \$8.9 million below Plan. The actual prior year (FY09) fund balance was \$42.7 million below the Plan's estimate.¹
- The net impact of these changes is that the QCMR projects a deficit of \$48.6 million in FY10, compared to the \$3.0 surplus projected in the Plan.
- The projected \$48.6 million deficit in FY10 is \$88.6 million below the actual deficit of \$137.2 million in FY09, a reflection of the operating surplus projected for FY10, and anticipated prior year accounting adjustments.

¹The actual FY09 deficit of \$137.2 million was due in part to the delay in receipt of \$55 million in State reimbursements as a result of delayed passage of the FY10 State budget. Excluding those funds, the FY09 deficit would have been \$82 million, or \$12 million better than the original Plan estimate.

Changes from Five-Year Plan Projections and Previous Quarterly Report

<u>FY10 General Fund Revenues, Obligations, and Fund Balance Projections (\$ in Millions)</u>				
<u>Category</u>	<u>Five-Year Financial Plan</u>	<u>QCMR (FY10 Q1)</u>	<u>QCMR (FY10 Q2)</u>	<u>Change from Plan to Q2 QCMR</u>
Revenues	\$3,769.5	\$3,783.0	\$3,791.9	\$22.4
Obligations	3,696.5	3,701.1	3,727.8	31.3
Operating Surplus/(Deficit)	73.0	81.9	64.1	(8.9)
Prior Year Adjustments	24.5	24.5	24.5	0.0
Prior Year Fund Balance/(Deficit)	(94.5)	(137.2)	(137.2)	(42.7)
Year-End Fund Balance	3.0	(30.8)	(48.6)	(51.6)

Revenues: Taxes

- FY10 General Fund tax revenue projections in the second quarter QCMR are down by \$7.3 million compared to the first quarter QCMR, reflecting a reduction of \$8.0 million in projected Sales Tax revenue, offset by a \$0.7 million increase in projected Real Estate Tax revenues.
- The adjusted Sales Tax revenue projection reflects lower than anticipated collections in recent months, even after the implementation of the tax rate increase to 2 percent.

FY10 General Fund Tax Revenue Projections				
(\$ in Millions)				
<u>Tax</u>	<u>Five-Year Financial Plan</u>	<u>QCMR (FY10 Q1)</u>	<u>QCMR (FY10 Q2)</u>	<u>Change from Q1 to Q2 QCMR</u>
Wage, Earnings, and Net Profits	\$1,172.4	\$1,131.4	\$1,131.4	\$0.0
Real Estate	412.7	412.7	413.4	0.7
Business Privilege	356.7	376.7	376.7	0.0
Sales	215.3	215.3	207.3	(8.0)
Real Estate Transfer	94.7	114.7	114.7	0.0
Parking	70.7	70.7	70.7	0.0
Amusement	20.9	20.9	20.9	0.0
Other	3.0	3.0	3.0	0.0
Total	2,346.5	2,345.5	2,338.1	(7.3)

Revenues: Locally-Generated Non-Tax Revenue

- General Fund FY10 locally-generated non-tax revenue projections in the QCMR for the second quarter are down by \$4.8 million compared to the first quarter QCMR, reflecting increases of \$1.1 million in the Division of Technology and Streets Department, offset by reductions in several other departments.

<u>FY10 General Fund Locally-Generated Non-Tax Revenue Projections (\$ in Millions)</u>				
<u>Departmental Source</u>	<u>Five-Year Financial Plan</u>	<u>QCMR (FY10 Q1)</u>	<u>QCMR (FY10 Q2)</u>	<u>Change from Q1 to Q2 QCMR</u>
Division of Technology	\$16.9	\$16.9	\$18.0	\$1.1
Streets	13.9	12.4	13.5	1.1
Public Property	9.4	9.4	8.4	(1.0)
Records	18.0	18.0	16.6	(1.4)
City Treasurer	11.8	11.8	9.8	(2.0)
Clerk of Quarter Sessions	8.0	8.0	7.0	(1.0)
Sheriff	10.6	10.6	9.6	(1.0)
All Other	170.2	169.7	169.1	(1.0)
Total	258.7	256.7	251.9	(4.8)

