

Pennsylvania Intergovernmental Cooperation Authority



**Annual Report
for
Fiscal Year 2010**

October , 2010

**PENNSYLVANIA INTERGOVERNMENTAL
COOPERATION AUTHORITY**

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Isdaner & Company, LLC

The Mission of the Authority

The mission of the Authority, as stated in its enabling legislation, is as follows:

Policy.--It is hereby declared to be a public policy of the Commonwealth to exercise its retained sovereign powers with regard to taxation, debt issuance and matters of Statewide concern in a manner calculated to foster the fiscal integrity of cities of the first class to assure that these cities provide for the health, safety and welfare of their citizens; pay principal and interest owed on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial planning procedures and budgeting practices. The inability of a city of the first class to provide essential services to its citizens as a result of a fiscal emergency is hereby determined to affect adversely the health, safety and welfare not only of the citizens of that municipality but also of other citizens in this Commonwealth.

Legislative intent.--

(1) It is the intent of the General Assembly to:

(i) provide cities of the first class with the legal tools with which such cities can eliminate budget deficits that render them unable to perform essential municipal services;

(ii) create an authority that will enable cities of the first class to access capital markets for deficit elimination and seasonal borrowings to avoid default on existing obligations and chronic cash shortages that will disrupt the delivery of municipal services;

(iii) foster sound financial planning and budgetary practices that will address the underlying problems which result in such deficits for cities of the first class, which city shall be charged with the responsibility to exercise efficient and accountable fiscal practices, such as:

(A) increased managerial accountability;

(B) consolidation or elimination of inefficient city programs;

(C) recertification of tax-exempt properties;

(D) increased collection of existing tax revenues;

(E) privatization of appropriate city services;

(F) sale of city assets as appropriate;

(G) improvement of procurement practices including competitive bidding procedures; and

(H) review of compensation and benefits of city employees; and

(iv) exercise its powers consistent with the rights of citizens to home rule and self government.

(2) The General Assembly further declares that this legislation is intended to remedy the fiscal emergency confronting cities of the first class through the implementation of sovereign powers of the Commonwealth with respect to taxation, indebtedness and matters of Statewide concern. To safeguard the rights of the citizens to the electoral process and home rule, the General Assembly intends to exercise its power in an appropriate manner with the elected officers of cities of the first class.

(3) The General Assembly further declares that this legislation is intended to authorize the imposition of a tax or taxes to provide a source of funding for an intergovernmental cooperation authority to enable it to assist cities of the first class and to incur debt of such authority for such purposes; however, the General Assembly intends that such debt shall not be a debt or liability of the Commonwealth or a city of the first class nor shall debt of the authority payable from and secured by such source of funding create a charge directly or indirectly against revenues of the Commonwealth or city of the first class.

Source: Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6) (the "PICA Act") Section 102.

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**Pennsylvania Intergovernmental
Cooperation Authority**

1500 Walnut St., Suite 1600, Philadelphia, PA 19102
Telephone 215-561-9160 Fax 215-563-2570

October, 2010

To: The Governor and the General Assembly of the Commonwealth of Pennsylvania
The Chairperson and the Minority Chairperson of the Appropriations Committee of the
Pennsylvania Senate
The Chairperson and the Minority Chairperson of the Appropriations Committee of the
Pennsylvania House of Representatives
The Mayor, the City Council and the Controller of the City of Philadelphia
Other Parties Concerned with the Maintenance of Financial Stability of and Achieving
Balanced Budgets for the City of Philadelphia

As the Pennsylvania Intergovernmental Cooperation Authority (“PICA”) marks its Nineteenth anniversary, we are pleased to provide you with this Annual Report for the fiscal year ended June 30, 2010 (“FY2010”). This economic upheaval of the past years led to the greatest threat to the City of Philadelphia’s (“City”) fiscal stability since PICA’s creation in 1991, when the City faced a deficit of \$137 million, and lacked a coherent fiscal planning mechanism. Though the City was required to make a second round of cuts and certain revenue enhancements, the City projects positive fund balances for the next five years, a result in part of the continued success of the annual Five-Year Financial Plan required by PICA. While the City faces challenges which are being exacerbated by the struggling national economy we remain confident in PICA’s ability to help the City maintain a positive fiscal outlook.

