

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

Submitted to PICA on May 16, 2011

June 1, 2011

Introduction: PICA Staff Report on the City of Philadelphia’s Quarterly City Managers Report for the Third 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 March 31, 2010, the third quarter of fiscal year 2011 (FY11). A copy of the 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 third 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 third quarter of FY11 projects General Fund revenues to be \$79.5 million above the FY11-15 Five-Year Plan projection. This reflects increases in tax revenue (\$35.3 million), locally-generated non-tax revenue (\$1.7 million), revenue from other governments (\$31.7 million), and revenue from other funds (\$10.9 million). Obligations are projected at \$46.0 million above the Plan projection.
- ▶ The FY11 operating surplus is projected at \$94.7 million, \$33.6 million above the Plan estimate. However, of this amount, \$39.6 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 \$55.1 million, \$6 million below the Plan estimate.
- ▶ The QCMR projects the FY11 year-end fund balance at \$5.1 million, \$28.8 million below the Plan estimate.

FY11 General Fund Projections (\$ in Millions)						
<u>Category</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Q3 QCMR</u>	<u>Change from Q2 QCMR to Q3 QCMR</u>	<u>Change from Plan to Q3 QCMR</u>
Revenues	\$3,849.2	\$3,916.0	\$3,933.5	\$3,928.7	(\$4.8)	\$79.5
Obligations	3,788.1	3,796.8	3,830.4	3,834.0	3.6	46.0
Operating Surplus/(Deficit)	61.1	119.2	103.1	94.7	(8.4)	33.6
Prior Year Adjustments	24.5	24.5	24.5	24.5	--	--
Prior Year Fund Balance/(Deficit)	(51.7)	(114.0)	(114.0)	(114.0)	--	(62.4)
Year-End Fund Balance	34.0	29.6	13.5	5.1	(8.4)	(28.8)

FY11 Projections: Tax Revenue

The QCMR for the third quarter projects FY11 tax revenue at \$2,481.5 million, unchanged from the projection in the second quarter QCMR, and \$35.3 million above the Plan estimate. This increase from Plan reflects increases in wage and earnings (\$18.3 million), business privilege (\$10.1 million), sales (\$5.7 million), and net profits (\$5.2 million), offset by reductions in projected revenues from real estate (\$2.6 million) and real estate transfer (\$1.4 million) taxes. The City has increased its projected tax base growth for wage and earnings, business privilege, and sales taxes, while reducing projected tax base growth for the real estate transfer tax. The reduction in real estate tax reflects a lower than anticipated FY10 collection level.

FY11 General Fund Tax Revenue Projections (\$ in Millions)						
<u>Tax</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Q3 QCMR</u>	<u>Change from Q2 QCMR to Q3 QCMR</u>	<u>Change from Plan to Q3 QCMR</u>
Wage and Earnings	\$1,131.6	\$1,136.6	\$1,149.9	\$1,149.9	--	\$18.3
Real Estate	491.4	491.4	488.7	488.7	--	(2.6)
Business Privilege	350.7	350.7	360.8	360.8	--	10.1
Net Profits	11.9	11.9	17.1	17.1	--	5.2
Sales	241.8	243.8	247.5	247.5	--	5.7
Real Estate Transfer	121.2	121.2	119.8	119.8	--	(1.4)
Parking	72.5	72.5	72.5	72.5	--	--
Amusement	21.1	21.1	21.1	21.1	--	--
Other	4.1	4.1	4.1	4.1	--	--
Total	2,446.3	2,453.3	2,481.5	2,481.5	--	35.3

FY11 Projections: Locally-Generated Non-Tax Revenue

The QCMR for the third quarter projects FY11 locally-generated non-tax revenue at \$271.0 million, \$3.8 million lower than the projection in the second quarter QCMR, although an increase of \$1.7 million from the Plan estimate. Compared to the second quarter QCMR, the third quarter report projects lower Streets Department survey charges (\$0.3 million), lower Fire Department revenues (\$1.8 million), lower Records Department document recording fees (\$1.8 million), lower casino gaming fees offset by higher refunds in the Revenue Department (for a net decline of \$0.3 million), higher interest earnings in the City Treasurer (\$0.5 million), and lower revenue in other agencies (\$0.4 million).

