

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

**First Quarter of FY2006**

Submitted to PICA on November 15, 2005

November 22, 2005

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

This is PICA's second regular report highlighting the major issues raised by the City's quarterly reports.

The PICA reports 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 First Quarter of FY2006

Projected General Fund Balance for FY2006  
in Quarterly Report: **\$142.5 million**

Projected General Fund Balance for FY2005  
in Approved Plan: **\$22.2 million**

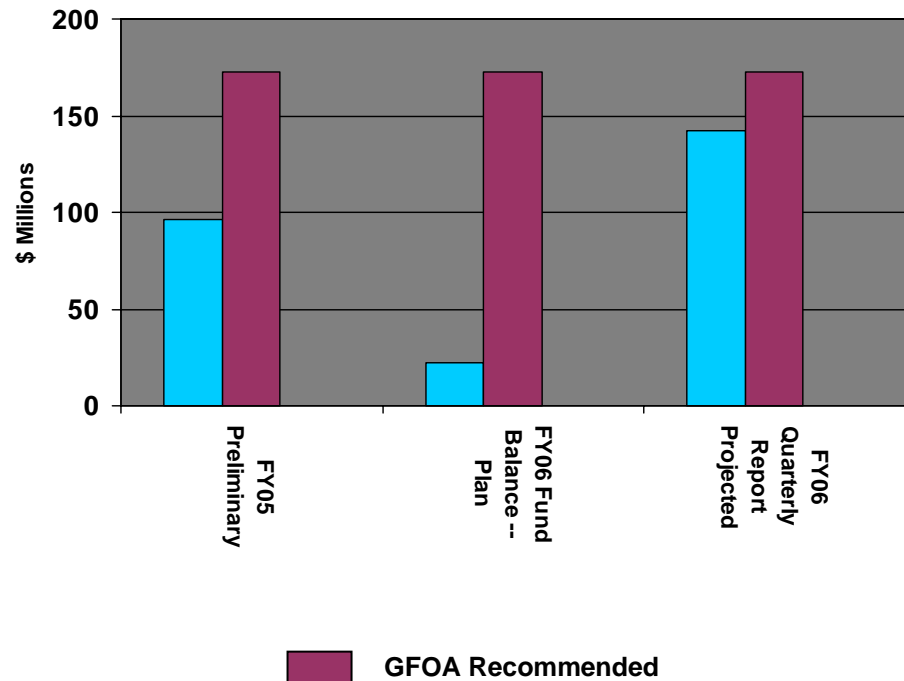
Change in General Fund Balance from Approved  
Plan: **\$120.3 million**

Note: a portion of the change in projected FY06 Fund Balance is a result of a better than anticipated final FY05 Fund Balance. For a full discussion of the ending FY05 Fund Balance see the PICA report: ["Translating Philadelphia's FY05 Ending Funding Balance: Happy Days Are Not Here Again"](#)

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

- While the projected FY06 fund balance is substantially larger than the amount projected in the approved FY06-FY10 Five-Year Plan, it is still 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 an essential hedge against long-term and short-term risks. At \$142.5 million, the City's fund balance would equal slightly over four percent of its revenues.

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



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

## Major Changes in Revenue Projections

Projected General Fund Revenues for FY2006  
in Quarterly Report: **\$3,446 million**

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

Change in General Fund Revenues from Approved Plan:  
**(\$ 13 million)**

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

## 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.
- The business privilege, real estate transfer and sales taxes all ended FY05 at higher amounts than those projected for FY06 in the Five-Year Plan.

<b>Tax</b>	<b>Adopted Budget</b>	<b>Current Projection</b>	<b>Change</b>
<b>Business Privilege</b>	\$316.2 M	\$370.3 M	\$54.2 M
<b>Real Estate Transfer</b>	\$157.5	\$200.0	\$42.5
<b>Sales</b>	\$114.8	\$122.0	\$7.2

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

## Major Changes in Revenue Projections: Local Non-Taxes

- The Quarterly Report shows the receipt of Eagles' rent being moved from FY05, as projected in the approved Plan, to FY06. The rent was initially due in FY02, but has been the subject of a legal dispute between the Eagles and the City.
- The Quarterly Report projects that asset sales will fall \$8 million short of the Plan's \$20 million projection. The revised projection is another indication that the Administration has not been sufficiently aggressive in pursuing implementation of its revenue-generating initiatives.

