Pennsylvania Intergovernmental Cooperation Authority

Look Before You Leap?
The Fiscal Situation that Awaits the Next Mayor

PICA Issues Paper

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PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

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Look Before You Leap?
The Fiscal Situation that Awaits the Next Mayor

Overview

"What have I gotten myself into?"

That is the likely reaction of the new mayor after he or she surveys the City's fiscal challenges in January 2008. The new Mayor will quickly realize that he or she will have to make a number of crucial decisions within a short amount of time and that his or her flexibility will be sharply constrained by the long-term financial issues facing the City.

Within the first six months after assuming office, the Mayor will have to negotiate contracts with all of the City's major unions, develop a five-year plan, and determine how to obtain key objectives like enhancing public safety and strengthening Philadelphia's economy.

If the assumptions in the Plan are correct, in FY09, the new Mayor will have to make those decisions quickly while confronting the following:

- The general fund's balance will have dropped $130 million – 65 percent --in three years;

- The City's payment into the pension fund will be more than $110 million higher than it was during FY06. That increase will be caused primarily by the City's unfunded liability for which the City will pay over $100 million more in FY09 than it paid in FY06;

- Health medical insurance costs for City employees will be almost $80 million higher than they were in FY06 – even if the City is successful in appealing the recent Police and Fire health awards;

- It will have been eight fiscal years since the City invested even half of the amount its own City Planning Commission recommends be dedicated towards its capital budget;

- The City's long-term obligations will still be growing. In FY05, Fitch's noted the City's significant growth in fixed costs as one of the reasons that it was putting the City on negative watch. Fitch's has since removed the City from negative watch, but long-term obligations continue to grow and are projected to be $140 million higher in FY09 than they were in FY05;

- The City will still have a tax structure that puts it at a competitive disadvantage with other jurisdictions;

- The Mayor will have a budget that relies in part on the receipt of a $45 million loan repayment from PGW. It is unlikely that PGW will make that loan repayment and it is possible that additional financial difficulties at PGW could force the City to make additional payments to the utility; and

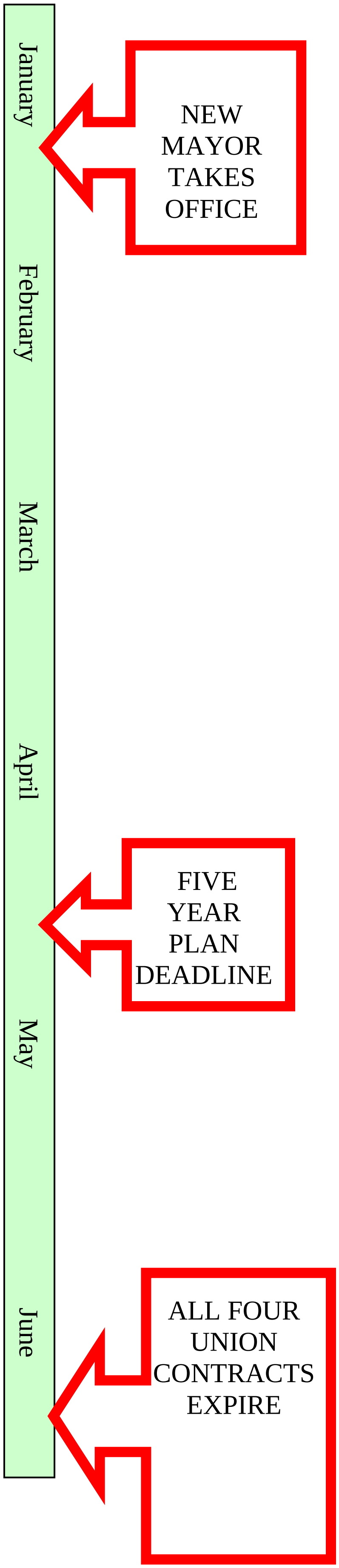
- There will be no Rainy Day fund to provide a buffer against potential emergencies. The City has indicated that it is talking to Council about establishing a budgetary reserve and hopes to have a question on the November ballot that would provide for the creation of such a reserve. It is possible, but not certain, therefore, that a reserve will have been established by the time a new mayor assumes office.