FY11 General Fund Locally-Generated Non-Tax Revenue Projections (\$ in Millions)						
<u>Departmental Source</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Q3 QCMR</u>	<u>Change from Q2 QCMR to Q3 QCMR</u>	<u>Change from Plan to Q3 QCMR</u>
Division of Technology	\$18.7	\$22.7	\$22.7	\$22.8	\$0.1	\$4.1
Streets	22.0	27.0	28.0	27.8	(0.3)	5.8
Fire	37.2	37.2	37.2	35.4	(1.8)	(1.8)
Public Health	12.3	12.3	12.3	12.3	--	--
Public Property	8.5	8.5	8.5	8.5	--	--
Licenses and Inspections	43.2	43.2	43.2	43.2	--	--
Records	18.0	18.0	18.0	16.2	(1.8)	(1.8)
Finance	12.5	12.5	18.4	18.5	0.1	6.0
Revenue	7.4	7.4	6.4	6.2	(0.3)	(1.3)
City Treasurer	12.8	4.8	4.8	5.3	0.5	(7.6)
Clerk of Quarter Sessions	8.0	8.0	8.0	8.0	--	--
Sheriff	9.6	9.6	9.1	9.1	--	(0.5)
First Judicial District	35.1	35.1	34.1	34.1	--	(1.0)
All Other	24.0	24.0	24.2	23.7	(0.4)	(0.3)
Total	269.3	270.3	274.8	271.0	(3.8)	1.7

FY11 Projections: Revenue from Other Governments

The third quarter QCMR projects FY11 revenue from other governments at \$1,112.0 million, a decrease of \$13.0 million from the second quarter QCMR, and an increase of \$31.7 million from the Plan estimate. The most significant changes between the second and third quarter QCMR projections include a decline in Department of Human Services (DHS) revenues due to delayed receipt of reimbursements of prior year costs (\$11.5 million), reduced State reimbursement for Police Department training (\$1.0 million), and a lower allocation of State Public Utility Realty Tax revenue (\$0.4 million).

FY11 General Fund Revenue from Other Governments Projections (\$ in Millions)						
<u>Departmental Source</u>	<u>FY11-15 Five-Year Plan</u>	<u>Q1 QCMR</u>	<u>Q2 QCMR</u>	<u>Q3 QCMR</u>	<u>Change from Q2 QCMR to Q3 QCMR</u>	<u>Change from Plan to Q3 QCMR</u>
PICA City Account	\$295.6	\$295.6	\$279.2	\$279.2	--	(\$16.4)
Public Health	58.8	58.8	58.8	58.8	--	--
Public Property	18.0	18.0	18.0	18.0	--	--
Human Services	495.5	546.6	546.6	535.1	(11.5)	39.6
Finance	148.3	150.2	150.2	150.2	--	1.8
Revenue	32.0	32.0	32.0	32.0	--	--
First Judicial District	15.4	15.4	15.4	15.4		--
All Other	16.7	23.6	24.9	23.4	(1.5)	6.7
Total	1,080.3	1,140.2	1,125.0	1,112.0	(13.0)	31.7

FY11 Projections: Obligations

FY11 obligations are projected at \$3,834.0 million in the third quarter QCMR, an increase of \$3.6 million from the second quarter QCMR, and \$46.0 million from the Plan. The most significant changes from the second quarter to third quarter QCMR are a \$1.0 million decline in indemnities costs, an \$1.6 million increase in Streets Department snow removal costs, and \$1.5 million in additional cost for Police vehicles.

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>Q3 QCMR</u>	<u>Change from Q2 QCMR to Q3 QCMR</u>	<u>Change from Plan to Q3 QCMR</u>
Property Assessment ¹	\$6.5	\$8.0	\$8.2	\$8.2	--	\$1.7
District Attorney	29.1	30.5	30.5	30.5	\$0.1	1.5
Employee Benefits	964.9	964.9	979.9	979.9	--	15.0
Fire	185.0	191.0	191.0	191.0	--	6.0
First Judicial District ²	103.5	103.5	110.1	110.1	--	6.6
Human Services	564.4	564.4	564.4	564.4	--	--
Indemnities	40.6	36.8	36.0	35.0	(1.0)	(5.6)
Police	527.6	530.0	530.0	530.0	--	2.4
Prisons	233.1	233.1	233.1	233.1	--	--
Public Health	113.7	113.7	113.7	113.7	--	--
Sheriff	13.1	14.3	14.3	14.3	--	1.2
Streets	114.7	114.7	124.1	125.7	1.6	11.0
All Other	891.9	891.9	895.2	898.0	2.9	6.1
Total	3,788.1	3,796.8	3,830.4	3,834.0	3.6	46.0

Notes:

¹ Includes Board of Revision of Taxes and Office of Property Assessment.

² Includes Clerk of Quarter Sessions.