Even after nineteen years, PICA continues to have a significant role in the ongoing City financial recovery. FY2010 activity included: (1) working with the City to help it respond to the fiscal challenges presented by the recession; (2) consideration of a Five-Year Financial Plan for Fiscal Years 2011 through 2015 which anticipates balanced budgets in each component year; (4) monitoring Five-Year Financial Plan compliance; (5) publication of issues papers on the key fiscal challenges facing the City; (6) continuing review and monitoring of the City’s operations; (7) oversight as to utilization of remainder moneys borrowed by PICA for City capital projects, productivity enhancements and indemnity costs; and (8) service as the primary independent source of objective financial information and opinion for the benefit of the citizens of the City and the Commonwealth as well as for the media, the financial community and other outside observers.

The PICA Board has been gratified by the recognition PICA regularly receives from the financial community and the media for its successful performance as the agency charged with the responsibility for oversight and monitoring of the City's finances. We would be remiss if we failed to acknowledge and express our sincere appreciation for the continuous support PICA receives from the Governor and the General Assembly, and also for the ongoing cooperation of Philadelphia's Mayor, City Council and City Controller. This support and cooperation are vital factors to PICA's continuing success and the City's ongoing financial recovery.



James Eisenhower, Esquire
Chair



William J. Leonard, Esquire



Dr. Joseph DiAngelo



Michael A. Karp



Wadud Ahmad, Esquire

PICA Annual Report Requirements

The Pennsylvania Intergovernmental Cooperation Authority Act for Cities of First Class, Act of 1991, P.L. 9, No. 6 at §203(b)(5) requires PICA:

To make annual reports within 120 days of the close of the Authority's fiscal year commencing with the fiscal year ending June 30, 1992, to the Governor and the General Assembly describing its progress with respect to restoring the financial stability of assisted cities and achieving balanced budgets for assisted cities, such reports to be filed with the Governor, with the presiding officers of the Senate and the House of Representatives, with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and the Chairperson and the Minority Chairperson of the House of Representatives and with the Governing Body, Mayor and Controller of the assisted city.

§207 of the Act further provides for an annual audit to be included with the Annual Report, as follows:

Every Authority shall file an annual report with the Chairperson and the Minority Chairperson of the Appropriations Committee of the Senate and the Chairperson and the Minority Chairperson of the Appropriations Committee of the House of Representatives, which shall make provisions for the accounting of revenues and expenses. The Authority shall have its books, accounts and records audited annually in accordance with generally accepted auditing standards by an independent auditor who shall be a certified public accountant, and a copy of his audit report shall be attached to and be made a part of the Authority's annual report. A concise financial statement shall be published annually in the Pennsylvania Bulletin.

Overview - PICA and its Role

PICA Act

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created in 1991 to assist the City of Philadelphia (the "City") in overcoming a severe financial crisis. At that time, the City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills from vendors, had been pushed below the investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, was in a mode in which the quality of municipal services being provided was rapidly eroding, and verged on bankruptcy. PICA was created through the joint efforts of concerned Philadelphians and State officials who envisioned a structure which would assist the City in putting its revenue collection and spending processes in order, and at the same time reach a consensus on its future priorities, assets and limitations. The PICA Act was a compromise fashioned to meet the requirements of the Pennsylvania Constitution, the concept of local government Home Rule, and the interests of the State in the preservation of the financial integrity of its municipalities. PICA's role, a combination of cooperation, assistance and oversight was determined to be of vital importance in both a financial and political sense. PICA was designed to be a catalyst in the City's re-evaluation of the role and priorities of municipal government.

Cooperation Agreement

The Intergovernmental Cooperation Agreement negotiated by and between PICA and the City and finalized in January of 1992 formalized the relationship contemplated by the PICA legislation. The powers and duties of the respective participants envisioned in the legislation were put into place with the execution of the Agreement. PICA was designed to be much more than a vehicle to raise otherwise unavailable funds for Philadelphia. It has the responsibility to evaluate and approve annually revised Five-Year Financial Plans, to monitor compliance by the City with such Plans, and the power to instruct the Commonwealth's Secretary of the Budget to withhold both substantial Commonwealth financial assistance and the net proceeds of the PICA Tax (after PICA debt service) should the City fail to comply with its duty to balance such Plan in each of its years.

The PICA Organization

The Authority Board determined at the outset that PICA should not become overburdened with staff, preferring instead to impress upon the City the necessity for Philadelphia to develop and implement its own solutions to its problems. The Authority's staff, which totals four, is organized to evaluate the actions of the City and to issue appropriate reports thereon to assist those who are properly charged with administration of City affairs or development of underlying policies.