In order to guarantee the City's ongoing fiscal health, the Mayor will need to tackle those issues, but he or she will face a number of constraints. Increasing tax revenue to fund solutions for any of the issues would be counterproductive because raising tax rates would only serve to make the City's tax structure even less competitive. Cutting costs will be difficult because the combination of long-term obligations and funding that is reimbursed by other governments equals more than a third of the budget. Since cutting costs that are reimbursed will not provide a net benefit to the budget and long-term obligations are fixed costs, all the budget reductions would have to come from the remainder of the budget.

There are, however, options for the City and this paper will explore those options. This report includes summary information while PICA's website contains more detail on the issues highlighted here.

The following page shows the timeline that the new Mayor will face when he or she takes office.

The New Mayor's Timeline



The New Mayor will have to act quickly upon taking office. He or she will have 90 days to submit a Plan to PICA. That Plan will have to include strategies for the following:

- Dealing with the City's increasing pension costs and unfunded liability;
- Slowing or halting the rising cost of health insurance costs for city employees;
- Ensuring the fiscal health of the Philadelphia Gas Works in a way that doesn't require additional funding from the city;
- Increasing investment in the City's crumbling core infrastructure while not accelerating the already rapid growth in the City's long-term obligations.
- Making the City's tax structure more competitive without sacrificing key city services.
- Funding new initiatives the mayor will want to implement.

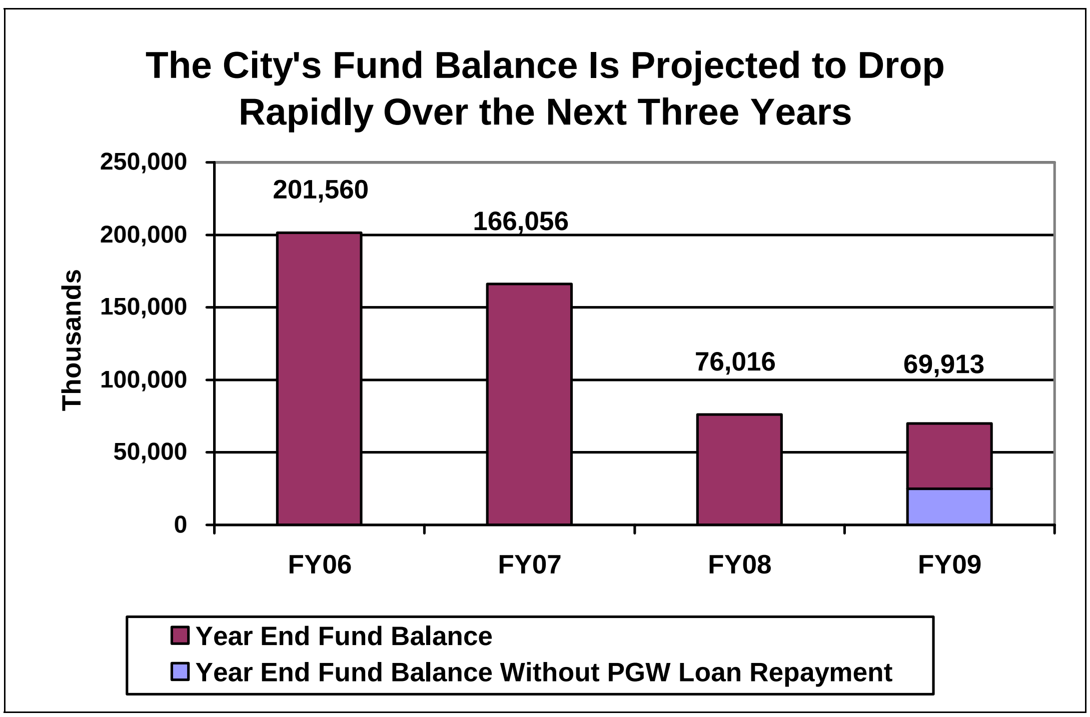
On July 1st, the collective bargaining agreements with all four of the City's major unions will expire. The Mayor will need to obtain fair and affordable contracts that address the City's pensions and health insurance issues without including excessive raises or giving up management rights that will help with controlling the size of the workforce.

Congratulations on Your Election: Here's What You've Won

In addition to winning a mandate to implement programs that will help achieve his or her vision for Philadelphia, the Mayor will inherit City government's finances. The approved FY07-FY11 Plan projects that those finances will include the following.