FY11 Projections: Changes in Obligation Projections

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

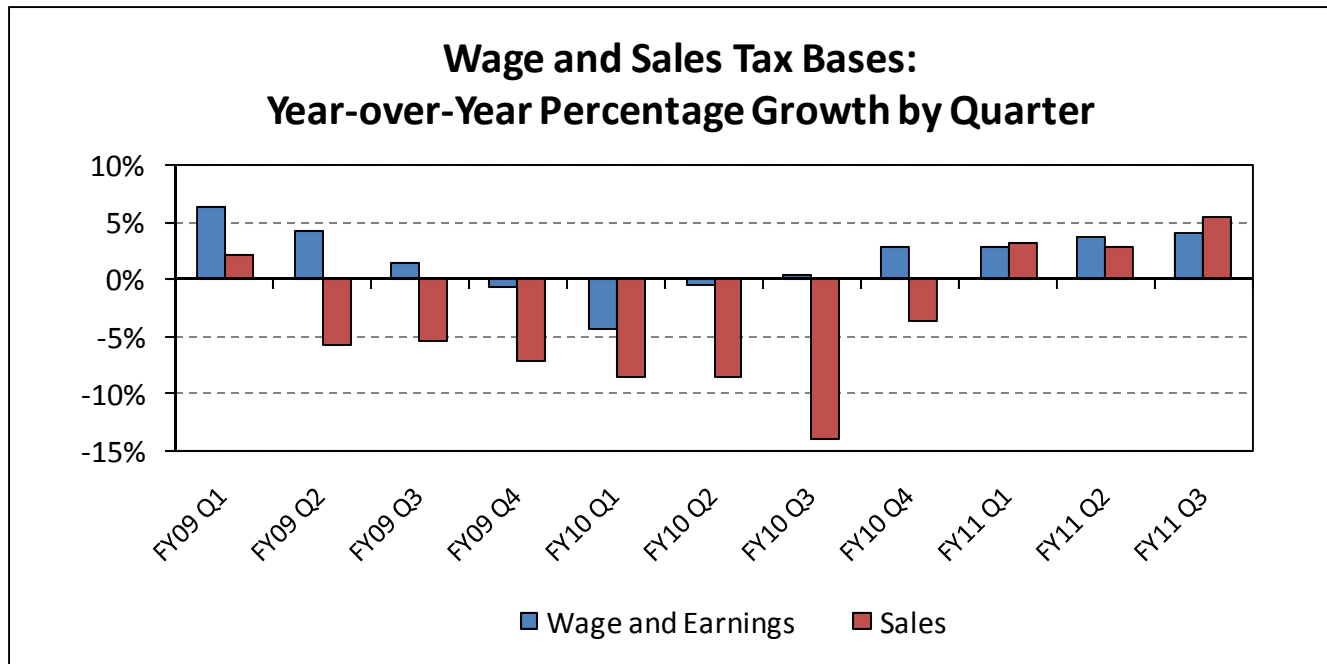
- ▶ **Property Assessment** (\$1.7 million increase): Transfer of assessment personnel from the School District to the City, and consulting services for full valuation and operational assessment.
- ▶ **District Attorney** (\$1.5 million increase): Higher personnel costs.
- ▶ **Employee Benefits** (\$15.0 million increase): Additional \$12.5 million in pension obligations to reflect interest cost for deferred FY10 payments which was not included in the Actuary's 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 which was transferred from indemnities.
- ▶ **First Judicial District** (\$6.6 million increase): Reflects \$5.5 million in additional costs allowed under revenue sharing agreements between the City and the First Judicial District, and \$1.1 million in additional costs for counsel and juror fees.
- ▶ **Indemnities** (\$5.6 million decrease): Reflects an anticipated reduction in the cost of settlements, and \$3.8 million 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 and the cost of a forensic audit.
- ▶ **Streets** (\$11.0 million increase): \$8.4 million for snow removal , \$1.9 million for salt, and \$0.7 million for LED traffic lights
- ▶ **All Other** (\$6.1 million increase): Increases of \$1.5 million in Fleet Management for Police patrol cars, \$0.7 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, \$0.5 million in Revenue for the E-tides on-line tax filing system, \$0.3 million in Public Property for space rentals, and \$0.4 million in City Commissioners for special election and primary elections

Key Financial Issues

- ▶ Tax Collections
- ▶ Labor Contracts

Key Financial Issues: Tax Collections

- ▶ Tax collections in the third quarter of FY11 generally indicate continued economic recovery in the city. In the third quarter, the wage and earnings tax base increased an estimated 4.1 percent from the third quarter of FY10, and the sales tax base grew an estimated 5.5 percent over the same period. The real estate transfer tax base, however, declined 7.2 percent, reflecting continued weakness in the housing market.
- ▶ Economic recovery, particularly in the housing market, is important for maintaining the City’s fiscal stability. The proposed Five-Year Plan for FY12-FY16 projects annual tax base growth rates ranging from 3.1 to 4.0 percent for the wage and sales taxes, 2.5 percent for the business privilege tax, and 3.0 to 5.0 percent for the real estate transfer tax. Growth in the base of the real property tax – the total assessed value of real estate – will depend on ongoing reforms in the assessment process by the Office of Property Assessment, as well as the pace of recovery in the housing market.



