

PICA Staff Report
on the
City of Philadelphia's
Quarterly City Manager's Report
Fourth Quarter of FY2005

Submitted to PICA on August 15, 2005

August 18, 2005

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Beginning with this document, PICA will issue analyses that highlight the major issues raised by each of the City's quarterly reports.

The PICA reports will focus on how the quarterly reports' projections compare to projections included in the approved Five-Year Plan (Plan) and on significant financial and management issues.

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Projected General Fund Balance for FY2005
in Quarterly Report: **\$26.7 million**

Projected General Fund Balance for FY2005
in Approved Plan: **\$26.7 million**

Change in General Fund Balance from Approved
Plan: **\$ 0.0 million**

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Major Changes in Obligations Projections

While the Quarterly Report does not include any major changes in projected FY2005 obligations from the amounts included in the approved Plan, the recently announced Fraternal Order of Police (FOP) Arbitration Award would add costs for FY06 through FY10 beyond those included in the Plan.

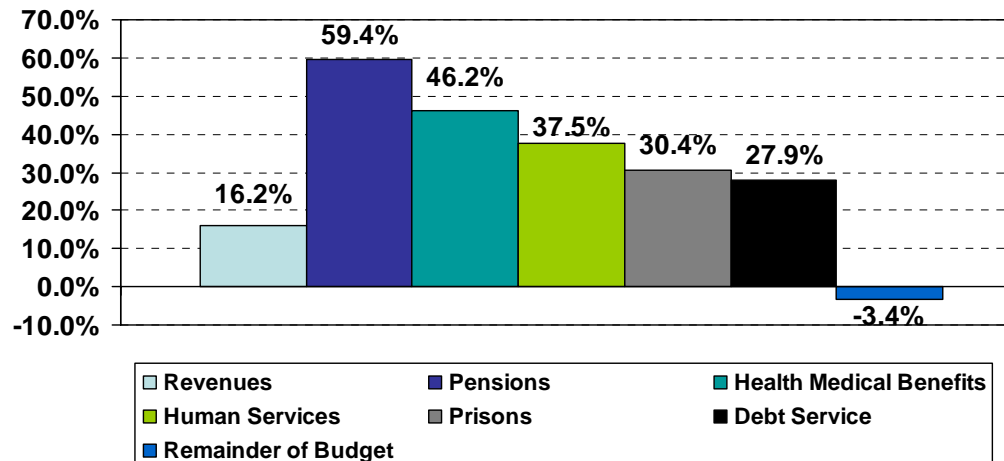
The Award, which covers FY06 and FY07, gave the FOP a 15.7 percent increase in health care benefit contributions in FY2006 and another ten percent increase in FY2007. According to the City's analysis, this award will increase costs beyond the amounts included in the Plan by \$5.2 million in FY2006 and by about \$46 million over the life of the Plan. The Administration is now deciding whether it will appeal the award.

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Financial Issues Raised in Quarterly Report (continued)

The quarterly report shows that five major expense areas continue to grow far faster than revenues. One of the City's key fiscal challenges is curtailing the growth in costs in these areas, or, in the case of DHS, ensuring that the growth in reimbursements continues to keep pace with the growth in expenditures. These five expenditure items accounted for 46% of FY05 expenditures, up from 38% in FY01.

**Expenditure Growth in Five Areas
Far Outstripped Revenue Growth**

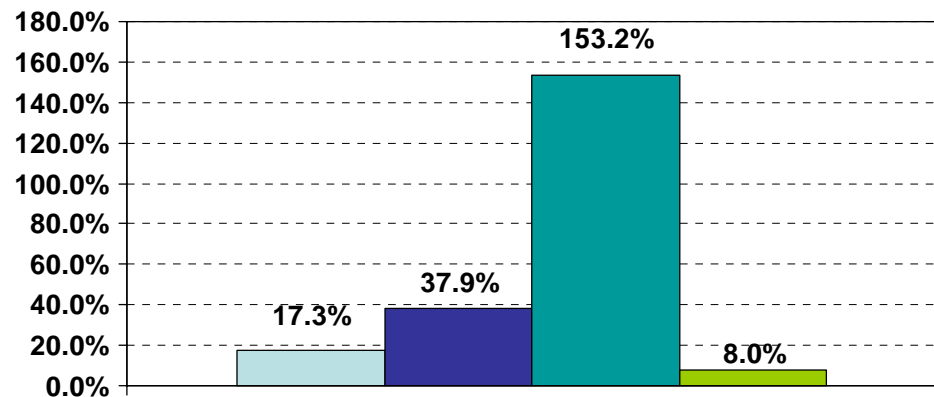
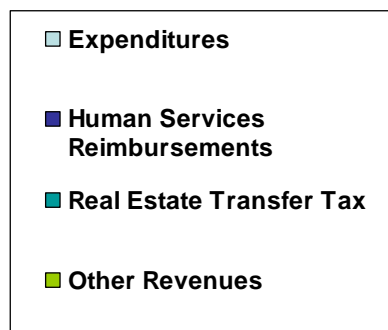


PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Financial Issues Raised in Quarterly Report (continued)

The quarterly report shows that most of the growth in revenue from FY01 through FY05 came from only two sources: the real estate transfer tax and reimbursements for costs incurred by the Department of Human Services. Excluding those two sources, revenues grew at only eight percent, far slower than the 17.3 % growth in expenditures. If growth slows in either of those two revenue sources, which are each highly volatile, the City will face even greater pressure to reduce expenditures or increase the growth from other revenue sources.

Since FY01 Revenue Growth Has Come Largely From the Transfer Tax and DHS Reimbursements



PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Financial Issues Raised in Quarterly Report

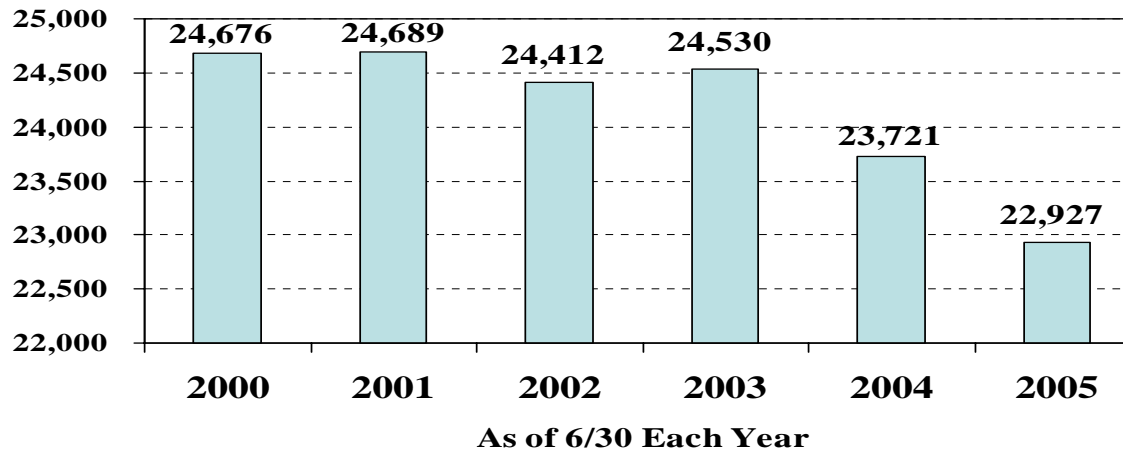
- The City received \$18 million in parking violation fines from the Parking Authority, down from \$25.7 million in FY04 and \$7 million below the amount included in the FY05 budget.
- The Aviation Fund ended the year with a \$17.3 million fund balance, \$2.3 million lower than budgeted and \$7 million lower than at the end of FY04. The decrease is not yet cause for serious concern, but PICA will continue to monitor the Fund's balance.

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Managerial Issues Raised in Quarterly Report

- The City has reduced staffing substantially over the last two years.
- Of the 1,603 position reduction, 1,084 came from Police, Fire and Streets (numbers based on Personnel inventory, which has more accurate June 30, 2005 numbers than the Quarterly Report):

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



PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Managerial Issues Raised in Quarterly Report (continued)

- Overtime dropped from \$134.4 million in FY2003 to \$108.9 million in FY2005.
 - The overtime drop is largely the result of the cut in Police Department overtime from \$73.2 million in FY2003 to \$40.9 million in FY2005.
 - While overtime has dropped citywide, 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. In just two years, Fire Department overtime has more than doubled from \$9.9 million in FY2003 to \$21.7 million in FY2005.

- The average monthly inmate population in the Prison System continues to increase. The population increased over five percent in FY2005 to 8,141. At the same time, spending on the system exceeded the amount in the originally adopted FY2005 budget by over \$7 million.

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key Managerial Issues Raised in Quarterly Report (continued)

- The report does not show sufficient progress in the implementation of management and productivity initiatives. Without that progress, the city will be unable to achieve the savings it needs to maintain a balanced budget without reducing services. For example, the single largest negative revenue variance shown in the Quarterly Report is \$28 million because of the delay in the implementation of the asset sale program.