	Adopted Budget	Current Projection	Change
<b>Eagle's Rent</b>	\$0 M	\$8.0 M	\$8.0 M
<b>Asset Sales</b>	\$20.0	\$12.0	(\$8.0)
<b>Interest Earnings</b>	\$13.0	\$15.0	\$2.0

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

## Major Changes in Revenue Projections: Revenues from Other Governments

- The Quarterly Report eliminates the Plan's projection that the City will be reimbursed for highway patrol costs. The FY06 State budget provided funding to allow the Pennsylvania State Police to provide that patrol directly rather than having the State reimburse the City.
- A projected \$126 million shortfall against budget in federal reimbursements for DHS costs will only partially be offset by State funding that is projected to be almost \$24 million above budget.
- The projected \$18 million in parking violation revenue is \$7 million below the amount included in the Plan, but \$3.5 million above the amount received in FY05.

	<b>Adopted Budget</b>	<b>Current Projection</b>	<b>Change</b>
<b>Highway Patrol Reimbursement</b>	\$5.6 M	\$0 M	(\$5.6 M)
<b>Human Services Reimbursements</b>	\$612.4	\$510.1	(\$102.3)
<b>Parking Violation Fines</b>	\$25.0	\$18.0	\$(7.0)



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

## Major Changes in Obligations Projections

Projected General Fund Obligations for FY2006  
in Quarterly Report: **\$ 3,418.6 million**

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

Change in General Fund Obligations from Approved Plan:  
**(\$63.4 million)**

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

## Major Changes in Obligations Projections

- 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.
- 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 fuel prices by entering into an agreement that locked in prices at lower than market costs.

	Adopted Budget	Current Projection	Change
<b>Employee Disability</b>	\$40.9 M	\$45.9 M	\$5 M
<b>Pension</b>	\$279.3	\$271.8	(\$7.5)
<b>Fleet/Fuel Costs</b>	\$38.7	\$44.1	\$5.4
<b>Utilities – Gas/Steam</b>	\$26.5	\$31.4	\$4.9
<b>Human Services</b>	\$655.6	\$564.2	(\$91.4)

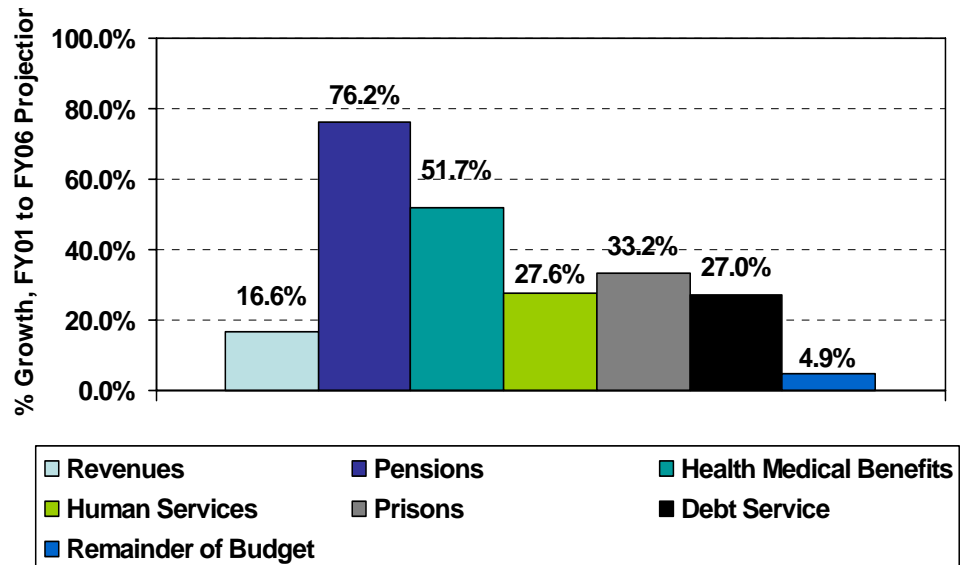
# PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2006