Key Financial Issues: Labor Contracts

- ▶ Labor contracts with three major municipal unions – the International Association of Firefighters (IAFF) and District Councils (DC) 33 and 47 of AFSCME – remain unresolved. The third quarter QCMR projects \$11.9 million in employee benefit cost savings in FY11 from changes in employee benefit programs for these three unions. These savings are projected to continue in future years in the proposed FY12-16 Five-Year Plan. Implementation of a self-insurance model for the Fraternal Order of Police (FOP) and City-administered health plans has already contributed to an estimated \$13.1 million in annual savings.
- ▶ In October 2010, an arbitration panel awarded a four year contract to the IAFF. This award, other than the pension provisions, was appealed by the City in the Court of Common Pleas in November. The City’s petition argues that the economic provisions of the award violate the PICA Act because they do not accord substantial weight to the City’s Five-Year Plan or ability to pay for increased wages while maintaining City service levels.
- ▶ The most recent FOP arbitration award was issued in December 2009 and covers the period through FY14. Determination of FOP wages for FY13 and FY14 will be subject to a “reopener” arbitration process that will occur next year.
- ▶ Resolution of the City’s appeal of the IAFF contract, and the outcome of the City’s bargaining with DC 33 and 47, will determine whether the City can maintain financial stability and service levels, as the FY12-FY16 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, as initiated with the Police and Fire arbitration awards, 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 three quarters of FY11, there were 245 reported homicides. Reported Part 1 violent crime declined from 20,278 in FY09 to 17,740 in FY10. Through the first three quarters of FY11, estimated Part 1 violent crime is 13,614. The homicide clearance rate in the third quarter of FY11 was 69.2 percent, while the clearance rate for other violent crime was 52.9 percent
- ▶ **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 5:10 in the third quarter of FY11, again due in part to severe snow storms. Structural fires declined from 1,634 in FY09 to 1,362 in FY10. Through the third quarter of FY11, there were 2,328 structural fires, although these figures are based on a new reporting system and are not comparable to the FY10 figures.
- ▶ **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 third quarter of FY11.

Performance Measures: Public Safety					
<u>Agency</u>	<u>Measure</u>	<u>FY10 Actual</u>	<u>FY11 Q1 Actual</u>	<u>FY11 Q2 Actual</u>	<u>FY11 Q3 Actual</u>
Police ¹	Homicides	305	95	65	85
	Part 1 Violent Crime	17,740	5,162	4,644	3,808
	Homicide Clearance Rate	72.2%	66.3%	76.9%	69.2%
	Other Violent Crime Clearance Rate	51.2%	45.5%	48.6%	52.9%
Fire	Fire Average Response Time	4:46	4:49	4:59	5:10
	Structural Fires ²	1,362	656	824	848
	Fire Deaths	32	4	12	16
Prisons	Percent of Inmates with Opportunity to Participate in Education, Training, or Treatment	75%	77%	76%	76%
	Inmates Processed within 24 Hours of Admission	100%	100%	100%	100%

¹ Figures for third quarter of FY11 are estimated.

² FY11 figures are based on the National Fire Incident Reporting System (NFIRS) methodology, and not comparable to the FY10 figures.

Key Management Issues: Performance

- ▶ **Department of Human Services (DHS):** The number of reports of child abuse and neglect increased from 11,512 in FY09 to 12,372 in FY10. The number of such reports received in FY11 through the end of the third quarter is 9,007. The number of dependent children in placement outside the home declined from 5,525 at the end of FY09 to 4,762 at the end of FY10 and 4,345 at the end of the third quarter of FY11. 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 1,668 at the end of the third quarter of FY11. The number of adoptions finalized in FY10 was 561. Through the first three quarters of FY11, 439 adoptions have been finalized.
- ▶ **Department of Public Health:** Patient visits to the district health centers increased from 349,078 in FY09 to 350,695 in FY10. Through the third quarter of FY11, the number of visits was 254,883. The percentage of visits by uninsured patients declined from 51.2 percent in FY09 to 49.6 percent in FY10. In the third quarter of FY11, 50.0 percent of visits were uninsured.