PICA Financial Assistance to the City

The issuance of bonds to provide the funds directly required to assist the City to avoid insolvency and for essential capital programs was an important initial role of the Authority. That role has been successfully completed and the Authority's "new money" bond issuance powers have expired. Authority bond issuance is currently limited to refinancing existing Authority debt in order to realize net debt service savings to the City.

Through debt issuance and capital program earnings the Authority has made available in excess of \$1,141 million to directly assist the City, allocated to the following purposes:

<u>Purpose</u>	<u>Amount (thousands)</u>
Deficit Elimination/Indemnities Funding	\$ 269,000
Productivity Bank	20,000
Capital Projects	468,500
Retirement of Certain High Interest City Debt	<u>384,300</u>
 TOTAL	 <u>\$1,141,800</u>

The Five-Year Financial Plan Process

PICA has consistently emphasized its firm belief that the City's continuing fiscal rehabilitation is dependent upon its continuing success in addressing both financial and managerial issues; that the process is less one dealing with finance than assessing the financial results of managerial decisions. Effective strategic planning and the institutionalization of change are matters which the City must continue to focus upon in order to assure that its considerable assets continue to be applied intelligently and consistently. The Plan process helps to document the City's intentions and the results of its actions.

As mandated in the PICA Act (and as further refined by the Intergovernmental Cooperation Agreement), the Plan is required to include:

- Projected revenues and expenditures of the principal operating funds of the City for five fiscal years (the current fiscal year and the next four); and
- Components to (i) eliminate any projected deficit for the current fiscal year; (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized; (iii) balance the current fiscal year budget and subsequent budgets in the Plan through sound budgetary practices, including, but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of such steps; (iv) provide procedures to avoid a fiscal emergency condition in the future; and (v) enhance the ability of the City to regain access to the short- and long-term credit markets.

There also are statutorily mandated standards for development of the Plan (and the manner in which it is to be evaluated by PICA):

- all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation;
- revenues are to be recognized in the accounting period in which they become both measurable and available; and

- cash flow projections are to be made based upon reasonable and appropriate assumptions as to sources and uses of cash, including factors intended to provide a complete picture of cash demands.

The PICA Act also mandates standards for the basis for estimation of City revenues:

City Sources - current or proposed tax rates, historical collection patterns, and generally recognized econometric models;

State sources - historical patterns, currently available levels, or on levels proposed in a budget by the Governor;

Federal sources - historical patterns, currently available levels, or levels proposed in a budget by the President or in a Congressional budget resolution; and

Non-tax sources - current or proposed rates, charges or fees, historical patterns and generally recognized econometric models.

Deviations from such standards for estimation of revenues and appropriations which are proposed to be used by the City are to be disclosed specifically to the Authority and approved by a "qualified majority" of the Authority (four of its five appointed members). The Authority's Board generally has required that conservative criteria be used, and the result of the PICA process has been credible budget and Plan-making.

The Plan is also required to include a schedule of projected City capital commitments (and proposed sources of funding), debt service projections for existing and anticipated City obligations, a schedule of payments for legally-mandated services projected to be due during the term of the Plan and a schedule showing the number of authorized employee positions (filled and unfilled), inclusive of estimates of wage and benefit levels for various groups of employees.

The PICA Act requires that the Authority solicit an opinion or certification from the City Controller, prepared in accordance with generally accepted auditing standards, with respect to the reasonableness of the assumptions and estimates in the Plan. The PICA Act does not, however, require that the Controller's determinations bind the Authority in its evaluation of a proposed Plan.

The PICA Act (§209) and the Cooperation Agreement (§409(b)) require submission of quarterly reports by the City concerning its compliance with the current Plan within 45 days of the end of a fiscal quarter. If a quarterly report indicates that the City is unable to project a balanced Plan and budget for its current fiscal year, the Authority may by the vote of a qualified majority declare the occurrence of a "variance", which is defined in §4.10 of the Cooperation Agreement as follows:

- (i) a net adverse change in the fund balance of a Covered Fund of more than one percent (1%) of the revenues budgeted for such Covered Fund for that fiscal year is reasonably projected to occur, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year, or

(ii) the actual net cash flows of the City for a Covered Fund are reasonably projected to be less than ninety-five percent (95%) of the net cash flows of the City for such Covered Fund for that fiscal year originally forecast at the time of adoption of the budget, such projection to be calculated from the beginning of the fiscal year for the entire fiscal year.