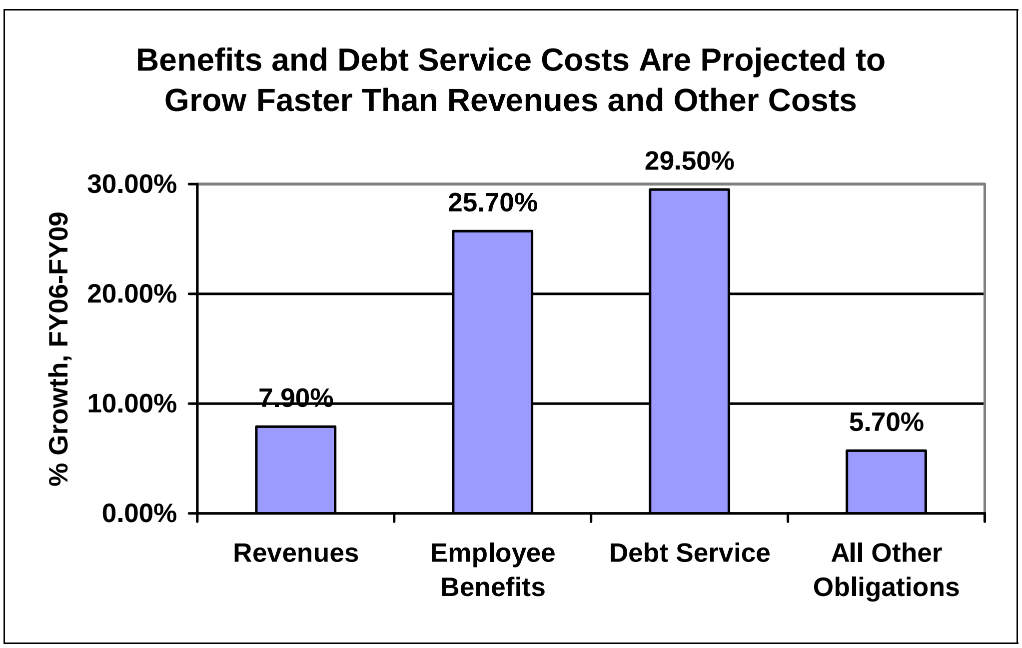
A Rapidly Declining Fund Balance

The general fund's balance generally provides a good gauge of the City's financial condition and the Plan's projections show that the City's financial condition will have weakened by FY09. According to the Plan, the City's fund balance will drop quickly over the next three years – falling from $201.6 million at the end of FY06 to $69.9 million at the end of FY09. That projected FY09 fund balance could be even lower, however, because it includes one of the most speculative items in the Plan – PGW's repayment of the City's $45 million loan. If the City does not receive that loan repayment – even if every other assumption in the Plan proves to be accurate -- the fund balance will have fallen 87 percent in three years from just over $200 million at the end of FY06 to $25 million at the end of FY09. In addition, the Plan includes no funding for pay raises for City employees after current collective bargaining agreements expire at the end of FY08.



Whether the fund balance meets the Plan's projections will depend in large part on the strength of the economy, the outcome of the city's union negotiations and the Administration's ability to control the size of the City workforce. If the economy remains strong, the City attains reasonable collective bargaining agreements and the size of the workforce is managed, it is likely that the fund balance would at least equal the amounts included in the Plan. In that case, the City should use some of its additional revenue to begin addressing the issues discussed in this report. On the other hand, if the economy weakens, the City does not negotiate contracts that control benefits costs and the size of the workforce continues to grow (it is budgeted to grow by three percent -- 700 positions – in FY07), the City will be struggling just to maintain a positive balance in FY09.

If the Plan's assumptions are accurate, the fund balance will be shrinking in large part because of rapid increases in employee benefits and debt service costs. The Plan projects that revenues will grow by about eight percent from FY06 through FY09. At the same time, the combined cost of employee benefits and debt service is projected to grow by over 25 percent. If, instead of growing by over 25 percent, employee benefits and debt service were growing at about the same 5.7 percent as other costs, revenues would be growing faster than obligations and the fund balance would be increasing rather being projected to drop by over $130 million.



