

PICA Staff Report  
on the  
City of Philadelphia's  
***Quarterly City Managers Report  
for the Second Quarter of FY2011***

Submitted to PICA on February 15, 2011

March 1, 2011

## **Introduction: PICA Staff Report on the City of Philadelphia’s Quarterly City Managers Report for the Second Quarter of FY11**

- The Pennsylvania Intergovernmental Cooperation Authority (PICA) Act (Act of June 5, 1991, P. L. 9, No. 6), Section 209(i), requires the City to submit to PICA within 45 days following the end of each fiscal quarter a report describing actual or estimated revenues and expenditures in relation to the budgeted level for the most recent quarter.
- Accordingly, the City submits a Quarterly City Managers Report (QCMR) to PICA 45 days after the end of each fiscal quarter. The QCMR contains extensive detail on actual and estimated General Fund revenues and expenditures for the current fiscal year, as well as information on personnel, performance, cash flow, and quarterly financial results for the Water Fund and Aviation Fund.
- This report is PICA staff’s analysis of the most recent QCMR submitted by the City, covering the period ending December 31, 2010, the second quarter of FY11. A copy of the most current QCMR can be found on the City’s website at: <http://www.phila.gov/finance/reports-Quarterly.html>
- Since the projections in the annual PICA-approved Five-Year Financial Plan establish the original budgetary baseline for each fiscal year, the analysis in this report compares the FY11 revenue and expenditure projections contained in the QCMR for the second quarter of FY11 to projections for FY11 in the FY11-FY15 Five-Year Plan approved by PICA in August 2010.

## **FY11 Projections**

- ▶ Overview
- ▶ Tax Revenue
- ▶ Locally-Generated Non-Tax Revenue
- ▶ Revenue from Other Governments
- ▶ Obligations

## FY11 Projections: Overview

- ▶ The QCMR for the second quarter of FY11 projects General Fund revenues to be \$84.3 million above the level in the FY11-15 Five-Year Plan. This reflects increases in tax revenue, locally-generated non-tax revenue, and revenue from other governments. FY11 obligations are projected to be \$42.4 million above the Plan projection.
- ▶ The FY11 operating surplus is projected at \$103.1 million, \$42.0 million above the Plan estimate. However, of this amount, \$51.1 million represents an increase in revenue from other governments associated with the receipt of delayed billings for the Department of Human Services. Excluding this amount, the operating surplus would be \$52 million, \$9 million below the Plan estimate.
- ▶ The QCMR projects the FY11 year-end fund balance at \$13.5 million, \$20.4 million below the Plan estimate.

<b>FY11 General Fund Projections (\$ in Millions)</b>					
<u>Category</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Change from Q1 QCMR to Q2 QCMR</u>	<u>Change from Plan to Q2 QCMR</u>
Revenues	\$3,849.2	\$3,916.0	\$3,933.5	\$17.6	\$84.3
Obligations	3,788.1	3,796.8	3,830.5	33.7	42.4
Operating Surplus/(Deficit)	61.1	119.2	103.1	(16.1)	42.0
Prior Year Adjustments	24.5	24.5	24.5	--	--
Prior Year Fund Balance/(Deficit)	(51.7)	(114.0)	(114.0)	--	(62.4)
Year-End Fund Balance	34.0	29.6	13.5	(16.1)	(20.4)

## FY11 Projections: Tax Revenue

FY11 tax revenue is projected at \$2,481.5 million, an increase of \$35.3 million compared to the FY11-FY15 Plan estimate. This increase reflects increases in projected revenues from several taxes: wage and earnings (\$18.3 million), business privilege (\$10.1 million), sales (\$5.7 million), and net profits (\$5.2 million). These increases are offset by reductions in projected revenue from the real estate (\$2.6 million) and real estate transfer (\$1.4 million) taxes. The higher revenues from wage and earnings, business privilege, and sales reflect an adjustment to the projected tax base growth in FY11 that is based on stronger than expected collections through the second quarter of FY11. The lower projection for real estate tax collections is based on lower prior year collections, and lower real estate transfer taxes collections is based on weaker than expected collections to date.

<b>FY11 General Fund Tax Revenue Projections (\$ in Millions)</b>					
<b>Tax</b>	<b><u>FY11-15</u> <u>Five-Year</u> <u>Plan</u></b>	<b><u>Q1</u> <u>QCMR</u></b>	<b><u>Q2</u> <u>QCMR</u></b>	<b><u>Change from</u> <u>Q1 QCMR to</u> <u>Q2 QCMR</u></b>	<b><u>Change from</u> <u>Plan to</u> <u>Q2 QCMR</u></b>
Wage and Earnings	\$1,131.6	\$1,136.6	\$1,149.9	\$13.3	\$18.3
Real Estate	491.4	491.4	488.7	(2.6)	(2.6)
Business Privilege	350.7	350.7	360.8	10.1	10.1
Net Profits	11.9	11.9	17.1	5.2	5.2
Sales	241.8	243.8	247.5	3.7	5.7
Real Estate Transfer	121.2	121.2	119.8	(1.4)	(1.4)
Parking	72.5	72.5	72.5	--	--
Amusement	21.1	21.1	21.1	--	--
Other	4.1	4.1	4.1	--	--
<b>Total</b>	<b>2,446.3</b>	<b>2,453.3</b>	<b>2,481.5</b>	<b>28.3</b>	<b>35.3</b>