## Key Financial Issues Raised in Quarterly Report

The PICA Staff Report on the Quarterly Report for the fourth quarter of FY05 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 accounted for 46% of FY05 expenditures and are now projected to account for 47.1% of FY06 expenditures, up from 38% in FY01.

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

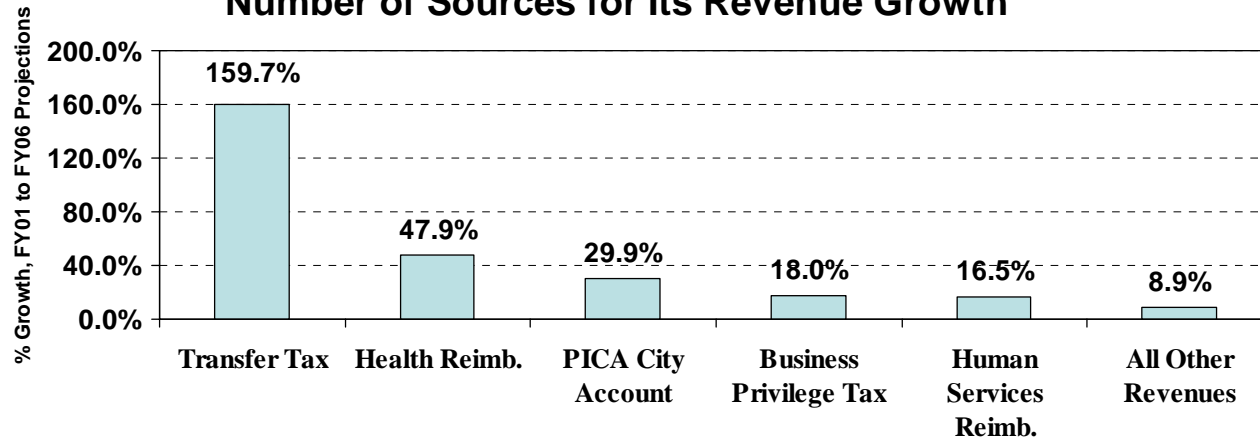


# PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2006

## Key Financial Issues Raised in Quarterly Report (continued)

The quarterly report for the fourth quarter of FY05 showed that the City's general fund is dependent on a small number of mostly volatile revenue sources for its growth. The first quarter report shows that that dependency is continuing. 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.