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Key City Budget Characteristics

Cost Areas that Exceeded \$150 Million in FY2005

Item	Amount in Millions	% of Budget
Human Services	\$608.0	18%
Police	\$470.5	13.9%
Pensions Plus Pension Obligation Bonds	\$309.6	9.2%
Health/Medical Benefits	\$272.8	8.1%
Prisons	\$187.0	5.5%
Fire	\$173.3	5.1%
Debt Service	\$167.3	4.9%

PICA Staff Report on the City of Philadelphia's Quarterly Report Fourth Quarter of FY2005

Key City Budget Characteristics (continued)

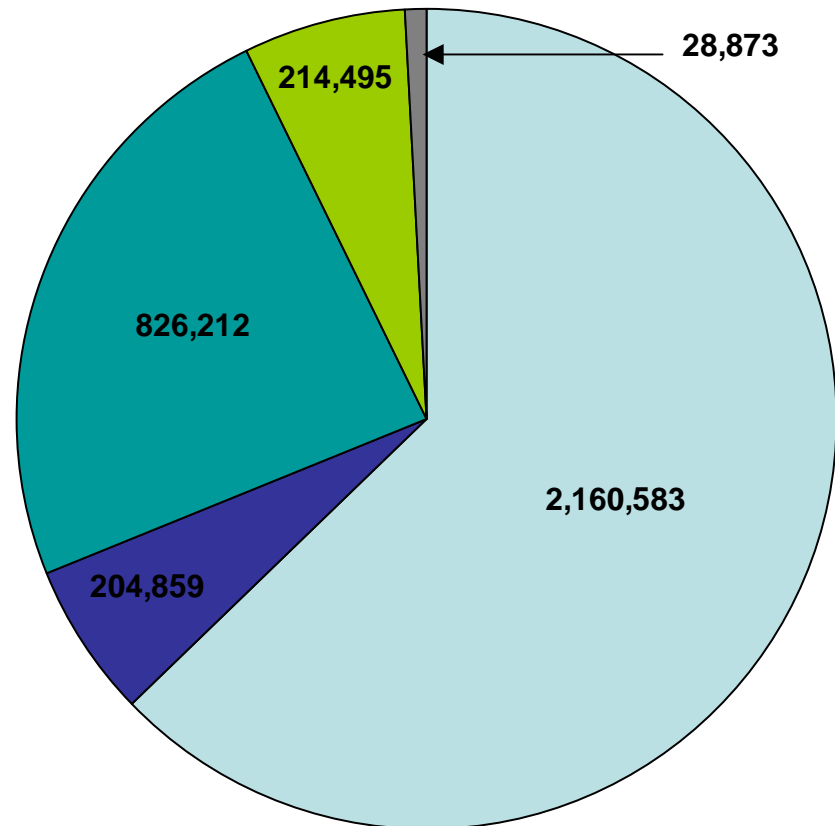
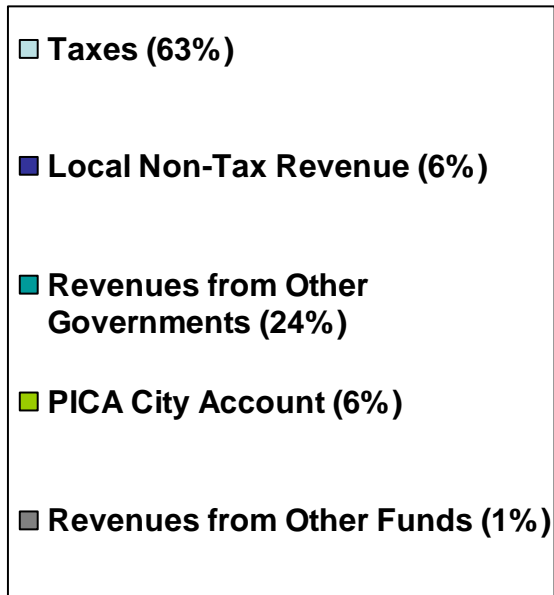
Revenue Areas that Exceeded \$100 Million in FY2005

Item	Amount (in millions)	% of Budget
Wage and Net Profits Tax	\$1,086.8	31.6%
Human Services Reimbursement	\$603.6	17.6%
Property Tax	\$391.1	11.4%
Business Privilege Tax	\$315.1	9.2%
PICA City Account	\$214.5	6.2%
Real Property Transfer Tax	\$195	5.7%
Sales Tax	\$114	3.3%

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Key City Budget Characteristics (continued)

FY2005 Sources of City Revenues
(\$000)



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Key City Budget Characteristics (continued)

**Distribution of FY05
Expenditures (\$000)**