Revenues: Revenue from Other Governments

- General Fund FY10 revenue from other governments projections in the QCMR for the second quarter are up by \$16.3 million compared to the first quarter QCMR.
- PICA City Account revenue is \$15.9 million higher than the Plan projection, reflecting weakness in Wage Tax collections and higher than anticipated PICA debt service, offset by a one-time grant of \$25 million from PICA to the City.
- Police Department revenues are down by \$9.6 million from Plan, reflecting lower-than-projected State Police on Patrol grant revenue.
- First Judicial District revenues are down \$1.2 million from the Plan projection due to lower than expected State reimbursement for County court costs.
- Department of Human Services revenues are projected \$31.5 million above Plan due to a delay in State reimbursement for DHS costs.

Revenues: Revenue from Other Governments

<u>FY10 General Fund Revenue from Other Governments Projections (\$ in Millions)</u>				
<u>Departmental Source</u>	<u>Five-Year Financial Plan</u>	<u>QCMR (FY10 Q1)</u>	<u>QCMR (FY10 Q2)</u>	<u>Change from Q1 to Q2 QCMR</u>
PICA City Account	297.2	285.7	313.2	27.4
Police	17.3	7.3	7.7	0.4
Human Services	531.8	569.8	563.3	(6.5)
Finance	148.8	148.8	147.5	(1.3)
Commerce – Convention Center	3.2	3.2	1.3	(1.9)
First Judicial District	16.6	16.6	15.4	(1.2)
All Other	121.3	121.3	120.6	(0.7)
Total	1,136.1	1,152.6	1,168.9	16.3

Obligations

- Projected General Fund FY10 obligations increased \$26.8 million between the first and second quarter QCMR. Obligations for agencies and cost centers that changed by more than \$2 million between the first and second quarter QCMR are shown in the table below.

FY10 General Fund Obligations Projections (\$ in Millions)				
<u>Agency or Cost Center</u>	<u>Five-Year Financial Plan</u>	<u>QCMR (FY10 Q1)</u>	<u>QCMR (FY10 Q2)</u>	<u>Change from Q1 to Q2 QCMR</u>
Division of Technology ¹	\$31.3	\$36.3	\$41.6	\$5.3
Unemployment Compensation	2.5	2.5	7.0	4.5
First Judicial District	99.1	99.1	106.7	7.6
Indemnities	24.5	24.5	34.5	10.0
Prisons	248.8	248.8	239.8	(9.0)
Public Property	53.9	53.9	51.9	(2.0)
Revenue	16.4	16.2	18.8	2.6
Sheriff	13.1	13.1	15.3	2.2
Debt Service	215.5	210.8	201.6	(9.3)
Streets	26.8	26.8	38.3	11.5
All Other	2,201.2	2,204.2	2,206.3	2.2
Total	3,696.5	3,701.1	3,727.8	26.8

¹ In the QCMR for the second quarter, obligations for the Division of Technology include telecommunications costs that were shown as a separate line item in the Five-Year Plan.

Major Changes in Obligations Projections

- In relation to the QCMR for the first quarter of FY10, the largest projected increases in obligations in the second quarter QCMR are as follows:
 - Streets (\$11.5 million): Unexpected costs associated with snow removal, of which approximately \$8.0 million is for personnel
 - Indemnities (\$10.0 million): Unanticipated costs, including settlement of several large cases at a cost in excess of budget assumptions
 - First Judicial District (\$7.6 million): Cost overruns, including \$2.0 million in unanticipated costs for court-appointed counsel fees
 - Division of Technology (\$5.3 million): Increased costs for investment in technology infrastructure and maintenance.
 - Unemployment Compensation (\$4.5 million): Higher costs than in recent years due to the impact of the recession
 - Revenue (\$2.6 million): Costs related to the Tax Amnesty program
 - Sheriff (\$2.2 million): Higher than anticipated salary costs
- In relation to the QCMR for the first quarter of FY10, the largest projected decreases in obligations in the second quarter QCMR are as follows:
 - Debt Service (\$9.3 million): The stabilization in the credit markets led to a lowering of rates and the City's costs.
 - Prisons (\$9.0 million): Savings associated with unanticipated reductions in the Prisons System census