As defined in §1.01 of the Cooperation Agreement, the City's "Covered Funds" are the General Fund, General Capital Fund, Grants Revenue Fund and any other principal operating funds of the City which become part of the City's Consolidated Cash Account.

The Effect of a "Variance"

The statute mandates the submission of monthly reports to PICA by the City in the event of a determination by the Authority of the occurrence of a variance. That situation occurred twice in PICA's history. In November of 1992, the City projected a variance of \$57 million (2.5%) for the 1993 fiscal year, and the Authority agreed with that assessment on December 9, 1992. Thereafter, until May of 1993, the City filed required monthly reports. The City was relieved of its burden to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the City's Five-Year Financial Plan for FY93-FY98 in May of 1993.

In February of 2009, the city projected a variance of \$47 million, and the Authority agreed with that assessment on February 20, 2009. Thereafter, until September of 2009, the City filed required monthly reports. The City was relieved of its burden to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the City's Five-Year Financial Plan for FY10-FY14 in September of 2009.

As provided in §210(e) of the PICA Act, legal consequences flow from a determination by the Authority of the existence of a variance. In addition to the City's additional reporting responsibilities, it also is required to develop revisions to the Plan necessary to cure the variance. The remedies which PICA has available to deal with a continuing variance are to direct the withholding of both specific Commonwealth funds due the City and that portion of the 1.50% tax levied on the wages and income of residents of the City in excess of the amounts necessary to pay debt service on PICA's bonds. Any amounts withheld would be paid over to the City after correction of the variance.

PICA "Threshold" Policies

From its inception, PICA has held to the following policies in its evaluation of Philadelphia's Plans, initiatives, proposals and performance:

Emphasis on Structural Change - Consistent City failure to deal effectively with a long list of areas of government operations and service delivery contributed to the need for PICA. The City shall continually be encouraged to rethink existing policies and practices and to avoid sacrificing long-term progress for short-term gain.

Focus on Long-Term Progress - Meaningful strategic planning, institutionalization of appropriate change, focus on attaining long-term structural balance and on implementing pragmatic economic stimulus policies and procedures are matters of paramount importance and are to be emphasized in the PICA oversight process.

Infrastructure Programs - A meaningful capital program is a visible and tangible element of a City's social contract with its residents. The capital program, including proper maintenance of capital assets, is a key element to long-term fiscal stability. A consistent policy to adequately fund and staff infrastructure maintenance shall be continually encouraged.

Consistent Application of Stated Assumptions - Inconsistent application of unstated assumptions frequently caused pre-PICA City budgets to lack credibility, and made reliable assessment of prospects of attaining the results of such budgets impossible. PICA's Plan review process shall focus on assumptions utilized being both visible and consistent in their application.

Use of Credible Revenue Estimates - Realistic revenue estimates are a vital component of the City's budgeting and Plan preparation process and shall be a matter of primary concern in PICA's Annual Plan review process.

While it would be incorrect to claim that PICA threshold policies have resulted in all desired effects coming to fruition, they have contributed substantially to City procedural improvements.

Philadelphia City Controller

An unforeseen benefit of the PICA Act's requirement that PICA solicit an opinion from the City Controller as to the reasonableness of Plan assumptions and estimates has been the extensive cooperative professional relationship which has developed between PICA Staff and the Controller's Office. The mutually beneficial professional relationship includes ongoing cooperation on matters of common concern; joint reviews of Plan components including appropriate joint meetings with City department heads and chief operating personnel pertinent thereto; cooperation on capital project reviews and reviews of PICA funded special purpose grants to the City; PICA assistance for Controller special situation studies; and specific Office of the Controller personnel assigned responsibility for effective ongoing liaison with PICA Staff. The assistance provided to PICA by the City Controller is sincerely appreciated. Cooperation between its "oversight" and "watchdog" entities has substantially benefited the City.

Providing Comment on Pending Legislation

In accordance with its oversight duties, PICA continues to provide comments and fiscal analysis on City legislation which impacts the City's fiscal situation. Further, PICA upholds its responsibility to provide analysis on appropriate legislation before the General Assembly, in accordance with the PICA Act § 203 (c) (5), which empowers the Authority "to make recommendations to the Governor and the General Assembly regarding legislation or resolutions that affect Commonwealth aid or mandates to an assisted city or that concern an assisted city's taxing power or relate to an assisted city's fiscal stability."