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

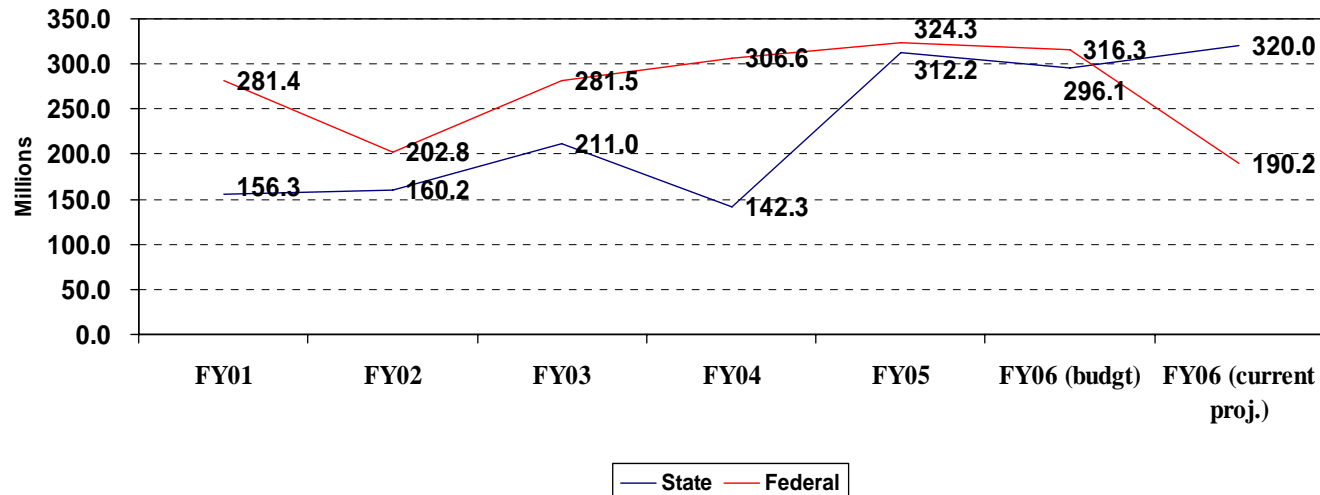


# PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2006

## 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 40 percent from FY05 to FY06 and to fall \$126 million short of budget.

While the Quarterly Report Projects that State Reimbursements for DHS Will Sustain the Rapid Growth of Recent Years, It Projects that Federal Funding Will Drop Substantially

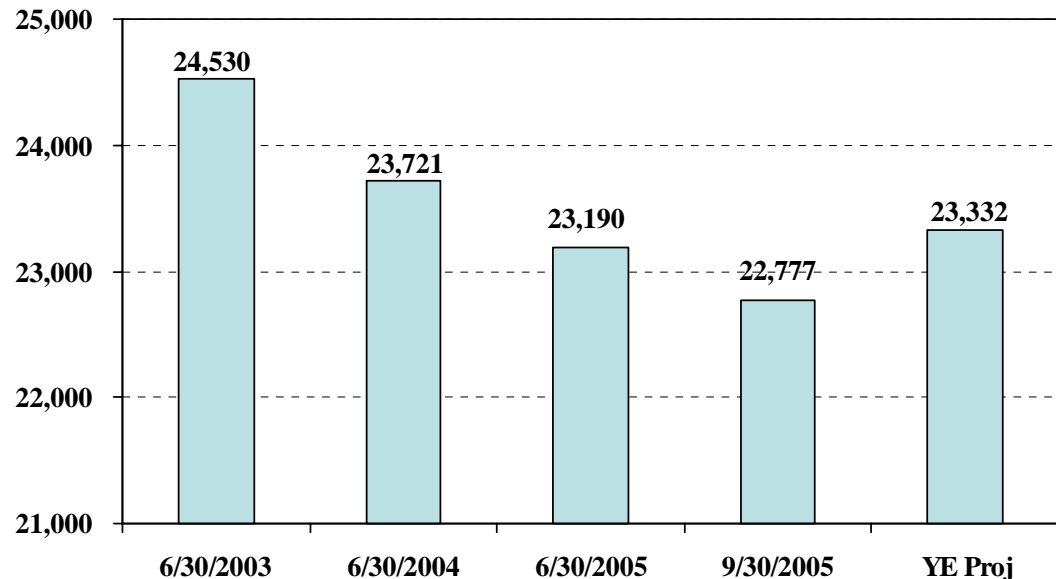


# PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2006

## Key Managerial Issues Raised in Quarterly Report

- While the City has reduced General Fund staffing levels since 2003, the projected FY2006 level of 23,332 is 142 employees more than FY2005's ending level.
- In addition to being slightly higher than FY2005's level, the projected number of employees at year-end is 555 higher than the number at the end of the first quarter.