Key Financial Issues

- Reduction in Fund Balance
- Weakness in Wage and Sales Tax Collections
- Unresolved Labor Contracts

Key Financial Issues: Negative Fund Balance

- The QCMR for the second quarter projects a General Fund deficit of \$48.6 million in FY10. When the revised figures are utilized for base revenue and obligation projections over the Five-Year Plan period, they result in negative fund balances for each year of the Plan.
- The substantial FY10 deficit means that the City will have to make significant additional budgetary changes to achieve long-term budgetary balance. These changes will be necessary to balance the FY11-FY15 Five-Year Plan. The Administration's proposed FY11-FY15 Plan will be presented in March.
- The City has asked Departments to prepare FY11 budget requests assuming a 7.5 percent reduction in General Fund dollars. It is possible the City will need to implement some of those cuts prior to the start of FY2011 in order to address the negative fund balances.

Key Financial Issues: Weakness in Wage and Sales Tax Collections

- The fund balance in FY10 is lower than projected in the Five-Year Plan in part because of unexpected weakness in Wage Tax collections. After adjusting for the impact of tax rate changes, the Wage Tax base declined 4.6 percent in the first quarter of FY10, and 1.1 percent in the second quarter. The FY10 Wage Tax projection in the second quarter QCMR is \$41.0 million below the Plan projection.
- The Sales Tax base declined 8.5 percent in the first quarter of FY10, and 8.6 percent in the second quarter. This has contributed to weaker than expected Sales Tax collections.

Major General Fund Tax Revenue Sources: Year-over-Year Percentage Growth by Quarter¹

Tax	FY09				FY10	
	Q1	Q2	Q3	Q4	Q1	Q2
Wage, Earnings, and Net Profits ²	5.5	2.5	(0.8)	(2.2)	(4.6)	(1.1)
Real Estate Transfer	(24.0)	(43.1)	(41.2)	(47.2)	(31.0)	19.2
Sales ²	2.1	(5.8)	(5.3)	(7.1)	(8.5)	(8.6)
Parking ²	(5.4)	(4.3)	5.4	(23.5)	9.4	6.6
Amusement	(3.7)	54.6	20.4	17.5	6.6	(14.5)

¹ Negative amounts are shown in parentheses. Business Privilege Tax and Real Estate Tax quarterly trends are not shown since these taxes are collected primarily in the spring, and quarterly patterns are less meaningful for these taxes than for the other major General Fund taxes.

² Growth rates adjusted for tax rate changes.

Key Financial Issues: Labor Contracts

- The City recently received the decision of the arbitration panel that determined a new labor contract for the Fraternal Order of Police. While this award does address long-term issues relating to health care and pension costs, and work rules, the five-year contract award will result in an estimated additional cost of \$80 million over the FY10-FY14 period, beyond what was assumed in the original Plan. The City's initial FY11-FY15 Plan proposal will have to take these additional costs into account.