## FY11 Projections: Locally-Generated Non-Tax Revenue

FY11 locally-generated non-tax revenue is projected at \$274.8 million, an increase of \$5.5 million from the Plan estimate. Major changes between the Plan and QCMR projection include: a \$4 million increase in Division of Technology, reflecting delayed receipt of FY10 cable television franchise fees; a \$6 million increase in Streets, due to delayed commercial trash collection fee revenue and higher recycling revenue; a \$5.9 million increase in Finance, due to higher than projected code enforcement revenue and a \$5.0 million refund from the City's health care provider due to an FY10 overpayment; and a \$8 million decrease in City Treasurer, reflecting lower interest earnings.

<b>FY11 General Fund Locally-Generated Non-Tax Revenue Projections (\$ in Millions)</b>					
<u>Departmental Source</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Change from Q1 QCMR to Q2 QCMR</u>	<u>Change from Plan to Q2 QCMR</u>
Division of Technology	\$18.7	\$22.7	\$22.7	\$0.0	\$4.0
Streets	22.0	27.0	28.0	1.0	6.0
Fire	37.2	37.2	37.2	--	--
Public Health	12.3	12.3	12.3	--	--
Public Property	8.5	8.5	8.5	--	--
Licenses and Inspections	43.2	43.2	43.2	--	--
Records	18.0	18.0	18.0	--	--
Finance	12.5	12.5	18.4	5.9	5.9
City Treasurer	12.8	4.8	4.8	--	(8.0)
Clerk of Quarter Sessions	8.0	8.0	8.0	--	--
Sheriff	9.6	9.6	9.1	(0.5)	(0.5)
First Judicial District	35.1	35.1	34.1	(1.0)	(1.0)
All Other	31.4	31.4	30.6	(0.9)	(0.9)
<b>Total</b>	<b>269.3</b>	<b>270.3</b>	<b>274.8</b>	<b>4.5</b>	<b>5.5</b>

## FY11 Projections: Revenue from Other Governments

FY11 revenue from other governments is projected at \$1,125.0 million, an increase of \$44.7 million from the Plan estimate. Significant increases in projected revenues in this category include: Human Services (\$51.1 million), due to expected increases in collection of prior year billings; Finance (\$1.8 million), due to higher than projected State pension aid; and other agencies (\$8.2 million), due to School District of Philadelphia funding for Office of Property Assessment costs and federal and state funding for snow removal costs incurred in FY10. These increases are offset by a decline of \$16.4 million in PICA City Account revenues, which reflects a recalibration of the allocation of wage, earnings and net profits taxes between the City and PICA in FY11.

<b>FY11 General Fund Revenue from Other Governments Projections (\$ in Millions)</b>					
<u>Departmental Source</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Change from Q1 QCMR to Q2 QCMR</u>	<u>Change from Plan to Q2 QCMR</u>
PICA City Account	\$295.6	\$295.6	\$279.2	(\$16.4)	(\$16.4)
Public Health	58.8	58.8	58.8	--	--
Public Property	18.0	18.0	18.0	--	--
Human Services	495.5	546.6	546.6	--	51.1
Finance	148.3	150.2	150.2	--	1.8
Revenue	32.0	32.0	32.0	--	--
First Judicial District	15.4	15.4	15.4	--	--
All Other	16.7	23.6	24.9	1.2	8.2
<b>Total</b>	<b>1,080.3</b>	<b>1,140.2</b>	<b>1,125.0</b>	<b>(15.2)</b>	<b>44.7</b>

## FY11 Projections: Obligations

FY11 obligations are projected at \$3,830.4 million in the second quarter QCMR, an increase of \$42.4 million from the Plan. The most significant changes include a \$15.0 million increase in the cost of employee benefits, \$9.4 million in additional Streets Department costs, and \$6.6 million in additional First Judicial District costs.