Performance Measures: Public Health and Human Services					
<u>Agency</u>	<u>Measure</u>	<u>FY10 Actual</u>	<u>FY11 Q1 Actual</u>	<u>FY11 Q2 Actual</u>	<u>FY11 Q3 Actual</u>
Human Services	Abuse and Neglect Reports	12,372	2,800	2,928	3,279
	Dependent Placements as of End of Period	4,762	4,585	4,362	4,345
	Delinquent Placements as of End of Period	1,774	1,762	1,713	1,668
	Adoptions Finalized	561	142	163	134
	Youth Study Center Average Daily Population	106	126	106	119
Public Health	Visits to District Health Centers	350,695	82,021	93,757	79,105
	Percent of Visits from Uninsured Patients	49.6%	52.4%	49.3%	50.0%

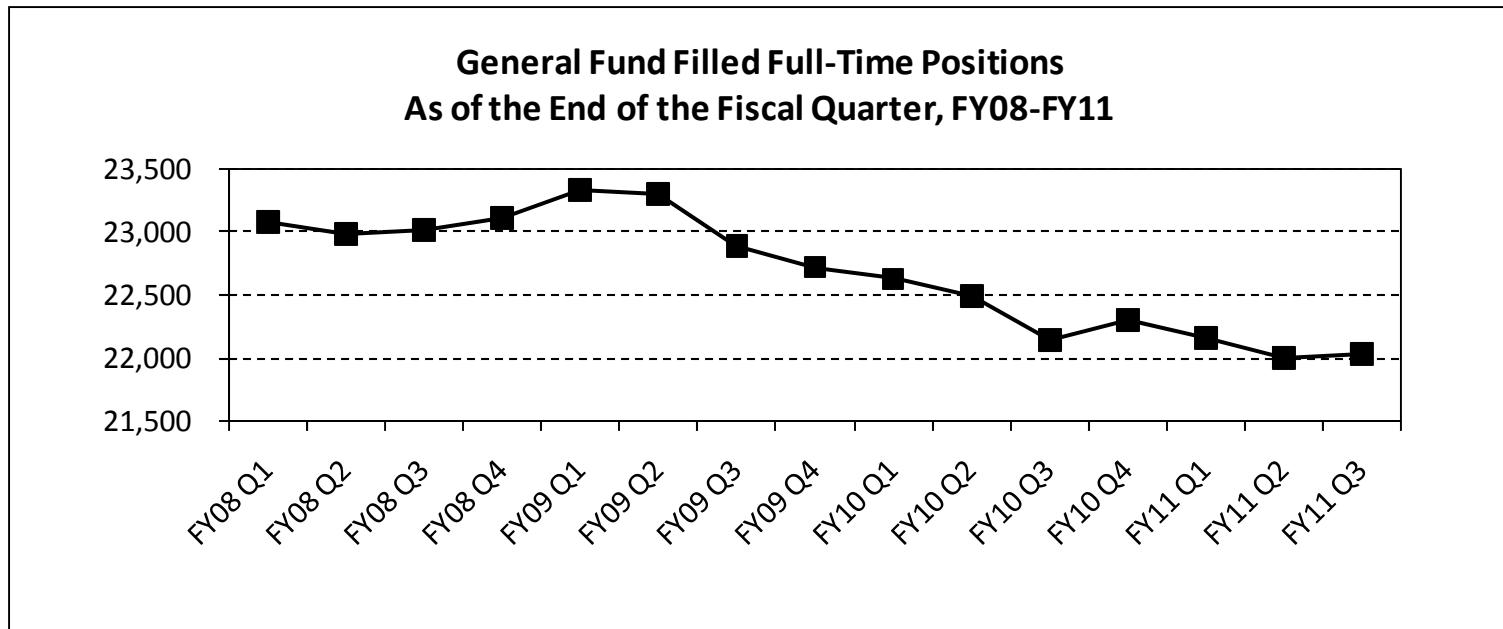
Key Management Issues: Performance

- ▶ **Streets Department:** The recycling rate increased from 12 percent in FY09 to 16 percent in FY10, and has increased to 20 percent in the third quarter of FY11. The on-time collection rate for trash decreased from 97 percent in FY09 to 90 percent in FY10, in part due to weather conditions. The on-time trash collection rate was 84 percent in the third quarter of FY11, a decline from the previous quarter, again due to weather conditions. The on-time collection rate for recycling decreased from 97 percent in FY09 to 94 percent in FY10. In the third quarter of FY11, the on-time recycling rate was 93 percent, a decline from the second quarter due to weather.
- ▶ **Department of Licenses and Inspections:** The department has established twelve customer service standards. For eight of the twelve standards, the department met its standard at least 90 percent of the time in the third quarter of FY11.