The Number of General Fund Employees  
Has Dropped Since FY03



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

## Key Managerial Issues Raised in Quarterly Report

- The City reduced overtime costs from \$134.4 million in FY2003 to \$108.9 million in FY05. During the first quarter of FY2006, however, that downward trend appeared to reverse. The target budget plan projected first quarter overtime to total \$28.6 million, but Citywide overtime came in \$4.1 million over that projection at \$32.8 million. For the full year, overtime is projected to be \$114.7 million, up from \$108.9 million in FY05 and from the \$101.3 million included in the target budget. The increase is primarily caused by Fire Department overtime costs, which were \$3 million over the original projection for the first quarter and are projected to be \$9 million over budget for the year. The Fire Department overtime increases are directly related to delays in the implementation of the Administration's Fire Department restructuring plan.
- The average monthly inmate population in the Prison System continues to increase. The population increased over five percent in FY2005 to 8,141. During the first quarter of FY2006 the population boom continued as the average monthly inmate population reached 8,433 and the City now projects that it will average 8,613 for the year – another 5.8% increase. The continuing population growth has led the City to increase projected Prisons' obligations by over \$4 million for the year.

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

## **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 report shows a negative variance of \$8 million caused by continued delays in the implementation of the asset sales program.



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

## Key Managerial Issues Raised in Quarterly Report: Performance Measures

- **Department of Human Services-** The 81 adoptions finalized during the first quarter were well short of the projected 175, but the Quarterly Report still projects that the City will hit its goal of 700 for the year.
- **Fleet-** The Office's Fleet Reduction Initiative continues to produce decreases in the overall number of vehicles in the City's fleet. In the first quarter of FY06 there were 6,001 vehicles in the fleet, a five percent reduction from FY04's 6,310. The Quarterly Report projects that the number of vehicles will drop to 5,855 by the end of the fiscal year.
- **Free Library-** The Hours of Service that all library branches were open fell 459 hours below first quarter projections, from 22,800 to 22,421, but the Administration anticipates hitting its FY06 goal of 106,688 hours as the Free Library increases staffing from 634 at the end of the first quarter to 739 by the end of the fiscal year. Despite the lower than projected number of hours, the first quarter's 1.5 million visits were about eight percent higher than projected.

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

## Key Managerial Issues Raised in Quarterly Report: Performance Measures (continued)

- **Licenses & Inspections**- The report shows that the City demolished 95 buildings during the first quarter, 72 percent more than the 50 that were originally projected. For the full year, however, the City projects that it will demolish 276 buildings, 140 fewer than projected and 862 fewer than in FY05.
- **Police**- The Department had an average of 86 more officers in on-street bureaus in the first quarter than budgeted and expects to have an average of 89 more than the 5,703 budgeted for the year. While the higher than anticipated number of officers on the street was partially attributable to the Department's having a higher percentage of officers on the street (87.6% compared to the 87% in the budget), it is also tied to the Department's having slightly more employees than budgeted (7,337 compared to 7,302).
- **Prisons**- The Department is projecting the average monthly inmate population to increase just under six percent from 8,141 in FY05 to 8,613 by the end of FY06. The continued growth in population could partially be attributed to the high percentage of inmates that return to the system, but the impact of prisoners who recidivate cannot be determined because the City does not publish the number of repeat offenders incarcerated.

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

## Key City Budget Characteristics

### Cost Areas that are Projected to Exceed \$150 Million in FY2006

Item	Amount in Millions	% of Budget
Human Services	\$564.2	16.5%
Police	\$477.3	14%
Pensions Plus Pension Obligation Bonds	\$342.2	10%
Health/Medical Benefits	\$283.2	8.2%
Prisons	\$190.9	5.6%
Fire	\$173.4	5.1%
Sinking Fund Commission (Debt Service)	\$166.1	4.9%