Corporate Entities and The School District of Philadelphia

"Corporate Entities" are defined in §1.01 of the Cooperation Agreement as "an authority or other corporate entity, now existing or hereafter created, of which one or more members of its governing board are appointed by the Mayor and which performs governmental functions for the City". The Agreement provides that the City shall cooperate with PICA in any PICA request to look into the operations of either the Corporate Entities or the School District of Philadelphia.

To date, PICA has not devoted any substantial attention to the operations of such City related institutions, but it has offered its expertise to the School Reform Commission, the CEO of the School District of Philadelphia and the Commonwealth's Secretary of the Budget, and has provided informal assistance where appropriate.

In accordance with legislation passed by the General Assembly, PICA Staff has had initial discussions with the Pennsylvania Convention Center and representatives of the Commonwealth regarding development of a Financial Plan for expansion. PICA Staff is ready to prepare an analysis of the plan and risks once it has been completed. PICA Staff also remains prepared to play any appropriate role in regard to developments at the Philadelphia Gas Works.

The Work of PICA - Fiscal Year 2010

Approval of the FY2011-FY2015 Plan

Review and recommendation for approval of the City's FY2011-FY2015 Five-Year Financial Plan (Plan) was a major component of PICA Staff activities during FY2010. The previous Plan (FY10-FY14) was approved almost three months into FY10, shortening the time period for focusing on the new Plan. The Mayor presented his proposed FY11-FY15 Plan on March 4, 2010, which included several proposed cuts and revenue enhancements in order to present a balanced Plan in light of the deteriorating economy. While City Council considered the proposed budget and Plan, PICA Staff engaged in meetings with City Departments and related entities in order to assess the underlying assumptions of the proposed Plan.

After granting the City an extension, the Plan was formally submitted to PICA for approval on July 14, 2010. PICA Staff recommended that the Board approve the Plan, while noting three substantial risks, as well as additional risks and challenges.

Substantial Risks included in the Plan

- 1. Intergovernmental Grants:** A substantial risk to the Plan relates to the potential for reduced grant funding to the City from state and federal government. For several reasons, the City may receive diminished levels of funding from the state and federal government in aggregate, and for particular programs, in FY11 and future fiscal years. This diminished level of funding could create pressure for City officials to replace lost grant funds with City tax-supported funds. This in turn, will add to the fiscal constraints facing the General Fund. The uncertainty surrounding this funding underscores the risks inherent in the increasing reliance of the City on state and federal funding.
- 2. Narrow Fund Balances:** For the third consecutive year, the proposed Plan includes relatively narrow fund balances, ranging from \$31 million to \$70.5 million. These equate to an average surplus of 1.2% of expected revenues. The Government Finance Officers Association (GFOA) recommends that municipalities should plan for a fund balance that ranges from five to fifteen percent of revenues in order to properly hedge against short-term and long-term fiscal risks. For the last two years, unexpected fiscal challenges have resulted in negative end-of-year fund balances, due in part to the lack of sufficient emergency resources.
- 3. Labor Contracts and the Municipal Work Force:** Three of the four municipal employee union contracts with the City remain in the negotiation/arbitration process, as employees have been without contracts for more than a year. By far, the City's largest General Fund cost is for personnel. For FY10, projections show that of every dollar City government spends, about 60 cents goes to labor costs. The Plan assumes that new contracts will include no raises for the life of the Plan, and will result in annual savings of \$25 million from benefit and work rule changes. Additionally, these changes would positively impact some of the City's long-term fiscal challenges on pensions and health benefits.

Additional risks in the Plan

- 1. Property Tax Assessment System:** During the past year, City Council enacted and the Mayor signed an ordinance that replaces the Board of Revision of Taxes (BRT) with two new agencies responsible for determining assessments of all real property in the city and hearing appeals of assessments. This change in assessment

governance should lead to significant improvements in administration and the quality of property assessment. Still, real estate tax revenue remains a risk area for the current Plan. There is still a great deal of progress that remains to be made to reform Philadelphia's property assessment process.