FY11 General Fund Obligations Projections (\$ in Millions)					
<u>Agency or Cost Center</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Change from Q1 QCMR to Q2 QCMR</u>	<u>Change from Plan to Q2 QCMR</u>
Property Assessment <sup>1</sup>	\$6.5	\$8.0	\$8.2	\$0.2	\$1.7
District Attorney	29.1	30.5	30.5	--	1.4
Employee Benefits	964.9	964.9	979.9	15.0	15.0
Fire	185.0	191.0	191.0	--	6.0
First Judicial District <sup>2</sup>	103.5	103.5	110.1	6.6	6.6
Human Services	564.4	564.4	564.4	--	--
Indemnities	40.6	36.8	36.0	(0.8)	(4.6)
Police	527.6	530.0	530.0	--	2.4
Prisons	233.1	233.1	233.1	--	--
Public Health	113.7	113.7	113.7	--	--
Sheriff	13.1	14.3	14.3	--	1.2
Streets	114.7	114.7	124.1	9.4	9.4
All Other	891.9	891.9	895.2	3.2	3.2
<b>Total</b>	<b>3,788.1</b>	<b>3,796.8</b>	<b>3,830.4</b>	<b>33.7</b>	<b>42.4</b>

Notes:

<sup>1</sup> Includes Board of Revision of Taxes and Office of Property Assessment.

<sup>2</sup> Includes Clerk of Quarter Sessions.



## FY11 Projections: Changes in Obligation Projections

The largest changes in obligations between the FY11-FY15 Plan and the second quarter QCMR are as follows:

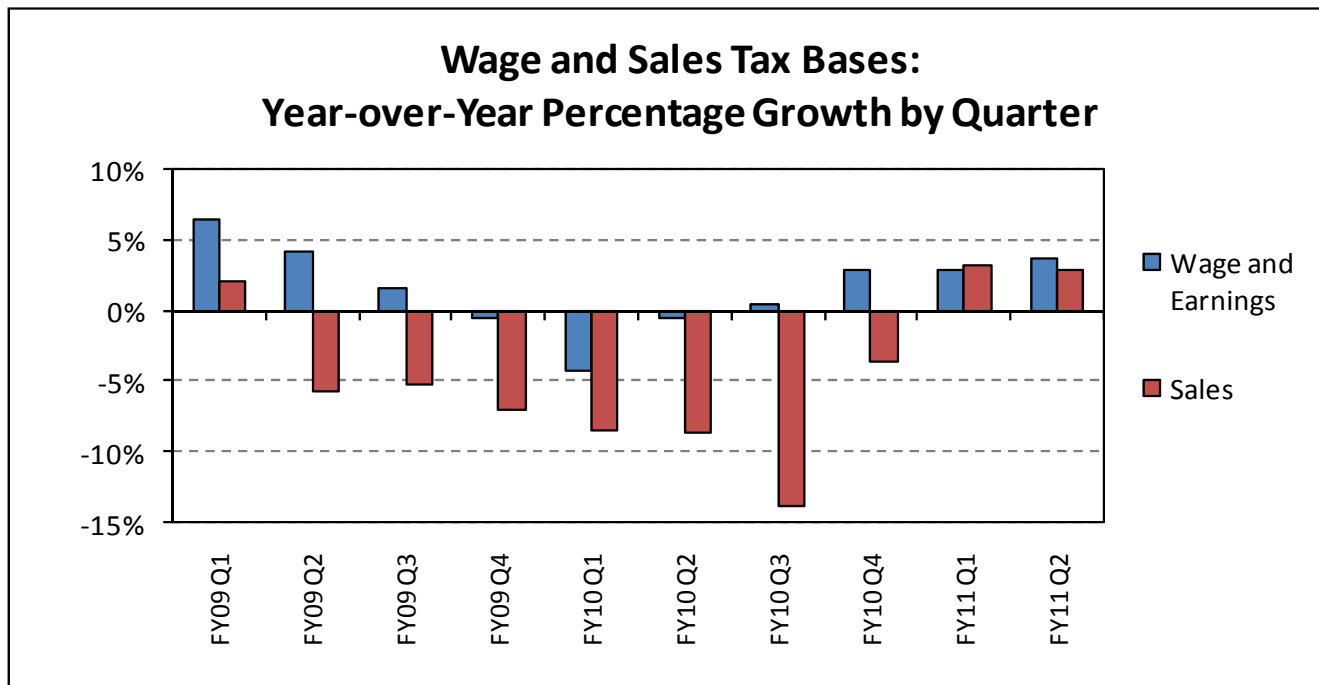
- ▶ **Property Assessment** (\$1.7 million increase): Transfer of assessment personnel from the School District to the City, and consulting services for full valuation and operational assessment.
- ▶ **District Attorney** (\$1.4 million increase): Higher personnel costs.
- ▶ **Employee Benefits** (\$15.0 million increase): Additional \$12.5 million in pension obligations to reflect interest cost for deferred FY10 and FY11 payments, which was not included in the original projection, and \$2.5 million in unemployment compensation to reflect additional costs associated with extended unemployment benefits.
- ▶ **Fire** (\$6.0 million increase): Includes \$2.2 million in overtime costs and \$3.8 million for a legal settlement regarding EMS overtime.
- ▶ **First Judicial District** (\$6.6 million increase): Reflects \$5.5 million in additional costs allowed under agreements that allow the court to retain increases in specific categories of court-generated revenue, and \$1.1 million in additional costs for counsel and juror fees.
- ▶ **Indemnities** (\$4.6 million decrease): Reflects an anticipated reduction in the cost of settlements, and \$3.8 million that will be transferred to the Fire Department to cover a legal settlement regarding EMS overtime.
- ▶ **Police** (\$2.4 million increase): Higher personnel costs, including overtime.
- ▶ **Sheriff** (\$1.2 million increase): Higher personnel costs.
- ▶ **Streets** (\$9.4 million increase): \$6.8 million for contracted snow removal and \$2.6 million for LED traffic lights and salt
- ▶ **All Other** (\$3.2 million increase): Includes increases of \$0.6 million in City Controller for forensic and citywide audits, \$0.9 million in Finance for contributions to external agencies, \$0.7 million in Defender Association for health and liability insurance, and \$0.5 million in Revenue for the E-tides on-line tax filing system.

