

Pennsylvania Intergovernmental Cooperation Authority



**Annual Report
for
Fiscal Year 2011**

November 11, 2011

**PENNSYLVANIA INTERGOVERNMENTAL
COOPERATION AUTHORITY**

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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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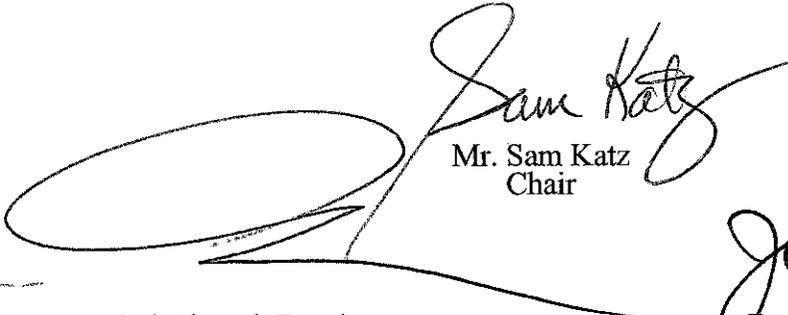
To: The Governor and the General Assembly of the Commonwealth of Pennsylvania
The Chairperson and the Minority Chairperson of the Appropriations Committee of the
Pennsylvania Senate
The Chairperson and the Minority Chairperson of the Appropriations Committee of the
Pennsylvania House of Representatives
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 Twentieth anniversary, we are pleased to provide you with this Annual Report for the fiscal year ended June 30, 2011 (“FY2011”).

The economic upheaval of the past three years has posed 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. Yet despite the lingering effects of the Great Recession, during FY2011 the City maintained a balanced budget and avoided drastic service cuts. Importantly, the City projects positive fund balances for the next five years. In part, this success is attributable to the oversight exercised by PICA including the annual Five-Year Financial Planning process required by the PICA Act.

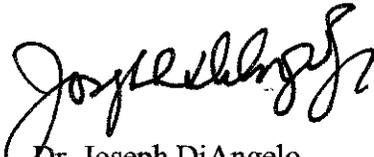
During FY2011, PICA continued its activities to help ensure the City’s ongoing City fiscal stability by: (1) working with the City to help it respond to the fiscal challenges presented by the Great Recession; (2) consideration and approval of a Five-Year Financial Plan for Fiscal Years 2012 through 2016 that anticipates balanced budgets in each component year; (4) monitoring Five-Year Financial Plan compliance; (5) publication of reports 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 financial community, the media, 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.



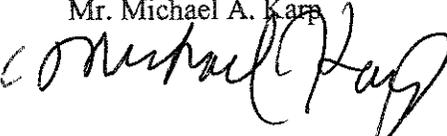
Mr. Sam Katz
Chair

Wadud Ahmad, Esquire



Dr. Joseph DiAngelo

Mr. Michael A. Karp



Mr. Gregory S. Rost

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 \$1,137 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	464,400
Retirement of Certain High Interest City Debt	<u>384,300</u>
 TOTAL	 <u>\$1,137,700</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 budgetary and financial 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.

The Work of PICA - Fiscal Year 2011

Approval of the FY2012-FY2016 Plan

Review and recommendation for approval of the City's FY2012-FY2016 Five-Year Financial Plan (Plan) was a major component of PICA Staff activities during FY2011. The previous Plan (FY11-FY15) was approved almost two months into FY11. The Mayor presented his proposed FY12-FY16 Plan on March 3, 2011, which proposed no cuts or tax increases while presenting a balanced Plan. As 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.

Just prior to completion of the budget process, the Philadelphia School District identified a large budget gap for the coming year. The eventual solution to the School District's funding shortfall included an additional \$10 million annual contribution from the City's General Fund and an increase in the School District portion of the property tax. The FY12 budget was revised to include the additional contribution to the School District as well as updates to revenue estimates based on collections through May 2011, and was approved by City Council at the end of May, 2011. The Plan was formally submitted to PICA for approval on July 7, 2011, following completion of the State budget process. PICA Staff recommended that the Board approve the Plan, while noting five substantial risks, as well as additional risks and challenges.