2. **Uncertain National Economy - Macroeconomic Trends:** The impact of the global recession on the growth of the City's economy and tax bases over the FY11-FY15 period continues to be a major risk to the Plan. During the last two years the city's economy has proved fairly resilient as compared to other municipalities, owing in part to the high concentration of the city's economy in sectors that have seen relatively less severe impacts from the recession: health care, education, and government. Economic indicators over the past year have begun to stabilize, but much of the City's tax revenue base remains at risk. Throughout FY10, quarterly collections of the four major City taxes that are collected on a continuous monthly basis – the Wage, Realty Transfer, Sales, and Parking taxes – have indicated a stabilizing tax base as the fiscal year progressed.
3. **Gaming Revenues and Costs:** The Plan assumes that the City will begin receiving fees from casinos in FY11, with a total of \$84.6 million assumed over the life of the Plan, but the longer the delay in the start of construction of the City's second anticipated casino, the less likely it is that those revenues will be received in accordance with Plan estimates. One of the planned casinos remains mired in uncertainty. For the first time, the Plan does assume that the opening of those casinos will result in some additional costs to the City's General Fund, though indirect benefits are not accounted for in the Plan.
4. **Philadelphia Gas Works (PGW):** While PGW continues to present a risk for the City, it has shown significant improvement in its finances. The leadership of PGW has improved management and operations, though structural challenges and an over-sized workforce continue to challenge the utility while the outstanding \$1 billion in debt dominates the balance sheet. PGW has shown sufficient improvements to its bottom line which the Plan projects will allow it to repay the City \$18 million related to loan restructuring savings and interest owed to the City, and has resulted in a bond ratings upgrade. There remains a possibility that future fiscal crises at PGW will require additional City subsidies.

On August 10, 2010, the PICA Board approved the proposed Five-Year Financial Plan for FY11-FY15. The Staff Report on the City of Philadelphia's Five-Year Financial Plan for FY11-FY15, dated August 10, 2010, is available by contacting PICA at 215-561-9160 or can be found on our website at www.picapa.org.

Fiscal Update and Fiscal Issues Reports

During FY2010, PICA Staff continued to issue a monthly tax revenue report to better inform the public about the City's tax collection levels. The report has continued to serve as a useful tool during discussions about the impact of the recession. PICA Staff also issued periodic reports when the City released a Quarterly Managers Report as well as ongoing analyses of the impact of the recession and the fiscal challenges faced by the City. Copies of all PICA reports are available by contacting PICA at 215-561-9160 or at our website www.picapa.org.

PICA Staff also provided periodic updates by phone for members of the General Assembly and their staff on issues related to the City's fiscal health, the City's response to the fiscal crisis, and the impacts of the proposed Plan.

PICA released two issues papers during FY2010:

1. "A History We Can No Longer Afford: Consolidating Philadelphia's Row Offices," was released on November 2, 2009. The report examined the potential for cost savings that could occur in Philadelphia if the City were to eliminate four agencies now headed by elected officials – the City Commissioners, the Sheriff's Office, the Clerk of Quarter Sessions, and the Register of Wills – and absorb their functions into other City agencies or the City's court system. While the District Attorney and City Controller have roles that require the autonomy conferred by being independently elected, the remaining "row office" functions are primarily administrative in nature. As such, there is no clear rationale for their being managed by elected officials. The report estimated that the elimination of these elected offices and consolidation of functions could result in annual savings to the City General Fund of as much as \$13-15 million.
2. "The Pennsylvania Convention Center Expansion Project: Financial Impacts for the Commonwealth of Pennsylvania and the City of Philadelphia," was released on April 16, 2010. The Convention Center expansion project is financed through Commonwealth capital funds. As part of the legislation that enabled Commonwealth financing of the expansion, Act 3 of 2004, the Pennsylvania Convention Center Authority (PCCA) is required to submit a proposed financial plan for the expansion project to PICA, and PICA is required to "prepare a detailed analysis on the fiscal impact and financial risks" associated with the expansion.¹ PCCA submitted its *Pennsylvania Convention Center Authority Convention Center Expansion Project Business Plan*, the required financial plan, to PICA in November 2009. This report presents PICA Staff's analysis of the fiscal impact and risks associated with the expansion, as required under Act 3. Because the plan was not received until November 2009, after land acquisition was complete and construction underway, PICA did not undertake an exhaustive examination of the plan's projections of hotel tax revenues and PCCA operating deficits, or hire an industry expert to assess these projections. Accordingly, this report discusses these projections and assesses their reasonableness only in general terms.

Copies of these reports, as well as all other reports released by PICA, are available by contacting PICA at 215-561-9160 or at our website www.picapa.org.

