

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

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August 29, 2006

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

This report focuses on how the Quarterly Reports' FY06 projections compare to projections included in the approved FY07-FY11 Five-Year Plan (Plan), actual results for FY05 and on significant financial and management issues.

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Overview

The Quarterly Report shows no change from the Plan in the FY06 projected fund balance, no change in total projected revenues and no change in projected obligations. It is likely, however, that the actual results will be different from the Quarterly Report's projections.

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Projected General Fund Balance for FY2006
in Quarterly Report: **\$201.6M**

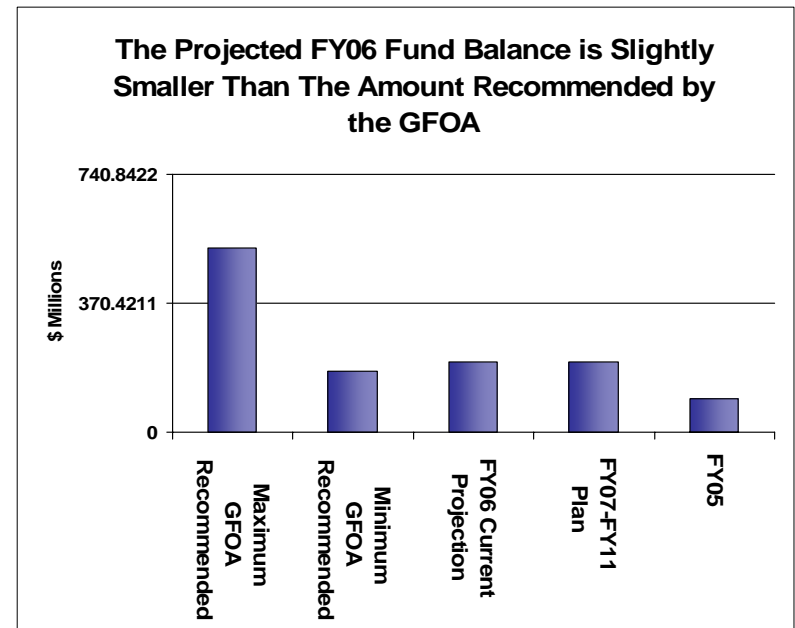
Projected General Fund Balance for FY2006
in the Plan: **\$201.6M**

Change in General Fund Balance from the Plan:
\$ 0.0M

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Fund Balance

- The estimated FY06 fund balance is larger than the minimum amount recommended by the Government Finance Officer's Association.
 - The GFOA recommends that fund balance be 5% -15% of revenues in order to provide contingencies against unexpected events in the year;
 - At \$201.6M, the City's projection is about \$25M higher than the minimum balance that the GFOA recommends, but still over \$300M lower than the high end of the Association's guidelines.
- While the City's fund balance may exceed the minimum level recommended by the GFOA in FY06, it almost certainly will fall well below that level in FY07 and the other years included in the Plan.



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Major Changes in Revenue Projections

Projected General Fund Revenues for FY2006
in Quarterly Report: **\$3,528.0M**

Projected General Fund Revenues for FY2006
in the Plan: **\$3,528.0M**

Change in General Fund Revenues from the Plan:
\$ 0.0M

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Major Changes in Obligations Projections

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

Projected General Fund Obligations for FY2006
In the Plan: **\$ 3,440.4M**

Change in General Fund Obligations from the Plan:
\$ 0.0M

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Key Revenue Projections: Taxes

- The Quarterly Report projects that all taxes will equal the amounts projected in the approved Plan.
- The FY06 estimates are substantially higher than the amounts collected in FY05. Overall, the City estimates taxes will have increased \$80M or 3.5%.

<u>Tax</u>	<u>FY05 Collections</u>	<u>FY06 Estimate</u>	<u>Change (in millions)</u>
Wage and Earnings	\$ 1,073.6	\$1,090.3	\$16.6
Real Estate Transfer	\$ 192.2	\$228.0	\$35.8
Sales	\$ 119.9	\$125.9	\$6.0

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Key Revenue Projections: Local Non-Taxes

- The Quarterly Report shows that the receipt of the Eagles' \$8M rent is moved from FY06, as projected in the FY06 budget, to FY07. The rent was initially due in FY02, but is now the subject of a legal dispute between the Eagles and the City.
- Interest earnings are estimated to be \$22M in FY06, up from \$15.8M in FY05.