## Key Financial Issues

- ▶ Tax Collections
- ▶ Labor Contracts

## Key Financial Issues: Tax Collections

- ▶ Tax collections in the second quarter of FY11 indicate a continuation of the trend toward modest economic growth. In the second quarter, the wage and earnings tax base increased an estimated 3.7 percent from the second quarter of FY10. The sales tax base grew an estimated 2.9 percent over the same period. This marks the second consecutive quarter in which both the wage and sales tax bases exhibited positive growth, which had not previously occurred since the first quarter of FY09.
- ▶ The QCMR projects modest growth or stability in all the major General Fund tax bases in FY11. Projections of FY11 tax revenues are based on estimated growth of 3.0 percent for the wage tax base, 3.5 percent for the business privilege tax, 3.2 percent for the sales tax, and 0.5 percent for the real estate transfer tax. The base of the real estate tax is projected to remain flat, reflecting ongoing reforms in the property assessment process. Maintaining modest economic growth will be essential if the City’s financial recovery is to continue in future years.



## Key Financial Issues: Labor Contracts

- ▶ A major outstanding issue is the unresolved labor contracts with three of the four major municipal unions – the International Association of Firefighters (IAFF) and District Councils (DC) 33 and 47 of AFSCME. The FY11-15 Five-Year Plan assumes \$25 million in annual employee benefit cost savings enabled by labor contract changes. Some savings have been achieved as a result of changes to the Fraternal Order of Police (FOP) health and pension plans authorized under a December 2009 arbitration award. Changes in the City-administered health plan have also resulted in cost reductions.
- ▶ The QCMR for the second quarter of FY11 projects that \$13.1 million out of the Plan-projected \$25 million in savings in FY11 will result from the City's switch to a self-insurance benefits model for the FOP and City-administered health plan. However, the remaining savings assumed by the Plan in FY11, and in later years, cannot be achieved without benefit program reforms for IAFF, DC33, and DC 47 workers.
- ▶ In October 2010, an arbitration panel awarded a four year contract to the IAFF. The City is appealing this award because it does not provide adequate management flexibility and financial savings to allow the City to maintain service levels within the financial targets set by the Five-Year Plan. Under the PICA Act, arbitration panels are required to accord substantial weight to the City's Five-Year Plan and its ability to pay the cost of any increases in wages or fringe benefits without adversely affecting citizen services.
- ▶ Resolution of the IAFF appeal, and the outcome of the City's bargaining with the two major non-uniformed unions will determine whether the City can maintain financial stability and service levels, as the Plan projects. Addressing health care and pensions is particularly critical. Reforms to the administration of health care benefits will allow the City to control the growth in benefit costs despite cost inflation. Restructuring of employee pensions is necessary to ensure the viability of the pension program and prevent unsustainable cost growth over the long term.

## Key Management Issues

- ▶ Performance
- ▶ Staffing
- ▶ Overtime
- ▶ Leave Usage

## Key Management Issues: Performance

- ▶ **Police:** The number of homicides declined from 313 in FY09 to 305 in FY10. Through the first two quarters of FY11, the estimated number of homicides is 160, one more than the 159 reported for the first two months of FY10. Part 1 violent crime declined from 20,278 in FY09 to 17,740 in FY10. Through the first two quarters of FY11, estimated Part 1 violent crime is 9,793, a 1.0 percent increase from the same period in FY10. The homicide clearance rate in the second quarter of FY11 was 72.8 percent, compared to 74.4 percent in the second quarter of FY10. The clearance rate for other violent crime in the second quarter of FY11 was 48.0 percent, compared to 51.3 percent in the second quarter of FY10.
- ▶ **Fire:** Average fire response times increased from 4:33 in FY09 to 4:46 in FY10, in part due to severe snow storms. The average response time increased to 4:59 in the second quarter of FY11. Structural fires declined from 1,634 in FY09 to 1,362 in FY10. Through the second quarter of FY11, there were 851 structural fires. The number of fire-related deaths in the city declined from 36 in FY09 to 32 in FY10. Through the second quarter of FY11, the number of fire deaths is 16.
- ▶ **Prison System:** The proportion of sentenced inmates given the opportunity to participate in education, training or treatment increased from 65 percent in FY09 to 75 percent in FY10, and 76 percent in the second quarter of FY11.