Substantial Risks included in the Plan

1. **Pension Liability:** The pension liability presents one of the greatest threat to the City's fiscal health for three primary reasons: it is the largest fixed cost in the budget; a large part of the risk is beyond the control of the City; and, over the past few decades, the City has failed to address those areas of the pension liability where it does retain control. In fact, some of the areas under City control have been altered in a manner so as to exacerbate the problem. The City's ability to address the myriad challenges of the pension liability are also challenged by the reality of potential long-term structural fixes having significant short-term costs, and short-term efforts to reduce the impact of large annual pension fund payments worsening long-term structural problems.
2. **Labor Contracts and the Municipal Work Force:** Three of the four municipal union employee contracts with the City remain in the negotiation/arbitration process, as employees have been without contracts since 2009. The Plan not only assumes no net increase in costs resulting from new contracts for the life of the Plan, but that the City will realize an annual workforce savings of \$11.86 million. While new labor contracts could potentially increase General Fund costs, if the City is successful in achieving its reform objectives, the contracts would positively impact some of the City's long-term fiscal challenges on pensions and health benefits. **Any contracts which increase General Fund costs beyond the City's ability to pay, or fail to realize the savings assumed in the Plan, will require a revision to the Plan which demonstrates that there are sufficient funds to cover these costs or unrealized savings.**
3. **Property Tax Assessment System:** One of the most significant risks facing the FY12-FY16 Plan is the reform of the City's property tax assessment system by the Office of Property Assessment (OPA). From a policy standpoint, this change is clearly desirable and has long been supported by PICA. The move toward a more accurate property valuation system should create a more legitimate basis for one of the City's major tax revenue sources. The OPA assessment reforms should have substantial economic benefits and promote long-term financial stability by helping the City create a more

viable tax revenue structure. Nonetheless, the transition to the new assessment system poses short-term financial risks as well as potential serious impacts on specific neighborhood real estate markets.

4. **Intergovernmental Grants:** As was the case with the FY11-FY15 Plan, the FY12-FY16 Plan could face risks associated with diminishing levels of grant funding from the State and federal government. These risks are related to the expiration of funding under the federal American Recovery and Reinvestment Act (ARRA), fiscal stress at the State, and the ongoing effort to reduce the federal budget deficit. The City relies on a wide array of formula based and discretionary State and federal grants to support a range of services, particularly those related to health, human services, and housing. Diminished levels of resources for these programs could result in pressure to increase City tax support for these programs over the next five years.
5. **Narrow Fund Balances:** For the fourth consecutive year, the proposed Plan includes relatively narrow fund balances, ranging from \$28.5 million to \$71.4 million. While these figures represent a substantial amount of money, they equate to an average surplus of only 1.4 percent of expected revenues (as opposed to the minimum 5 percent long recommended by the Government Finance Officers Association). That scenario is the equivalent of a family with a household income of \$50,000 setting aside \$700 per year to cover unexpected emergencies.

Additional risks in the Plan

1. **Uncertain National Economy - Macroeconomic Trends:** An additional area of risk to the Plan is the performance of the Philadelphia economy over the next five years. The FY12-FY16 Plan generally projects modest growth in all the city's tax bases, based on the assumption that the national and city economy will continue to recover slowly from the deep recession of 2008-2009. These trends are largely consistent with recent economic trends and surveys. Should national and city macroeconomic growth falter over the next five years, however, Plan revenue projections could prove overly optimistic.
2. **School District of Philadelphia:** The budgetary and financial problems at the School District of Philadelphia (SDP) present an indirect but serious risk for the City's General Fund and a direct and serious threat to the City's tax base. The failure of the SDP to address short-term funding shortfalls and the failure to timely disclose the extent of the long-term fiscal challenges facing the District and propose remedies to those challenges, underscores the threat the SDP budget presents to the City's fiscal health. Ongoing fiscal challenges at the SDP also impact the City economy insofar as the SDP is one of the largest employers in Philadelphia.

On July 26, 2011, the PICA Board approved the proposed Five-Year Financial Plan for FY12-FY16. The Staff Report on the City of Philadelphia's Five-Year Financial Plan for FY12-FY16, dated July 26, 2011, 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 FY2011, 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 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.

Citizens Guide to the Budget

During FY2011, 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.

City Capital Program

Oversight of the capital program continued to be a key element of PICA's work in FY2011. 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.

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.

Philadelphia Fire Department (PFD) Management Study

Philadelphia has never conducted a full-scale comprehensive study of the PFD. After consultations with the Administration, City Council and representatives of the International Association of Firefighters (IAFF) Local 22, the PICA Board voted to conduct a study of the PFD in order to seek suggestions and recommendations to increase the operational efficiency of the PFD. PICA released a Request For Proposals on March 21, 2011, with the purpose of hiring a consultant to conduct a comprehensive study of the management and operations of the PFD with emphasis on its future design and direction and proper consideration for the organizational climate to ensure the PFD is meeting community fire service and medical needs and expectations, while recognizing opportunities for innovation, improved efficiency and effective operations. This includes a review of all services provided, resources allocated to each service area, organizational structure, communications, human relations, budgeting, and the managerial structure and personnel.