<u>Item</u>	<u>FY05 Collections</u>	<u>FY06 Estimate</u>	<u>Change (in millions)</u>
Eagle's Rent	\$ 0.0	\$ 0.0	\$0.0
Interest Earnings	\$15.8	\$22.0	\$6.2

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Key Revenue Projections: Revenues from Other Governments

- The Administration projects that revenues from other governments will be equal to the amount projected in the Plan.
- The largest source of revenues from other governments is reimbursements for costs incurred by the Department of Human Services. Whether that number meets projections is largely dependant on the timing of State payments.
- The City is estimating that, because of federal cuts, reimbursements for DHS cuts will drop by over \$115M from FY05 to FY06.

<u>Item</u>	<u>FY05 Collections</u>	<u>FY06 Estimate</u>	<u>Change (in millions)</u>
Human Services Reimbursements	\$ 636.4	\$520.9	(\$115.5)

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Major Changes in Obligations Projections

- The largest estimated increases in obligations are for pensions and health/medical insurance. The two items increased a combined \$51.8M. The City also increased its spending on new vehicles from \$2.2 million to \$13.6 million and saw its debt service obligations jump over five percent from \$160.4 million to \$169.3 million
- The largest estimated decrease in obligations is for the Department of Human Services. Because of cuts in federal funding, the City was forced to reduced estimated DHS obligations by over \$41M.

<u>Item</u>	<u>FY05 Spending</u>	<u>FY06 Estimate</u>	<u>Change (in millions)</u>
Pensions	\$315.4	\$342.2	\$26.8
Health/Medical Insurance	\$273.6	\$298.6	\$25.0
Department of Human Services	\$600.6	\$559.3	(\$41.3)

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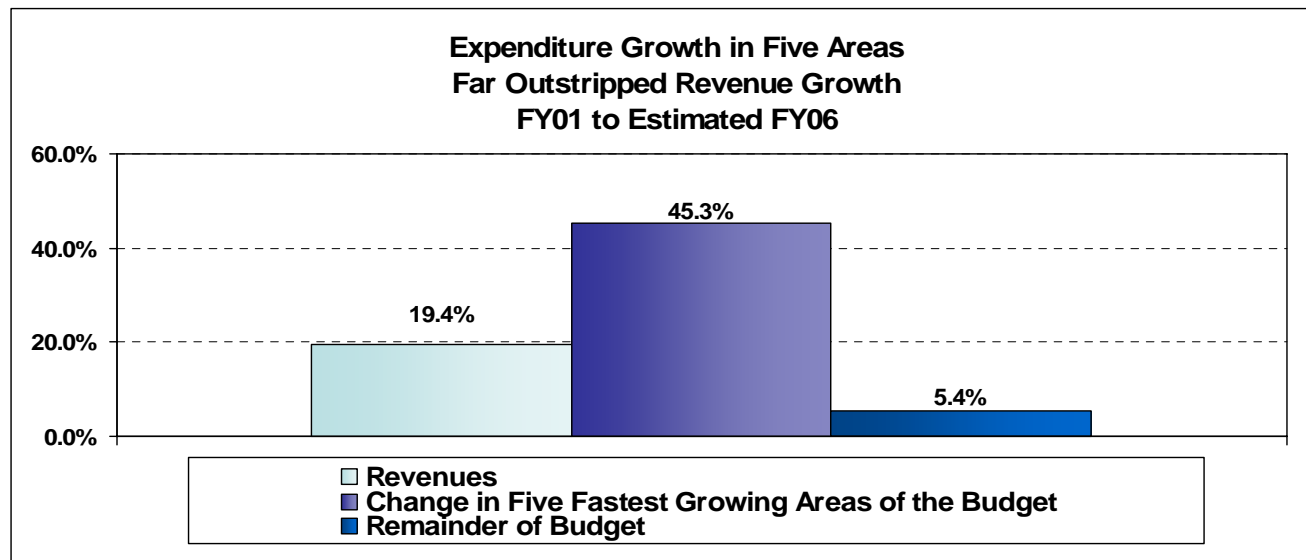
Key Financial Issues Raised in Quarterly Report:

- Expenditure Growth
- Volatile Revenue Sources
- Reduced Reliance on Wage Tax
- Cuts in State Reimbursements
- Philadelphia Parking Authority

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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 cut in Human Services spending in FY06, these five expenditure items are projected to account for 45% of FY06 expenditures, up from 38% in FY01.