Performance Measures: Public Safety				
Agency	Measure	FY10 Actual	FY11 Q1 Actual	FY11 Q2 Actual
Police <sup>1</sup>	Homicides	305	95	65
	Part 1 Violent Crime	17,740	5,258	4,535
	Homicide Clearance Rate	72.2%	79.7%	72.8%
	Other Violent Crime Clearance Rate	51.2%	44.9%	48.0%
Fire	Fire Average Response Time	4:46	4:49	4:59
	Structural Fires	1,362	378	473
	Fire Deaths	32	4	12
Prisons	Percent of Inmates with Opportunity to Participate in Education, Training, or Treatment	75%	77%	76%
	Percent of Inmates Processed within 24 Hours of Admission	100%	100%	100%

<sup>1</sup> Figures for second quarter of FY11 are estimated.

## Key Management Issues: Performance

- ▶ **Department of Human Services (DHS):** The number of reports of child abuse and neglect received by DHS increased from 11,512 in FY09 to 12,372 in FY10. The number of such reports received in FY11 through the end of the second quarter is 5,728, 4.1 percent below the previous year. The number of dependent and delinquent children in foster care or institutional placement outside the home continues to decline. The number of dependent children in placement declined from 5,525 at the end of FY09 to 4,762 at the end of FY10 and 4,362 at the end of the second quarter of FY11. Similarly, the number of delinquent children in placement declined from 2,041 at the end of FY09 to 1,774 at the end of FY10 and 1,713 at the end of the second quarter of FY11. The number of adoptions finalized in FY10 was 561. Through the first two quarters of FY11, 305 adoptions have been finalized, a 20.6 percent increase over FY10.
- ▶ **Department of Public Health:** Patient visits to the district health centers increased from 349,078 in FY09 to 350,695 in FY10. Through the second quarter of FY11, the number of visits was 175,778, a 6.1 percent decrease from the same period in FY10. The percentage of visits by uninsured patients declined from 51.2 percent in FY09 to 49.6 percent in FY10. Through the first two quarters of FY11, 50.7 percent of visits have been uninsured.

Performance Measures: Health and Human Services				
<u>Agency</u>	<u>Measure</u>	<u>FY10 Actual</u>	<u>FY11 Q1 Actual</u>	<u>FY11 Q2 Actual</u>
Human Services	Abuse and Neglect Reports	12,372	2,800	2,928
	Dependent Placements as of End of Period	4,762	4,585	4,362
	Delinquent Placements as of End of Period	1,774	1,762	1,713
	Adoptions Finalized	561	142	163
	Youth Study Center Average Daily Population	106	126	106
Public Health	Visits to District Health Centers	350,695	82,021	93,757
	Percent of Visits from Uninsured Patients	49.6%	52.4%	49.3%