After evaluating the proposals, the PICA Board selected a consultant to conduct the study. PICA Staff worked with the consultant and representatives of the City, PFD and IAFF Local 22 through the end of FY2011 on gathering and evaluating materials for the study. Completion of the study and submission of findings and recommendations is expected during FY2012.

Rainy Day Fund

In November of 2000, PICA released an Issues Paper “Philadelphia’s Fiscal Challenge: Finding a Way to Save,” which outlined the advantages of establishing a Rainy Day Fund and the best practices associated with the establishment of such a fund. At that time, it is worth noting that the City enjoyed a nearly \$300 million surplus.

As the paper noted, Rainy Day Funds provide an important tool for governments to handle hard to predict economic downturns. They serve as an alternative to raising taxes, cutting services, or incurring debt. Additionally, emergency reserve funds are perceived favorably by credit agencies, and have been cited by rating agencies as examples of prudent financial management and increased financial flexibility.

After years of attempts to create a Rainy Day Fund, a Bill was considered by City Council to establish such a fund, per the recommendations of PICA. PICA testified on behalf of the proposal on March 24, 2011, and the Bill was passed by City Council and signed by the Mayor. In order to allow for creation of the Fund in accordance with the City Charter, City voters must approve creation of the Rainy Day Fund. A ballot question enabling the creation of such a fund is on the November 8, 2011 ballot.

Goals for PICA - Fiscal Year 2012

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 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, and the persistent underinvestment in the City's infrastructure.
- 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.
- 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 FY2012 review of the City's Five-Year Financial Plan, Fiscal Year 2013-Fiscal Year 2017 (including Fiscal Year 2012). 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.

Pension Initiative

PICA has clearly identified the unfunded pension liability as one of the most serious threat to the city's fiscal health. The PICA Board has tasked the PICA Staff with

undertaking a review of relevant literature on public pension issues, identifying practices and innovations in other cities facing similar problems, and consulting with local experts on pensions, to determine whether or not the extent of the pension liability problem is accurately identified. The results of this initiative will be utilized to communicate the extent of the problem to policy makers and the public and to identify potential solutions for the City to consider.

Philadelphia Fire Department (PFD) Management Study

The management study of the PFD is expected to be completed during FY2012. PICA Staff will continue to oversee the work by the consultant to ensure that the study is completed on time and in a fashion so as to ensure the greatest opportunity for implementation of study recommendation so as to improve the operational efficiency of the PFD.

Website Update

Though the PICA website continues to serve as an able library of data and reports concerning the fiscal health of the City, PICA staff intends to explore opportunities to increase the interactivity of the website.

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 FY2012-FY2016 Plan continued to 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, and 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 2013-Fiscal Year 2017 (including Fiscal Year 2012) is thus anticipated to be received by PICA by March 23, 2012.

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 FY2011 Reporting Requirements

Due Date	Description
October 20, 2011	Receipt of 1st Quarter FY2012 Grants Revenue Fund Contingency Account Report
November 1, 2011	Receipt of 3rd Quarter FY2012 Prospective Debt Service Requirements Report
November 15, 2011	Receipt of 1st Quarter FY2012 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
January 20, 2012	Receipt of 2nd Quarter FY2012 Grants Revenue Fund Contingency Account Report
February 1, 2012	Receipt of 4th Quarter FY2012 Prospective Debt Service Requirements Report
February 15, 2012	Receipt of 2nd Quarter FY2012 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
March 23, 2012	Submission of proposed revision to Plan and addition of FY2017
April 20, 2012	Receipt of 3rd Quarter FY2012 Grants Revenue Fund Contingency Account Report
May 1, 2012	Receipt of 1st Quarter FY2013 Prospective Debt Service Requirements Report
May 15, 2012	Receipt of 3rd Quarter FY2012 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld
July 20, 2012	Receipt of 4th Quarter FY2012 Grants Revenue Fund Contingency Account Report
August 1, 2012	Receipt of 2nd Quarter FY2013 Prospective Debt Service Requirements Report
August 15, 2012	Receipt of 4th Quarter FY2012 Plan Report, Supplemental Funds Report and report concerning Commonwealth funds which may be withheld

Appendix A:
Financial Statements
and
Report of Independent Auditors