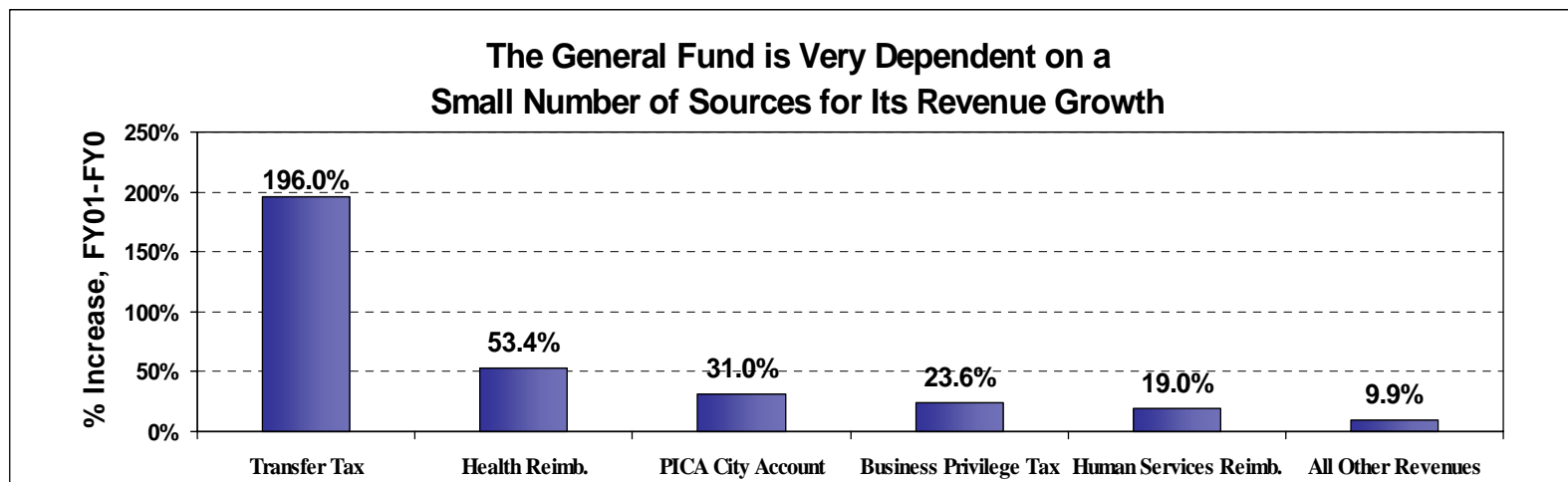


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Key Financial Issues Raised in Quarterly Report:

Volatile Revenue Sources

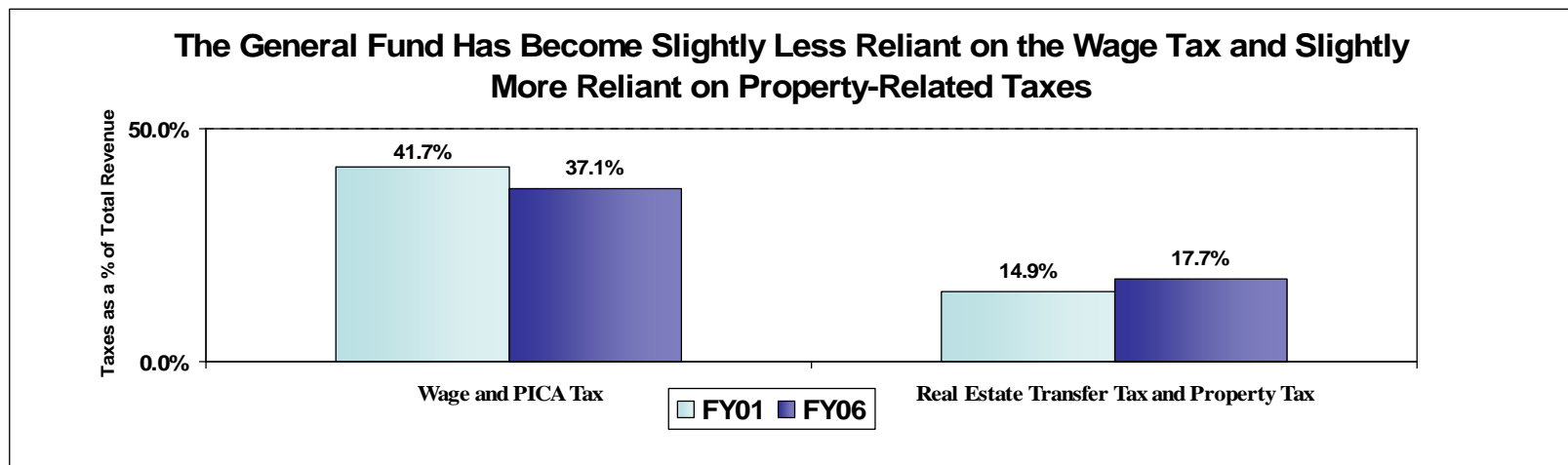
- Two-thirds of the growth in revenues from FY01 through the FY06 projections are from only five sources (*see below*).
- With the exception of the PICA City Account, all of these revenue sources are highly volatile. BPT revenues and the state and federal reimbursements each have declined in at least one year since FY01 and the transfer tax is highly dependent on the continuing strength of the real estate market.
- Excluding these five areas, revenues have grown by less than 2% annually.



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

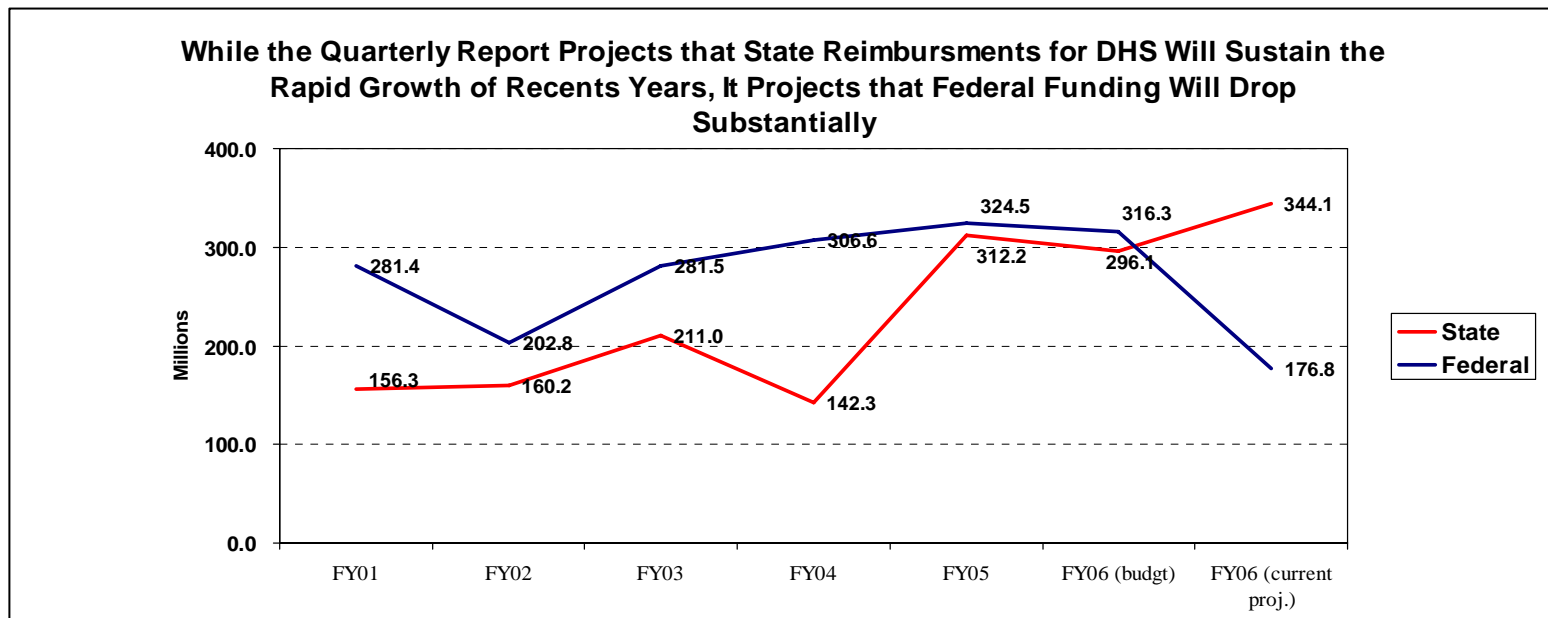
The dramatic increases in real estate transfer tax collections combined with smaller increases in property tax collections and the continuing cuts in wage tax rates have led to a small, but real, shift for the general fund towards more reliance on property based taxes. The shift makes the city less vulnerable 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 State 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 now projected to drop over 45% from FY05 to FY06 and to fall \$139.5M short of the original budget.