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 Q3 Actual</u>
Streets	Recycling Rate	16%	17%	19%	20%
	On-Time Trash Collection	90%	98%	98%	84%
	On-Time Recycling Collection	94%	96%	99%	93%
Licenses and Inspections	Service License Customers Within 30 Minutes	92%	89%	88%	80%
	Service Zoning Customers Within 30 Minutes	NA	92%	92%	96%
	Service Building Customers Within 30 Minutes	NA	82%	88%	94%
	Review Residential Building Plans Within 15 Days	95%	88%	87%	89%
	Review Commercial Building Plans Within 20 Days	96%	96%	95%	93%
	Review Plumbing Plans Within 20 Days	NA	98%	96%	100%
	Review Electrical Plans Within 20 Days	NA	98%	98%	87%
	Review Zoning Plans Within 20 Days	NA	97%	99%	98%

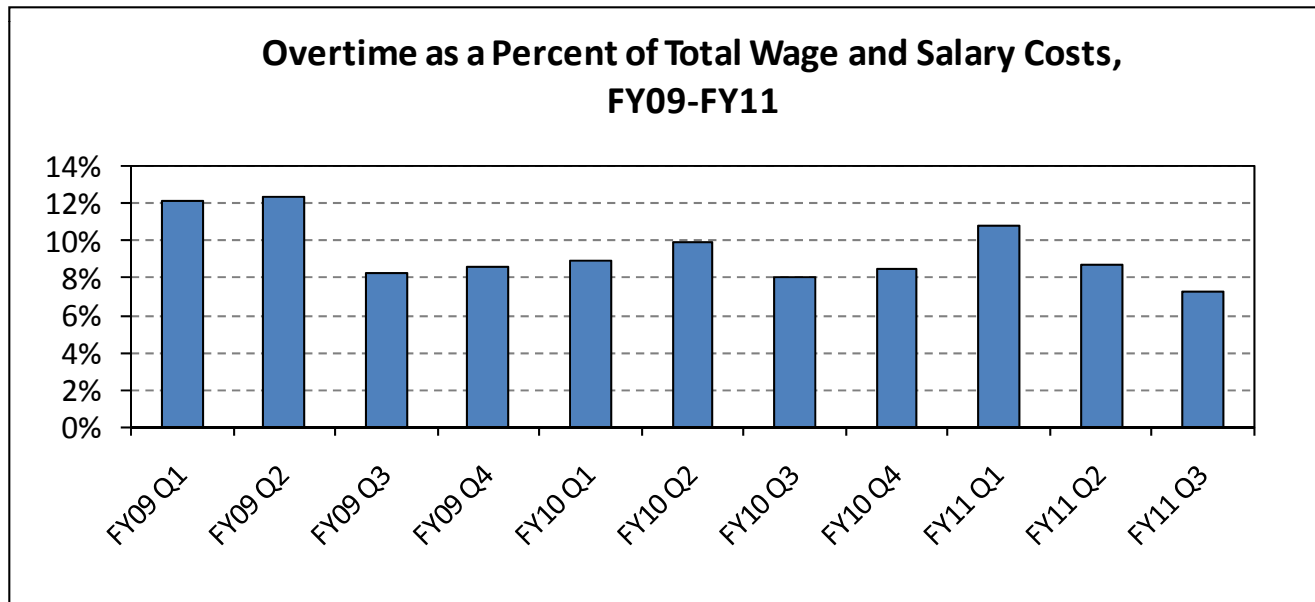
Key Management Issues: Staffing

- ▶ 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 third quarter of FY11, the total number of filled positions declined from 23,330 to 22,029, a decline of 1,301 positions or 5.6 percent. The number of positions did increase by 34 from the end of the second quarter to the end of the third quarter, primarily due to growth in Police, Streets, and Law.
- ▶ The QCMR projects that in FY11 employee wage and benefit costs will make up 61.1 percent of General Fund expenditures. Initiatives to increase labor productivity should ultimately result in freeing up additional resources for key economic and financial priorities such as addressing the unfunded pension liability, tax reduction, seeding a rainy day fund and pay-as-you-go investment in capital infrastructure. These types of initiatives are essential to the long-term fiscal health of the City.