## Key Management Issues: Performance

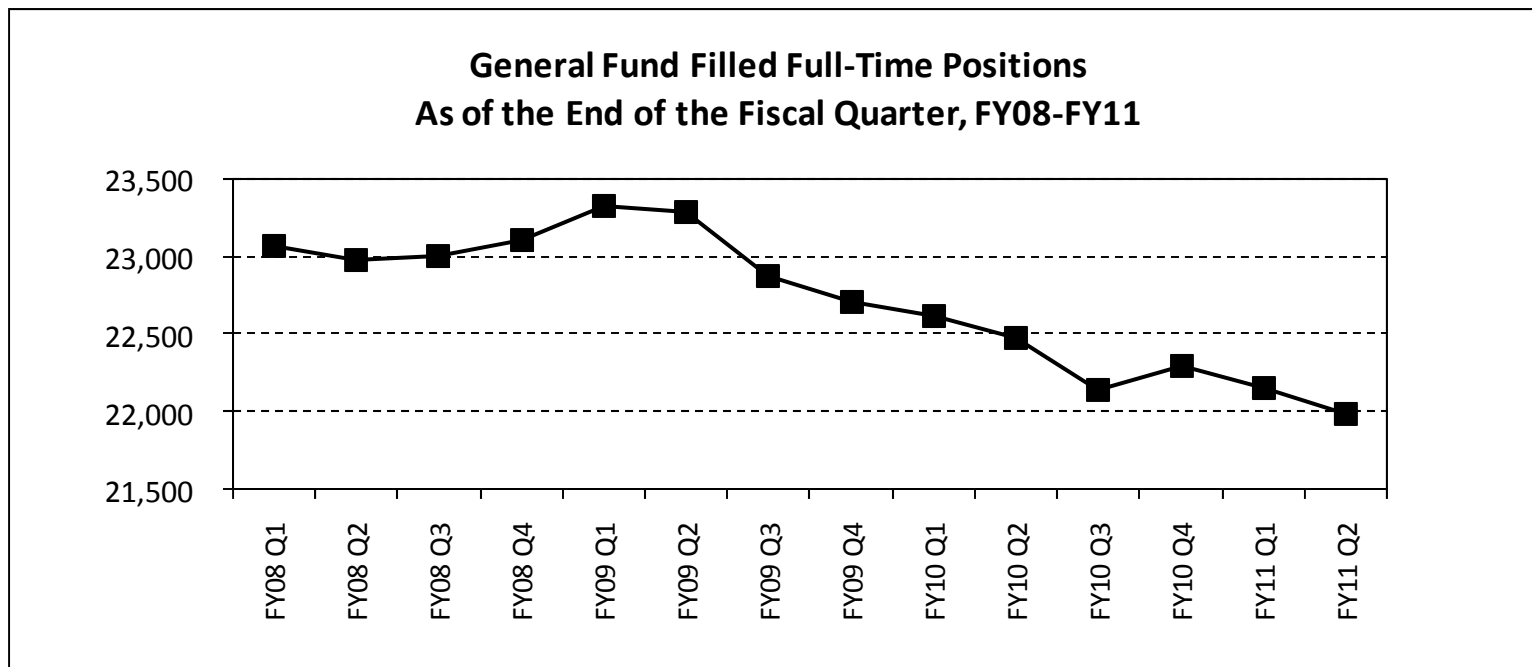
- ▶ **Streets Department:** The recycling rate increased from 12 percent in FY09 to 16 percent in FY10, and has increased to 19 percent in the second quarter of FY11. The City’s goal is to increase the recycling rate to 20 percent in FY11. The on-time collection rate for trash decreased from 97 percent to 90 percent from FY09 to FY10, in part due to snow storms in FY10. The on-time trash collection rate increased to 98 percent in the second quarter of FY11. The on-time collection rate for recycling decreased from 97 percent in FY09 to 94 percent in FY10, but increased to 99 percent in the second quarter of FY11.
- ▶ **Department of Licenses and Inspections:** The department has established 12 customer service standards. Three of these standards have been revised in FY11, with shorter expected timeframes for reviewing plumbing, electrical, and zoning plans. For eight of the 12 service standards, the department met its standard at least 90 percent of the time in the second quarter of FY11. The remaining standards were met between 84 and 88 percent of the time. The service standards and performance for eight of the 12 standards are shown below.

Performance Measures: Streets and Licenses and Inspections					
<u>Agency</u>	<u>Measure</u>	<u>FY10 Actual</u>	<u>FY11 Q1 Actual</u>	<u>FY11 Q2 Actual</u>	<u>FY11 Goal</u>
Streets	Recycling Rate	16%	17%	19%	20%
	On-Time Trash Collection	90%	98%	98%	96%
	On-Time Recycling Collection	94%	96%	99%	97%
Licenses and Inspections	Service License Customers Within 30 Minutes	92%	89%	88%	100%
	Service Zoning Customers Within 30 Minutes	NA	92%	92%	100%
	Service Building Customers Within 30 Minutes	NA	82%	88%	100%
	Review Residential Building Plans Within 15 Days	95%	88%	87%	100%
	Review Commercial Building Plans Within 20 Days	96%	96%	95%	100%
	Review Plumbing Plans Within 20 Days	NA	98%	96%	100%
	Review Electrical Plans Within 20 Days	NA	98%	98%	100%
	Review Zoning Plans Within 20 Days	NA	97%	99%	100%



## Key Management Issues: Staffing

- General Fund filled full-time positions have generally declined since the first quarter of FY09. From the end of the first quarter of FY09 to the end of the second quarter of FY11, the total number of filled positions has declined from 23,330 to 21,995, a decline of 1,335 positions or 5.7 percent.
- The QCMR projects that in FY11 employee wage and benefit costs will make up 61.2 percent of General Fund expenditures. Initiatives to increase labor productivity and streamline processes could ultimately result in additional staffing reductions, and free up resources for key economic and financial priorities such as establishing a rainy day fund, addressing the large pension liability, tax reduction, and investment in capital infrastructure. These types of initiatives are essential to the long-term fiscal health of the City.