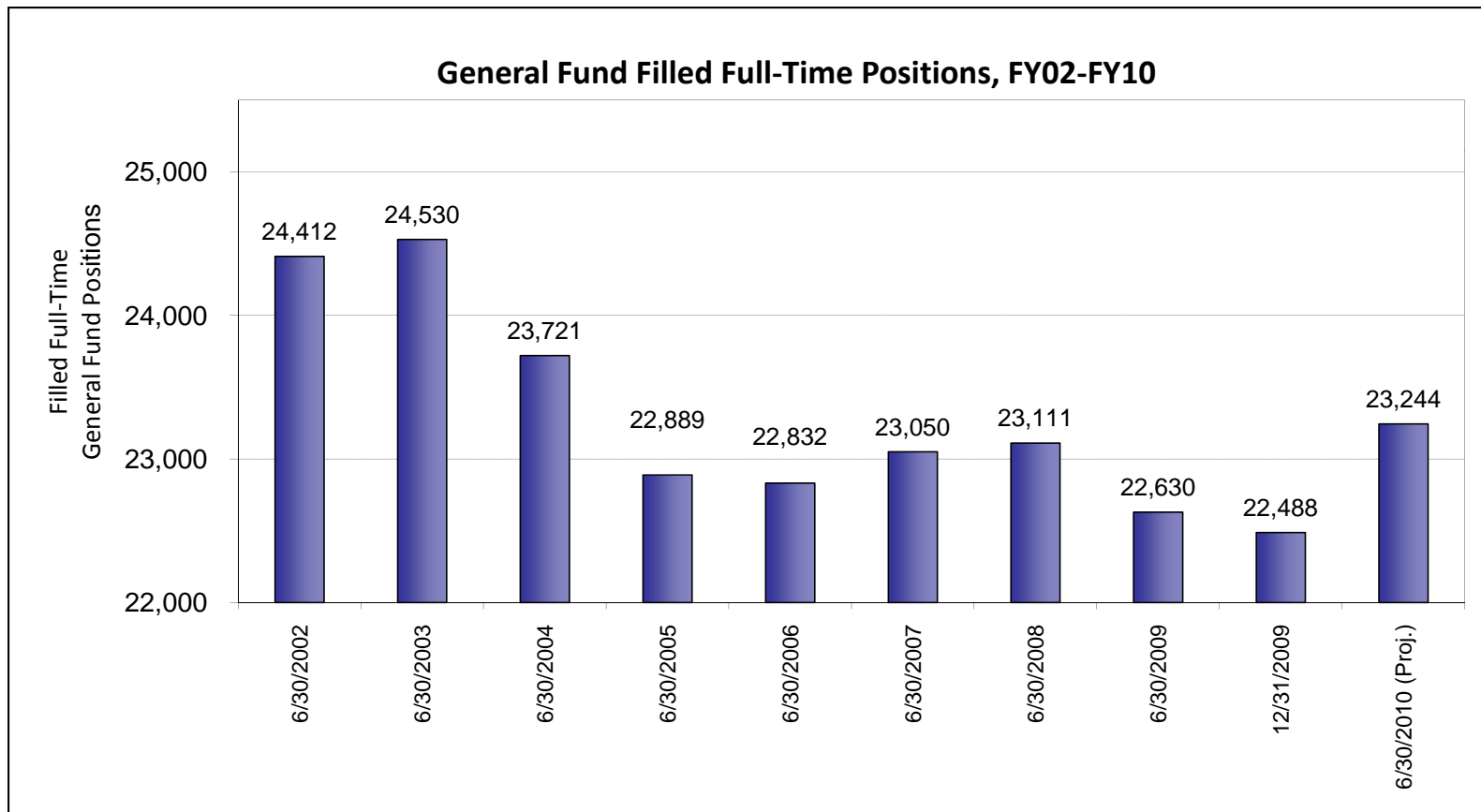
- The City is currently in arbitration or negotiation with three other major unions. The Five-Year Plan assumes that there will be no wage or benefit increases resulting from these contracts and that the City will be able to realize annual savings of \$17 million from contract changes. If these contracts deviate substantially from the Plan assumptions, additional changes to the City's budget will be necessary to achieve a balanced Plan.

Key Management Issues

- ▶ Staffing Levels
- ▶ Police Overtime
- ▶ Prison Population
- ▶ City Employee Leave Usage
- ▶ Crime Levels

Key Management Issues: Staffing Levels

The City reduced the number of filled General Fund positions by 1,900 or 7.7 percent from the end of FY03 to the end of FY09. A further reduction of 142 positions occurred between June 30 and December 31, 2009. However, the second quarter QCMR projects that staffing at the end of FY10 will increase to its highest level since FY04. The City must continue to make investments in technology and management improvements that will enable lower personnel levels and costs.