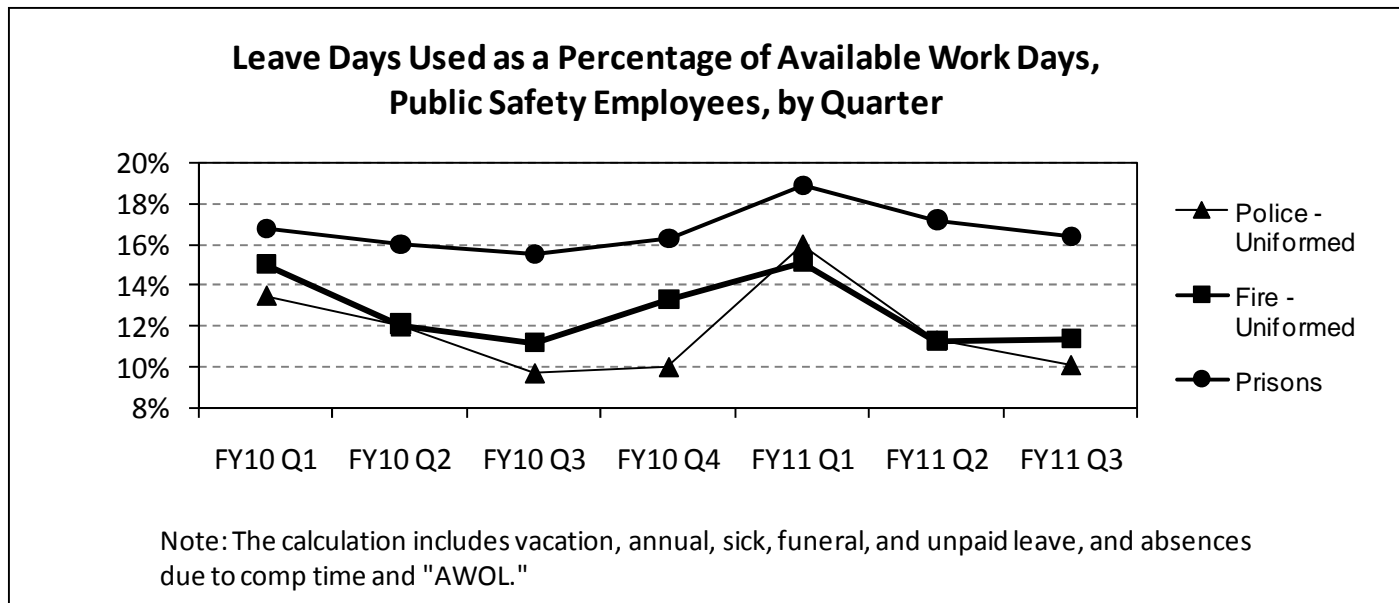
Key Management Issues: Overtime

- ▶ Despite the reduction in filled General Fund positions since the first quarter of FY09, the City has reduced overtime costs. 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 \$112.8 million in FY11. Overtime costs as a percentage of payroll decreased from 12.1 percent in the first quarter of FY09 to 7.3 percent in the third quarter of FY11.
- ▶ 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.