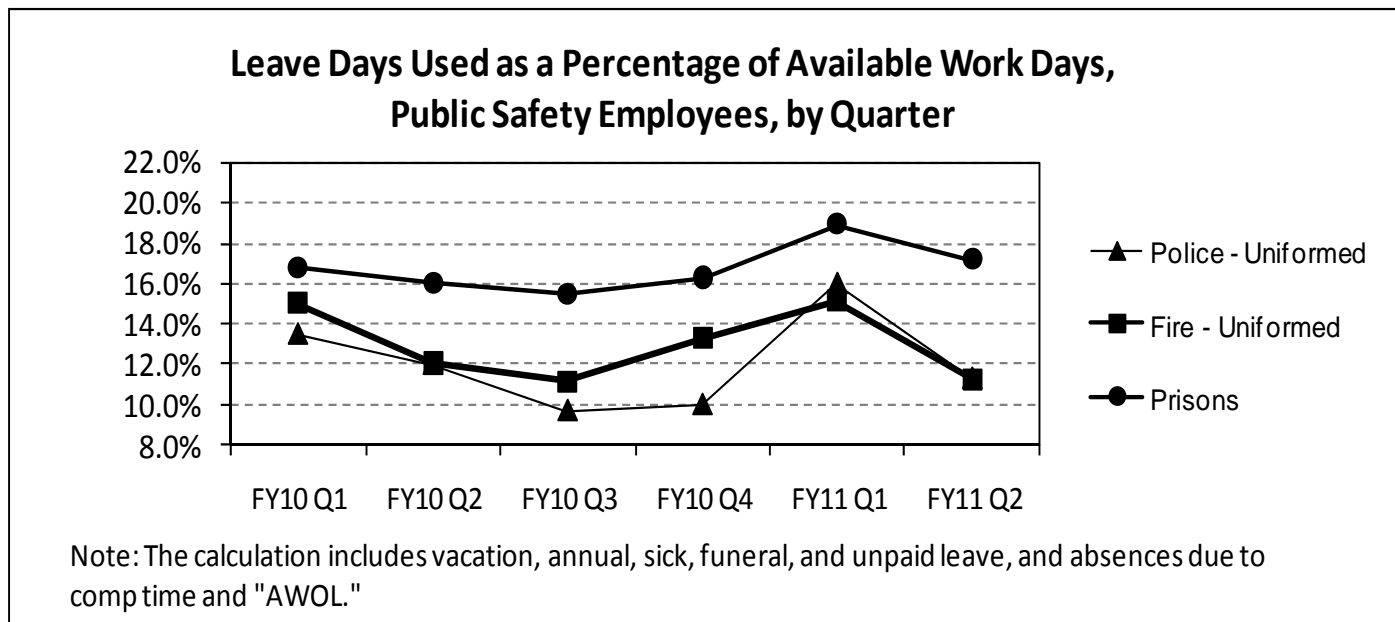


## Key Management Issues: Overtime

- Despite the reduction in filled General Fund positions since the end of FY08, the City has reduced overtime costs since FY09. Total General Fund overtime costs declined from \$132.9 million in FY09 to \$119.9 million in FY10. Total overtime costs in FY11 are projected to decline further to \$116.3 million in FY11.
- However, there is some reason for concern about the City's ability to meet the FY11 projection since actual overtime costs through the second quarter of FY11 were \$63.6 million, compared to \$62.5 million during the same period in FY10. Much of this increase reflects Fire Department overtime, which increased from \$9.2 million in the first two quarters of FY10 to \$14.6 million through the second quarter of FY11.
- 69 percent of the increase in projected Fire Department overtime (\$3.8 million out of \$5.5 million) is attributable to a legal settlement regarding EMS overtime. With this one-time cost excluded, overtime through the second quarter of FY11 is \$59.8 million.
- The reduction in overtime costs that has occurred since FY09 – a period when personnel levels have declined substantially – indicates that the City has been successful in reducing unnecessary overtime expenses through management initiatives. For instance, the Police Department has worked with the First Judicial District to reduce court-related Police overtime through efficiencies in scheduling court appearances of police officers. Continued progress at controlling overtime costs through management initiatives will be necessary to meet budgeted overtime targets.