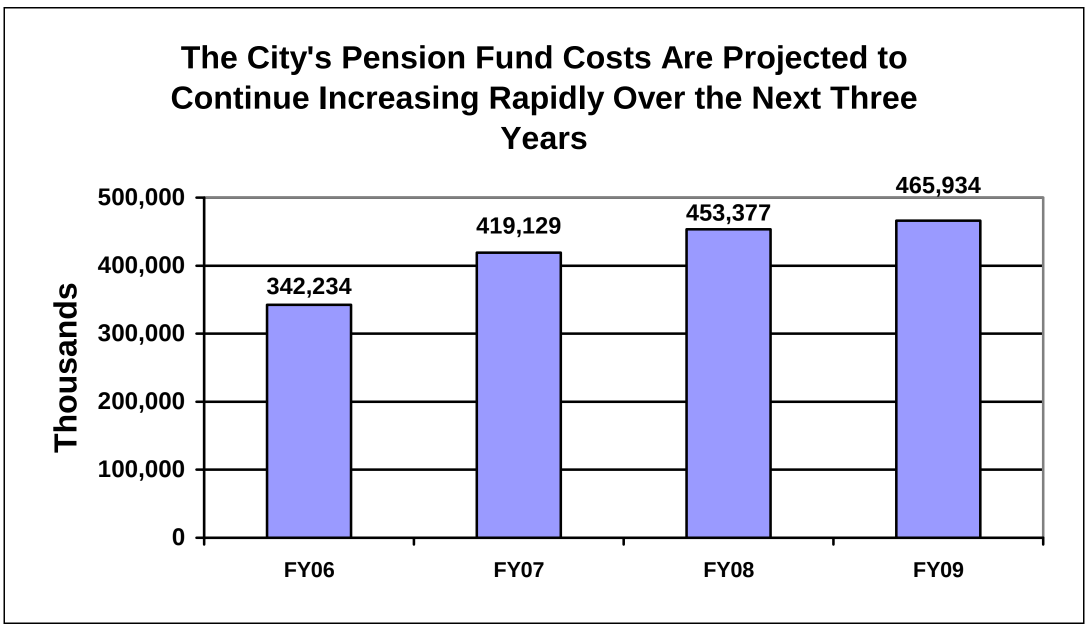
Skyrocketing Employee Benefits Costs

As the graph above shows, employee benefits are consuming a larger and larger part of the budget. This section of the report will show that the increase in benefits costs is being driven largely by pensions and health insurance.

Pension Costs

PICA has documented the financial challenges posed by the City's pension fund in a number of reports. For the purposes of this report, however, it is important to show how quickly pension costs are projected to rise and how much of the budget they are projected to consume.

The following chart shows the FY07-FY11 Plan's projections for the combined costs of the City's contribution to the pension fund and its pension obligation bond debt service payments.

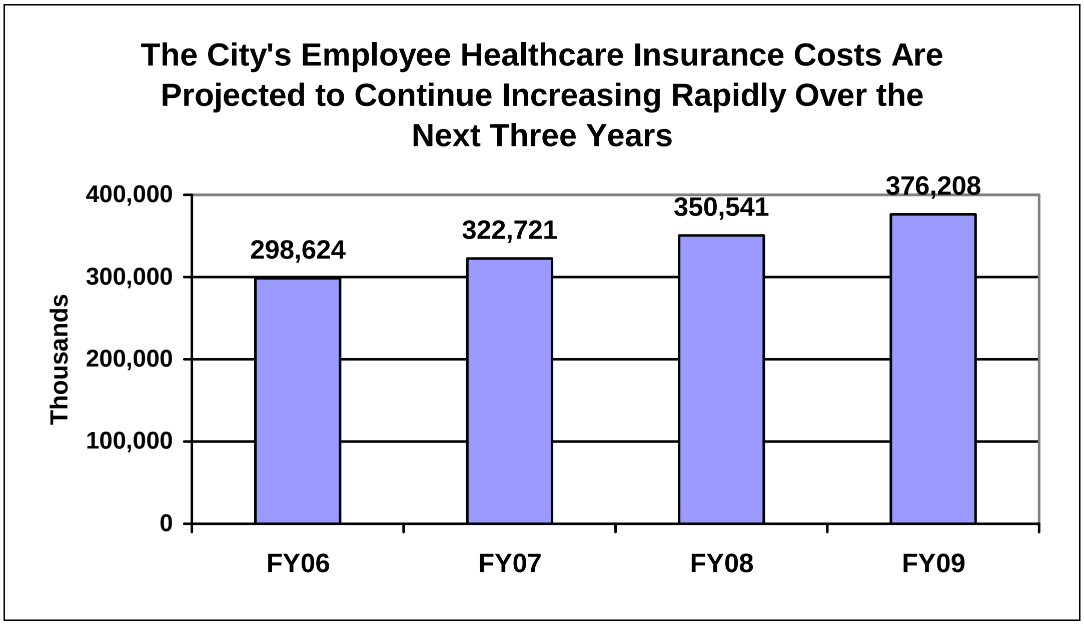


By FY09, pension costs are projected to equal over 12 percent of the City's budget. As recently as FY01, they were less than seven percent of the budget. Clearly, the increase in pension costs is squeezing out other parts of the City's budget.