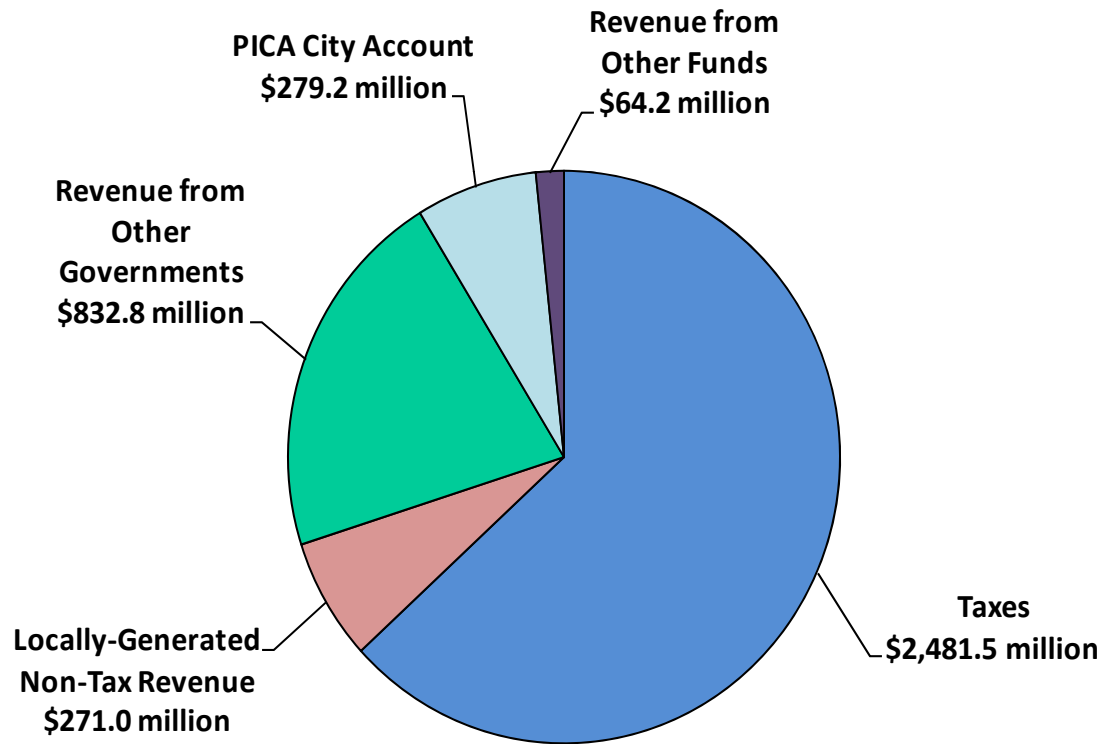
Key Management Issues: Leave Usage

- ▶ For the median City agency, employees were absent from work on 15.1 percent of available work days in the third quarter of FY11. Among agencies, leave usage in the third quarter varied from a high of 22.7 percent in City Commissioners Office to a low of 3.8 percent at the Board of Revision of Taxes.
- ▶ For agencies that require consistent personnel availability over the year, seasonal variability in leave use has major cost implications, since overtime is often necessary to assure consistent staffing. Contractual restrictions on the City's ability to manage leave use compound the problem. For instance, while the 2009 Fraternal Order of Police arbitration award allows the Police Department to limit new hires to one week of vacation during the summer for the first five years of employment, departmental management cannot impose these limits for the majority of its current workforce.



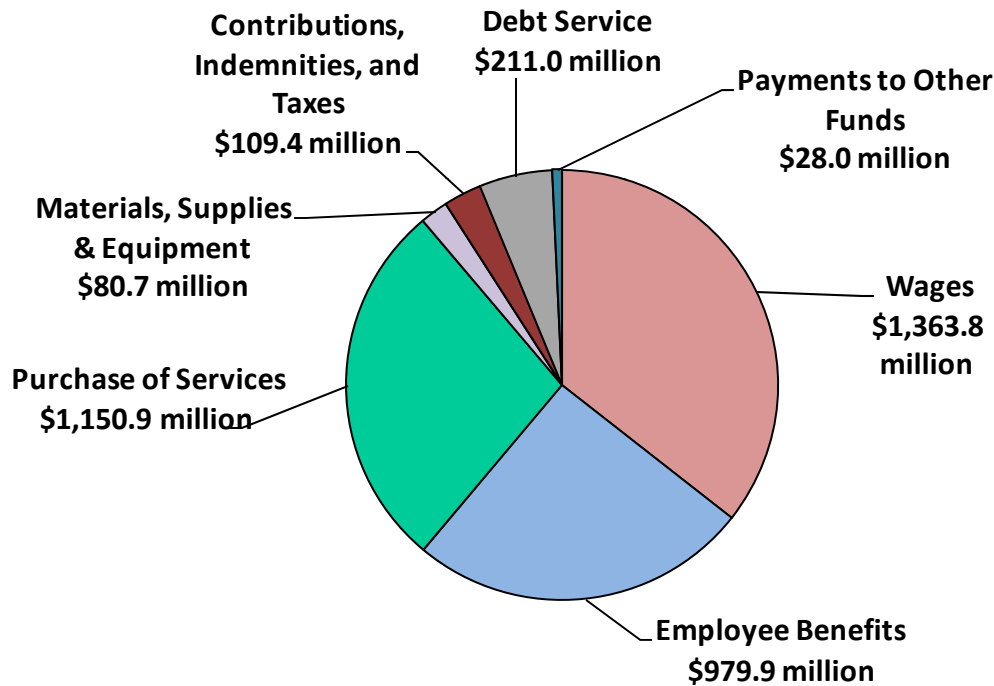
Key City Budget Characteristics

FY11 Sources of General Fund Revenues
Total Projected Revenues: \$3.929 Billion



Key City Budget Characteristics

Distribution of FY11 General Fund Obligations
Total FY11 Projected Obligations: \$3.834 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.