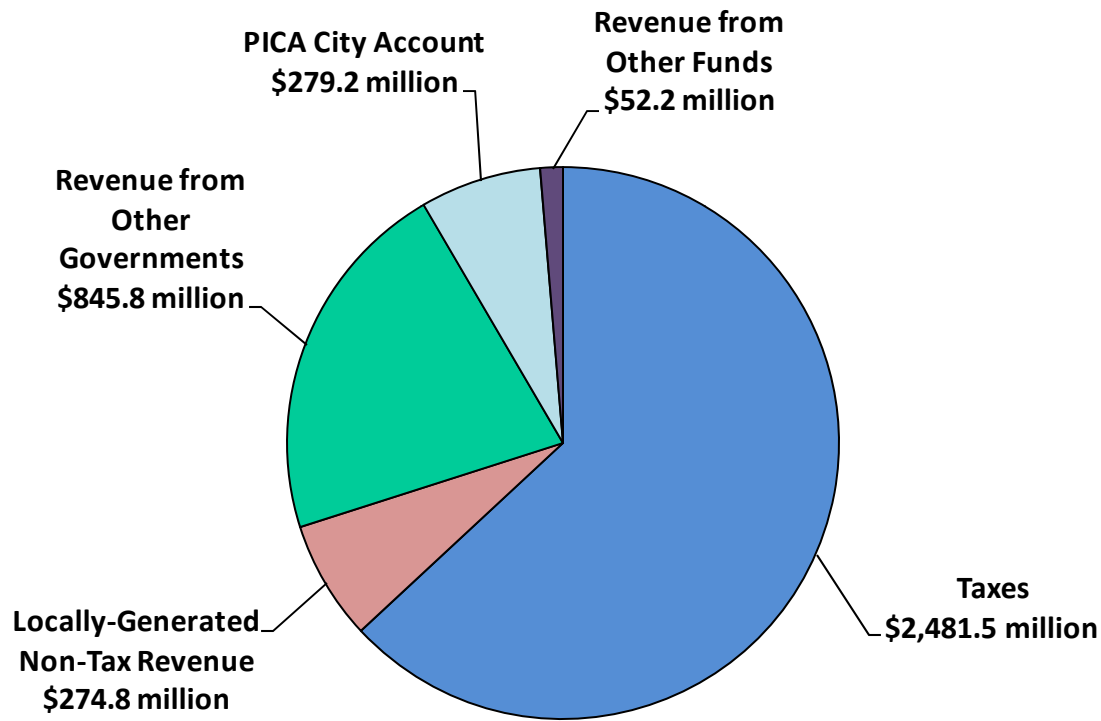
## Key Management Issues: Leave Usage

- For the median City agency, employees were absent from work on 15.9 percent of available work days in the second quarter of FY11. Among agencies, leave usage in the second quarter varied from a high of 22.3 percent among civilian employees in the Police Department to a low of 6.3 percent at the Board of Revision of Taxes.
- Leave usage shows seasonal variation. For agencies that require consistent personnel availability over the year, variability in leave use has major cost implications. These departments incur overtime costs to assure consistent staffing during periods of high leave usage, often in the summer.
- Contractual restrictions on the City’s ability to manage leave usage by its employees are therefore costly. For instance, while the 2009 Fraternal Order of Police arbitration award allows the PPD to limit new hires to one week of vacation during the summer for the first five years of employment, PPD management cannot impose these limits for the majority of its current workforce.



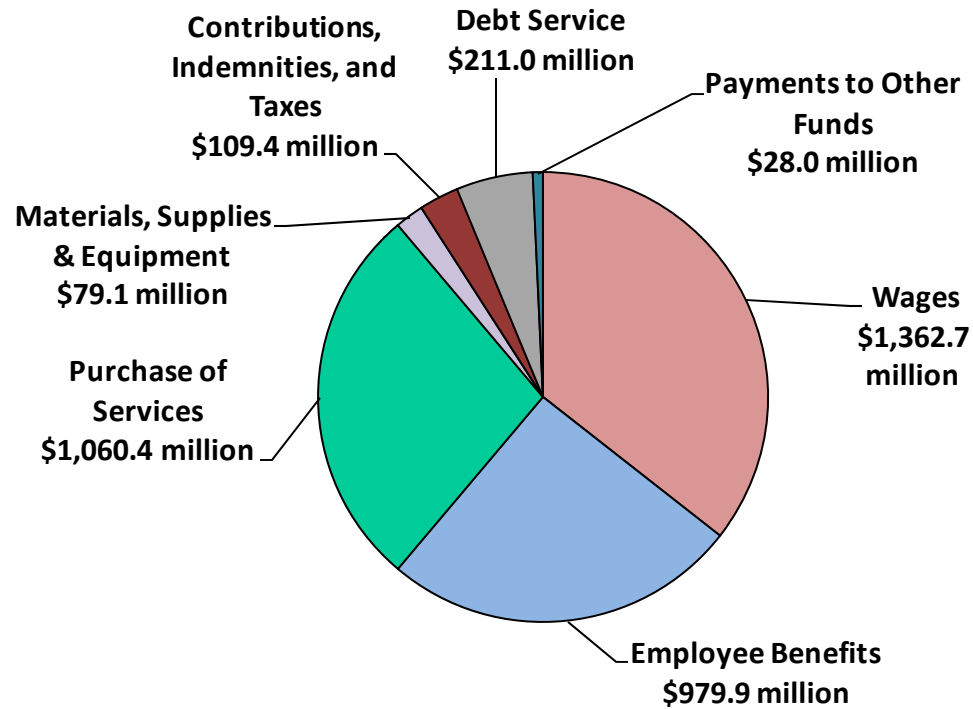
# Key City Budget Characteristics

**FY11 Sources of General Fund Revenues**  
**Total Projected Revenues: \$3.934 Billion**



# Key City Budget Characteristics

**Distribution of FY11 General Fund Obligations**  
**Total FY11 Projected Obligations: \$3.830 Billion**



Note: Debt Service includes \$89.6 million in debt service for lease-supported debt. This spending is classified in the Quarterly Report as purchase of services.