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

## Key City Budget Characteristics (continued)

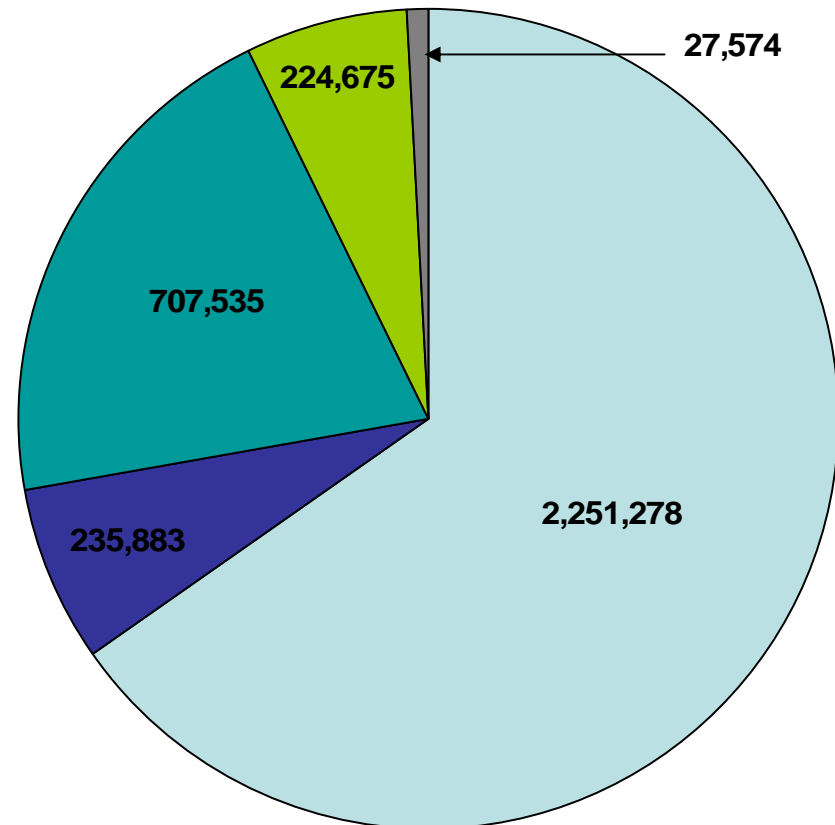
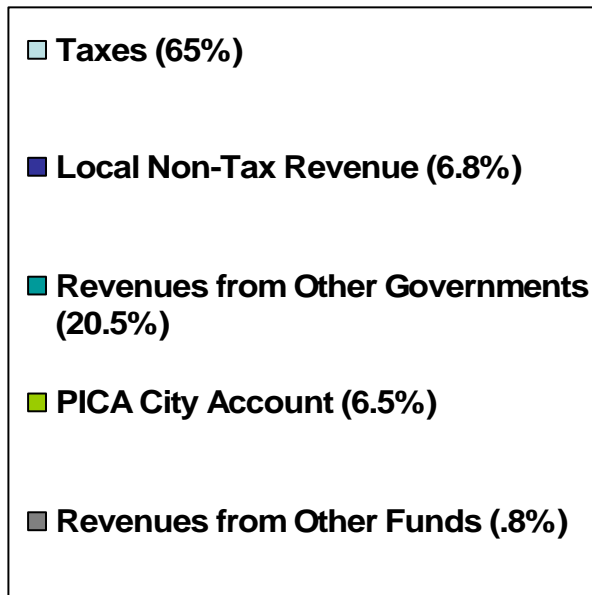
### Revenue Areas that are Projected to Exceed \$100 Million in FY2006

Item	Amount (in millions)	% of Budget
Wage and Net Profits Tax	\$1,100.8	31.9%
Human Services Reimbursement	\$510.1	14.8%
Property Tax	\$394.3	11.4%
Business Privilege Tax	\$370.3	10.7%
PICA City Account	\$224.6	6.5%
Real Property Transfer Tax	\$200	5.8%
Sales Tax	\$122	3.5%

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

## Key City Budget Characteristics (continued)

Projected FY2006 Sources of City Revenues  
(\$000)



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

## Key City Budget Characteristics (continued)

### Projected Distribution of FY06 Expenditures (\$000)

- Personal Services (36.6%)
- Employee Benefits (22%)
- Purchased Services (31.7%)
- Materials, Supplies & Equipment (2.2%)
- Contr., Indem. & Taxes (3.2%)
- Debt Service (2.3%)
- Pmt. To Other Funds (.8%)
- Adv. & Misc. Payments (1.1%)