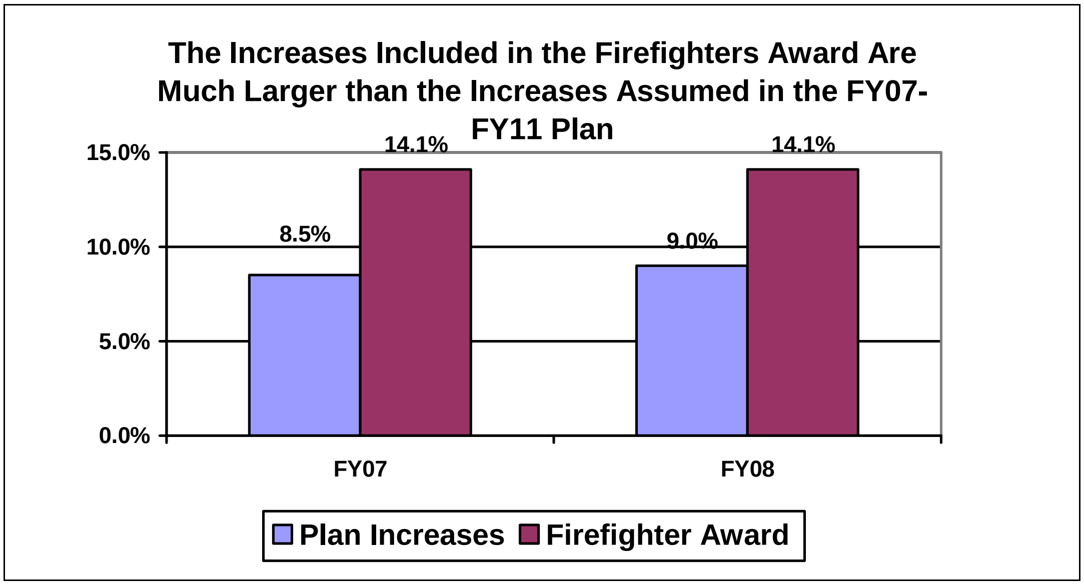
Pension costs have gone up for a number of reasons including to compensate for investment losses during the stock market's downturn and to pay for increases in the amount of time retirees receive pension benefits as employees enter retirement status earlier and live longer.

Health Medical Insurance Costs

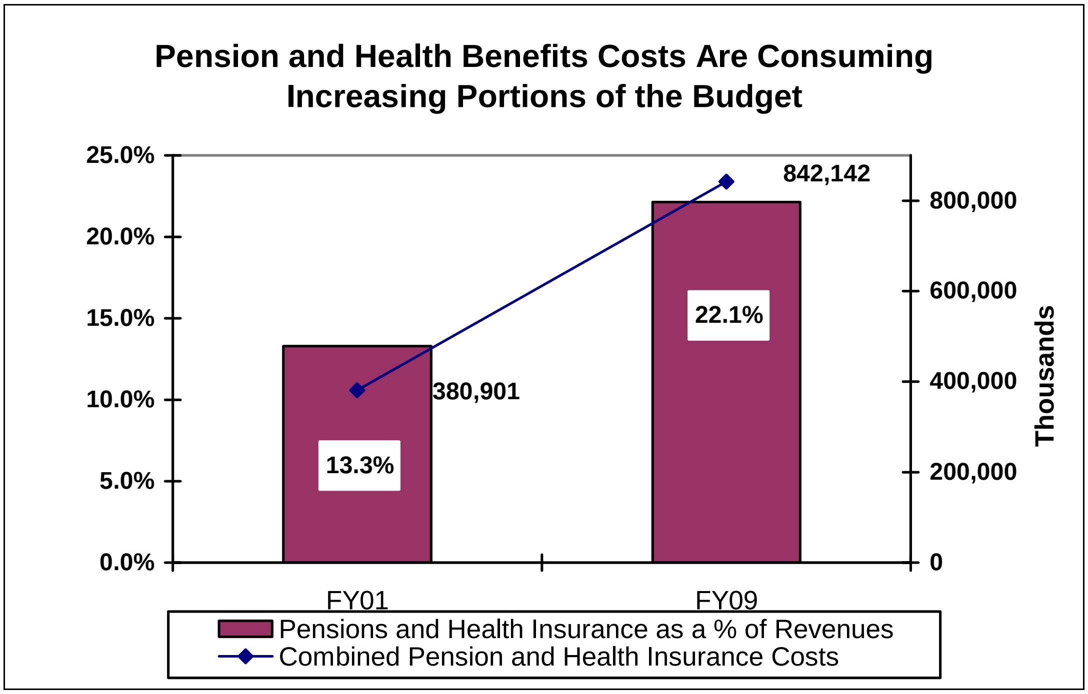
Businesses and governments around the country are facing skyrocketing healthcare costs. For the City, these costs are projected to continue increasing rapidly – jumping from $298.6 million in FY06 to $376.2 million in FY09.