Citizens Guide to the Budget

During FY2010, PICA Staff completed a significant overhaul of its "A Citizen's Guide to the Budget" found on its website. The Citizen's Guide to the Budget is designed to help better inform the public about the City of Philadelphia's Budget. The information in the Guide uses the most recently approved five-year plan. The Guide also contains links to additional information, including historical trends, more in-depth data, and relevant PICA reports. The Guide may be found at our website www.picapa.org.

¹ 64 Pa. C. S. §6014.

City Capital Program

Oversight of the capital program continued to be a key element of PICA's work in FY2010. PICA Staff has continually noted the need for the City's capital program to be guided by an overall strategic plan. PICA Staff continues to monitor the relationship of the capital program to other citywide programs.

In FY2006 a PICA Issues Paper focused on the ongoing underfunding of the City's investment in its core infrastructure. While the City's own Planning Commission recommends that \$185 million be invested annually to properly maintain its infrastructure, the City's Capital Program assumes no more than \$55.2 million in any of the next six years. After a series of PICA Staff meetings with City officials, it became clear that the City did not have adequate information regarding what critical repairs were not being done and what level of investment would be needed to merely ensure that City facilities were safe and operational, and that the only way that both PICA and City officials could get a better understanding of the urgency of the City's capital needs was for PICA to commission a study.

On November 1, 2006, PICA issued a request for proposals for firms to assess the physical condition of various City facilities in order to provide a working tool that will allow City officials to prioritize and allocate capital funding. The assessment team led by CDA&I was able to maintain the agreed upon schedule and provide the necessary tools for the City's capital assessment and maintenance needs. The project was completed and the final report released on October 31, 2007. In addition to the report, PICA provided the City with a database of all of the findings to help the City better manage its maintenance and repairs at these facilities.

PICA Staff notes that the City has yet to complete all of the projects that have been approved for funding by PICA bond proceeds and associated interest earnings. While the City has made some progress in the past year at spending some of those funds, PICA Staff will continue to press the City to complete these projects.

The Tax Base and the Local Economy

The City's high tax burden for individuals and businesses remains a major obstacle to economic development. The suspension of the tax cut program necessitated by the economic challenges are understandable, but, tax differentials will remain between the City and competing locations in the suburbs and elsewhere. While State and Federal policies drive some of the tax differential, the City government can still do much to promote a more competitive tax structure. The City can further increase productivity, cut costs, improve tax enforcement and make appropriate changes in the levels and mix of City services provided, consistent with a strategic plan.

Goals for PICA - Fiscal Year 2011

Ongoing Goals

During the next fiscal year, PICA Staff will continue to:

- Work with the City to help it address the fiscal pressures being felt by the downturn in the national economy. PICA will assist the City in identifying the extent of balancing steps the City will need to take in order to maintain spending levels consistent with falling revenues.
- Encourage the City, when economic conditions allow, to address long-term issues such as the City's dangerously high debt burden, the pension fund's growing cost and increasing unfunded liability, Philadelphia's uncompetitive tax structure, the persistent underinvestment in the City's infrastructure and the need for a Rainy Day Fund.
- Continue to review and analyze the City's proposed fixes to the underfunded Pension Fund and track the City's efforts to better align pension contribution levels with pension benefit levels.
- Undertake efforts to examine City departments and agencies structures and processes in order to make recommendations to the City on ways to improve efficiencies, service delivery, and achieve savings.
- Promote the further development and use of departmental performance measures that contribute to a better understanding of and capacity to manage departmental activities.
- Continue to evaluate the fiscal challenges of the Philadelphia Gas Works and determine ways to improve PGW's fiscal stability.
- Oversee PICA-funded City capital projects, stressing essential improvements to the City's capital project management and the benefits derivable from coordinated strategic and capital planning.
- Encourage identification of additional City capital funds available for reprogramming and utilize these funds for projects meeting PICA's statutory criteria.
- Provide technical assistance to help inform the ongoing debate about reforming Philadelphia's tax and regulatory structures.

Plan Review and Approvals

PICA Staff looks forward to the FY2011 review of the City's Five-Year Financial Plan, Fiscal Year 2012-Fiscal Year 2016 (including Fiscal Year 2011). The Plan will need to produce reasonable revenue and expenditure projections and reasonable prospects for continued General Fund balance while addressing the long-term issues facing the City.