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Key Financial Issues Raised in Quarterly Report:

Philadelphia Parking Authority

- The City projects that it will receive \$18M in parking violation fines from the Parking Authority, up from \$14.5M in FY05, but \$7M below the amount included in the original FY06 budget.
- Legislation enacted in the spring will increase parking fines and make it more likely that Parking Authority revenue will reach the \$25M included in each year of the Plan beginning in FY07.

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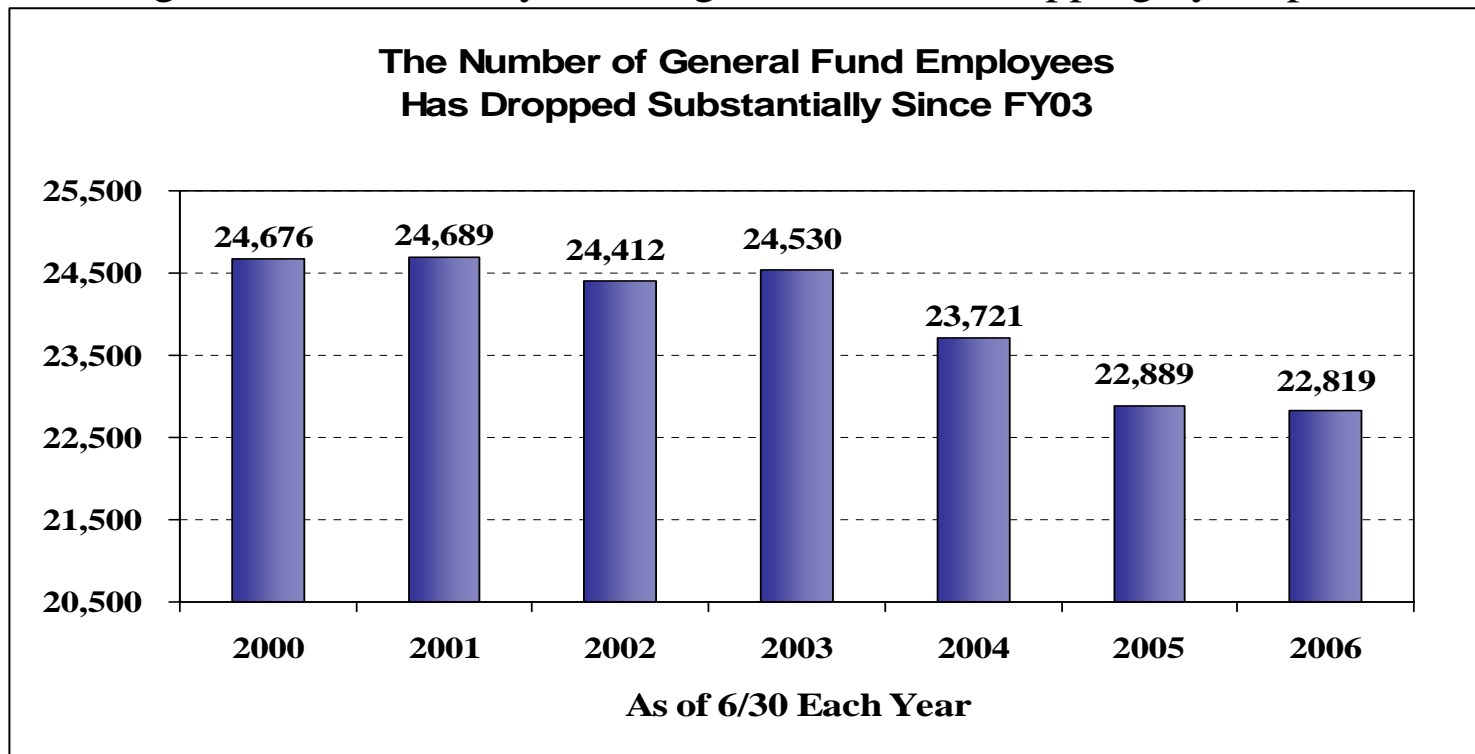
Key Managerial Issues Raised in Quarterly Report:

- Staff Reductions
- Increases in Overtime
- Correctional Facility Overcrowding
- Other Managerial Issues

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Key Managerial Issues Raised in Quarterly Report Staff Reductions

- 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.



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Key Managerial Issues Raised in Quarterly Report:

Increases in Overtime

- Overtime is projected to increase while staffing remains virtually unchanged. While staffing is projected to drop by just 70 positions -- .3% -- overtime is projected to grow by 15.7%-- \$17.1M-- to \$126.1M after having dropped by \$13M in FY04 and another \$12M in FY05.
 - While overtime increased in a number of departments, the largest increases were \$8 in the Police Department (to \$49M) and almost \$4M in the Fire Department (to \$25M);
 - As recently as FY03, Fire overtime was just under \$10M. 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.

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Key Managerial Issues Raised in Quarterly Report:

Correctional Facility Overcrowding

- The average monthly inmate population in the Prison System continues to increase. The Quarterly Report shows a 3.9% increase in FY06 and an 9.3% increase in just two years. At the same time, prisons expenditures are projected to be about \$6.5M or 3.6% higher in FY06 than they were in FY04.
- The population at the Youth Study Center has increased almost 10% from an average of 102 in FY05 to an average of 111 in FY06. At the same time, the average length of stay in the facility has jumped from 7.6 days to 8.3 days. Those increases appear to have affected overtime, which totaled \$3M and is \$354,234 or 13% higher than projected.

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Key Managerial Issues Raised in Quarterly Report:

- 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 \$6M in FY06, \$21.5M less than initially budgeted.
- The average number of employees out of work because of injuries has jumped from 158 in FY05 to 190 for FY06. In just two years, this average has increased 52%.
- The average number of emergency shelter beds jumped over 10% to 2,800 and has increased 16% over the last two years.
- The average amount of time between an arrest and the completion of criminal processing increased from just over 11 hours in FY05 to over 12 hours and 30 minutes in FY06 and has increased by over two hours in the last two years.
- The number of food complaints investigated by the Health Department dropped by almost 40 percent to 1,579 and the average amount of time between those inspections went from 15.4 months to 16.6 months.

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Key City Budget Characteristics

Cost Areas Projected to Exceed \$100M in FY2006

Item	FY06 (Ms)	FY06% Of Budget	FY01 (Ms)	FY01% of Budget
Human Services	\$559.3	16.3%	\$442.2	15.3%
Police	\$475.0	13.8%	\$442.0	15.3%
Pensions Plus Pension Obligation Bonds	\$342.2	9.9%	\$194.3	6.7%
Health/Medical Benefits	\$298.6	8.7%	\$186.7	6.5%
Prisons	\$191.0	5.5%	\$143.4	5.0%
Fire	\$173.4	5.0%	\$148.0	5.1%
Debt Service	\$169.3	4.9%	\$130.8	4.5%
Courts	\$110.7	3.2%	\$111.5	3.9%
Health	\$107.2	3.1%	\$109.3	3.8%
Public Property (excl. Septa Subsidy)	\$106.6	3.1%	\$103.6	3.6%

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Key City Budget Characteristics (continued)