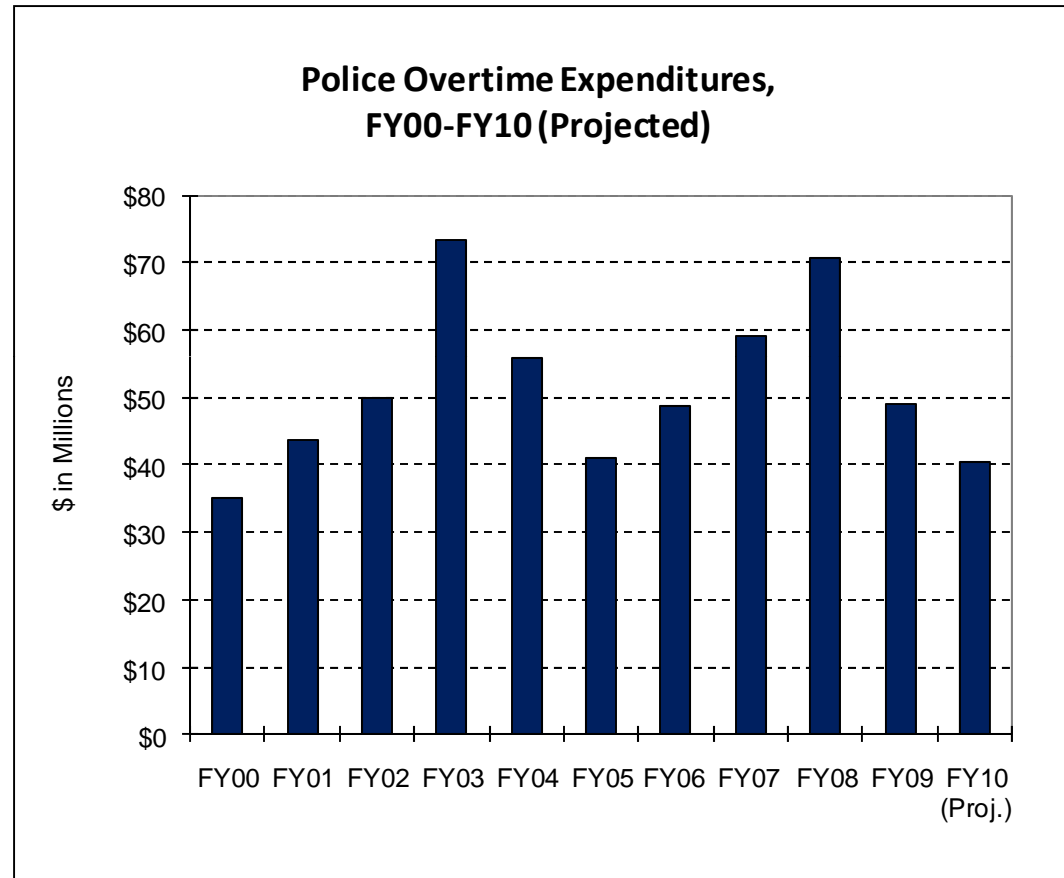
Key Management Issues: Staffing Levels and Overtime

Despite the drop in filled positions over the past year and a half (623 positions between June 30, 2008 and December 31, 2009), the City has also reduced overtime costs during the same period.

In FY08, total General Fund overtime costs were over \$167 million. By the end of FY09, total overtime costs had dropped to just over \$133 million. As of the December 31, 2009 QCMR, overtime costs for FY10 were projected to be less than \$116 million, a 30 percent reduction in two years.