Achieving Balanced Annual Budgets

Although this goal is a challenge given the current economic conditions, PICA will continue to push the City toward annual balanced budgets. The FY2011-FY2015 Plan did make strides toward this goal, with projected annual surpluses in three of the five years. The City needs balanced annual Operating Fund budgets to achieve true fiscal stability.

Providing Reliable Information to Inform Policy Debates in the City

PICA Staff will continue to provide reliable and unbiased data and analysis to help inform the public policy debates which are sure to arise during the coming Fiscal Year. Through Issue Papers, periodic Staff Reports, public testimony, and briefings for the executive and legislative branches of the City and the Commonwealth, PICA will spur discussion about the issues which challenge the City's ongoing fiscal stability.

Improving Philadelphia's Tax Structure

PICA will continue to publish papers, provide testimony, and provide technical assistance regarding the ongoing efforts to make Philadelphia's tax structure more efficient and effective while maintaining the integrity of the City's Five-Year budget planning process.

Overall Goal

PICA's overall goal continues to be assisting the City to become more proactive in serving its citizens; to define its service delivery philosophy; and then to consistently deliver such services within the constraints of available resources. No less will be acceptable.

Future City Reporting to PICA

Regular Reporting Required

The reporting system established in the Cooperation Agreement and in the PICA Act requires a regular flow of data from the City to PICA. This system is the fundamental device used by PICA Staff in its ongoing evaluation of City progress in its fiscal rehabilitation. PICA Staff anticipates working closely with the Administration to ensure that there is no lapse in the flow of information PICA requires to fulfill its mission.

Data to be Received by PICA Includes:

Revised Plan. The PICA Act and the Cooperation Agreement contemplate the continuous existence of a Plan encompassing the current fiscal year and the four fiscal years thereafter, and require that a new year be added to the then-existing Plan not later than 100 days prior to the end of each fiscal year. The City's proposed Five-Year Financial Plan, Fiscal Year 2012-Fiscal Year 2016 (including Fiscal Year 2011) is thus anticipated to be received by PICA by March 23, 2011.

Quarterly Plan Reports. Under the Cooperation Agreement (§409(b)), the Authority receives reports from the City on a quarterly basis (within 45 days after the end of each fiscal quarter) concerning the status of compliance with the Plan and associated achievement of initiatives. The Cooperation Agreement (§409(e)) also requires that the City provide reports to PICA concerning Supplemental Funds (i.e., the Water and Aviation Funds) on a quarterly basis.

Grants Revenue Fund Contingency Account Report. The Cooperation Agreement provides that a report on the Grants Revenue Fund Contingency Account, by department, be prepared and submitted not later than 20 days after the close of each fiscal quarter. This report details the receipt and use of Federal and Commonwealth Funds by the City. A separate report details the eligibility for fund withholding by the Commonwealth (at PICA's direction) in the event the City cannot propose credible measures to balance a Plan which has been declared at "variance" by PICA.

Prospective Debt Service Requirements Report. The Cooperation Agreement requires submission of a report detailing prospective debt service payments by the City, as well as lease payments, 60 days prior to the beginning of a fiscal quarter, and upon each issuance of bonds or notes or execution of a lease.

Time Table of FY2010 Reporting Requirements

Due Date	Description
October 20, 2010	Receipt of 1st Quarter FY2011 Grants Revenue Fund Contingency Account Report
November 1, 2010	Receipt of 3rd Quarter FY2011 Prospective Debt Service Requirements Report
November 15, 2010	Receipt of 1st Quarter FY2011 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
January 20, 2011	Receipt of 2nd Quarter FY2011 Grants Revenue Fund Contingency Account Report
February 1, 2011	Receipt of 4th Quarter FY2011 Prospective Debt Service Requirements Report
February 15, 2011	Receipt of 2nd Quarter FY2011 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
March 23, 2011	Submission of proposed revision to Plan and addition of FY2016
April 20, 2011	Receipt of 3rd Quarter FY2011 Grants Revenue Fund Contingency Account Report
May 2, 2011	Receipt of 1st Quarter FY2012 Prospective Debt Service Requirements Report
May 16, 2011	Receipt of 3rd Quarter FY2011 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
July 20, 2011	Receipt of 4th Quarter FY2011 Grants Revenue Fund Contingency Account Report
August 1, 2011	Receipt of 2nd Quarter FY2012 Prospective Debt Service Requirements Report
August 15, 2011	Receipt of 4th Quarter FY2011 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld

Appendix A:
Financial Statements
and
Report of Independent Auditors