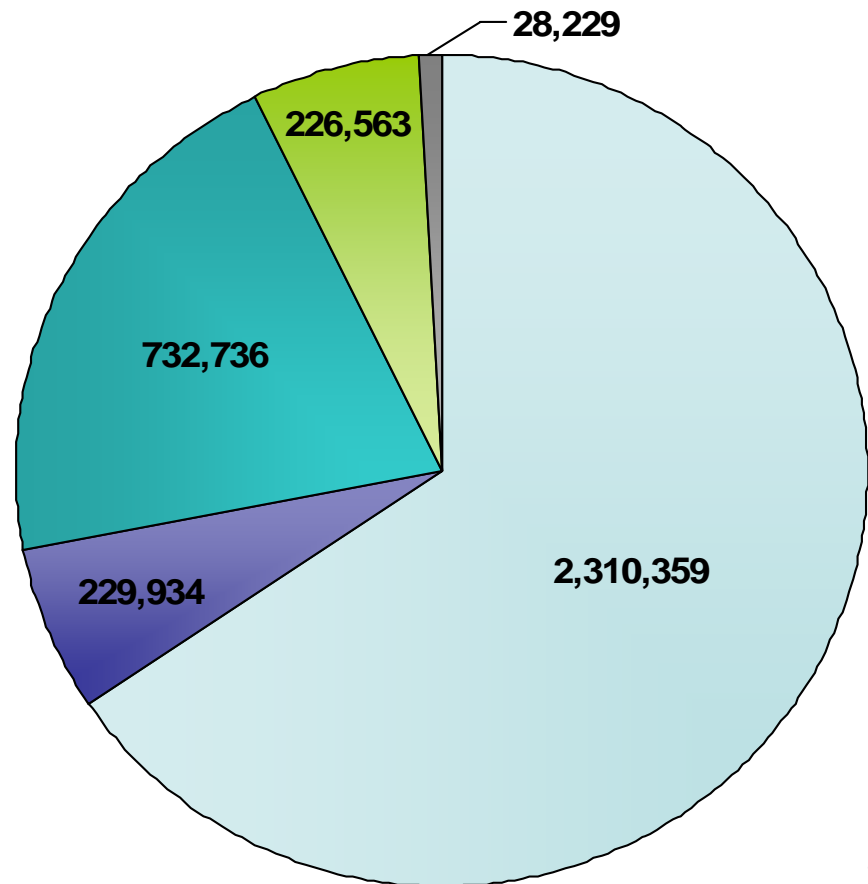
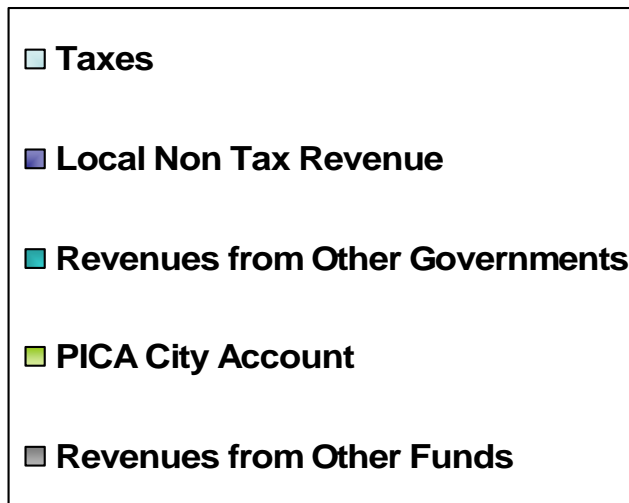
Revenue Areas Projected to Exceed \$100M in FY2006

Item	FY06 Amount (in millions)	FY06% of Budget	FY01 Amount (in millions)	FY01% of Budget
Wage and Net Profits Tax	\$1,104.9	31.3%	\$1,059.0	35.8%
Human Services Reimbursement	\$520.9	14.8%	\$437.7	14.8%
Property Tax	\$397.8	11.3%	\$363.4	12.3%
Business Privilege Tax	\$388.2	11.0%	\$314.0	10.6%
PICA City Account	\$226.6	6.4%	\$173.0	5.9%
Real Property Transfer Tax	\$228.0	6.5%	\$77.0	2.6%
Sales Tax	\$125.9	3.6%	\$111.3	3.8%

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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)