Key Management Issues: Police Overtime

- The second quarter QCMR indicates that FY10 projected obligations for the Police Department are \$527.3 million, \$3.1 million over the Plan projection, largely due to unanticipated overtime costs.
- Police overtime costs are currently projected at \$40.5 million, which is approximately \$4 million higher than anticipated in the Plan. However, the currently projected FY10 amount is reduced \$30.1 million (42.6 percent) from the FY08 level. The City continues to project its lowest level of Police overtime spending since FY00.
- Enhanced management controls and new initiatives on reducing Court-related overtime are having a positive effect on Police overtime costs.



Key Management Issues: Prison Population

- The monthly average prisons census has been declining since June 2009. The average census in December 2009 was 8,662, a decline of 1,032 (10.6 percent) from December 2008. This was the largest year-over-year decline of the average monthly prisons census in over a decade.
- Efforts to effectively manage the population both within the Prison System and in partnership with the other agencies of the Philadelphia criminal justice system are producing results.
- Compared to the FY10 Plan estimate, the City is currently projecting savings of \$9.0 million in Prisons System obligations. If the trend of declining Prisons System population continues, additional savings are possible.

Other Key Management Issues

- City Employee Leave Usage: The median total leave usage for all City departments and agencies through the second quarter of FY10 is 14.9 percent as compared to 15.7 percent through the second quarter of FY09. Efforts to increase workforce availability will increase the ability of City departments to maintain service levels at lower costs.
- Crime Levels: The number of homicides through the second quarter of FY10 is 159, a 6.5 percent reduction from the 170 homicides during the first two quarters of FY09. Total “Part 1” violent crime (a category which includes homicide, rape, robbery, and assault) was 9,692 through the second quarter of FY10, down 11.8 percent from the same period in FY09.¹
- Homicide clearance rates are at 74.3 percent through the second quarter of FY10, somewhat below the 80.0 percent level for FY09, but above the 66.0 percent clearance rate for FY08.

Note:

¹The FY10 crime data are preliminary.

Key City Budget Characteristics

Expenditure Categories Projected to Exceed \$100 Million in FY10 (\$ in Millions)				
<u>Category</u>	<u>Five-Year Financial Plan Projection</u>	<u>Percent of Total General Fund</u>	<u>QCMR Projection (FY10 Q2)</u>	<u>Percent of Total General Fund</u>
Human Services	\$590.9	16.0%	\$590.9	15.9%
Police	524.3	14.2%	527.4	14.1%
Health Benefits	368.8	10.0%	360.8	9.7%
Pension Payments ¹	350.1	9.5%	350.1	9.4%
Prisons	248.8	6.7%	239.8	6.4%
Debt Service	215.5	5.8%	201.6	5.4%
Fire	188.7	5.1%	190.5	5.1%
Public Health	116.9	3.2%	116.9	3.1%
Streets	114.1	3.1%	125.6	3.4%
Public Property ²	111.0	3.0%	99.5	2.7%
First Judicial District	99.1	2.7%	106.7	2.9%

Notes:

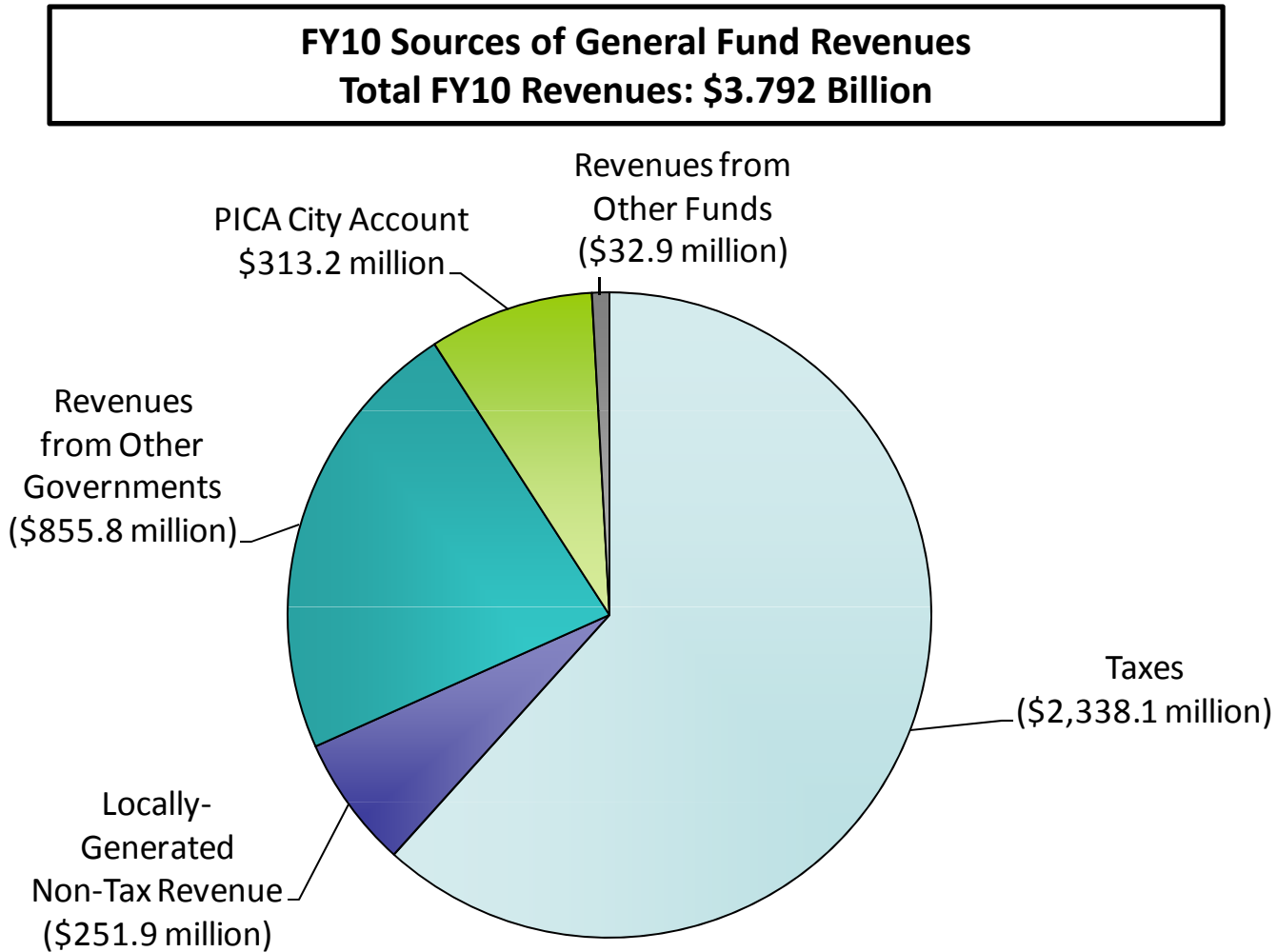
¹Includes debt service on Pension Obligation Bonds.

²Excludes SEPTA subsidy. The reduction from the Plan to the QCMR is due in part to the transfer of telecommunications costs to the Division of Technology.

Key City Budget Characteristics

Revenue Categories Projected to Exceed \$100 Million in FY10 (\$ in Millions)				
<u>Category</u>	<u>Five-Year Financial Plan Projection</u>	<u>Percent of Total General Fund</u>	<u>QCMR Projection (FY10 Q2)</u>	<u>Percent of Total General Fund</u>
Wage, Earnings, and Net Profits Tax	\$1,172.4	31.1%	\$1,131.4	29.8%
Human Services Reimbursement	536.3	14.2%	568.3	15.0%
Real Estate Tax	412.7	10.9%	413.4	10.9%
Business Privilege Tax	356.7	9.5%	376.7	9.9%
PICA City Account	297.2	7.9%	313.2	8.3%
Sales Tax	215.3	5.7%	207.3	5.5%
Real Estate Transfer Tax	94.7	2.5%	114.7	3.0%

Key City Budget Characteristics



Key City Budget Characteristics

Distribution of FY10 General Fund Obligations
Total FY10 Obligations: \$3.728 Billion