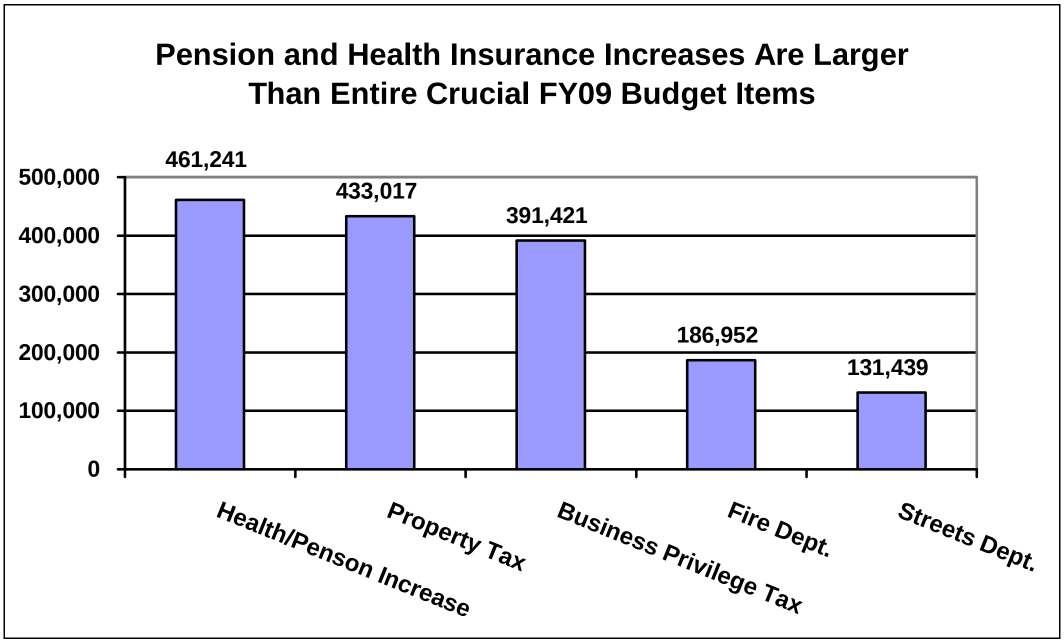
Unfortunately, the Plan's projected 26 percent increase in costs over three years may be optimistic. The Plan assumes the City will be successful in its appeal of awards made to the City's firefighters and police officers that call for double digit increases in the City's employee health benefits contributions. The police award called for an almost 16 percent increase followed by a ten percent increase while the firefighter's award included increases of 11 percent in its first year and 14 percent in its second and third years. The Five-Year Plan assumes costs will increase by nine percent or less annually. If the City is not successful in its appeals, health benefits costs will be tens of millions dollar higher than the amounts projected in the Plan.



<u>What's The Impact of the Pension and Health Insurance Cost Increases?</u>
The combined cost of pensions and employee health insurance is projected to be $840 million in FY09 – up about $460 million from FY01's number. That means that there are $460 million fewer dollars each year for services, tax reductions and the other long-term financial issues facing the City. The $460 million is also more than the projected FY09 cost of any City department, with the exception of police and human services, and is also more than the City would lose if it completely eliminated the Business Privilege Tax. By FY09, pensions and health benefits will devour 22 percent of the budget, up from 13 percent in FY01.



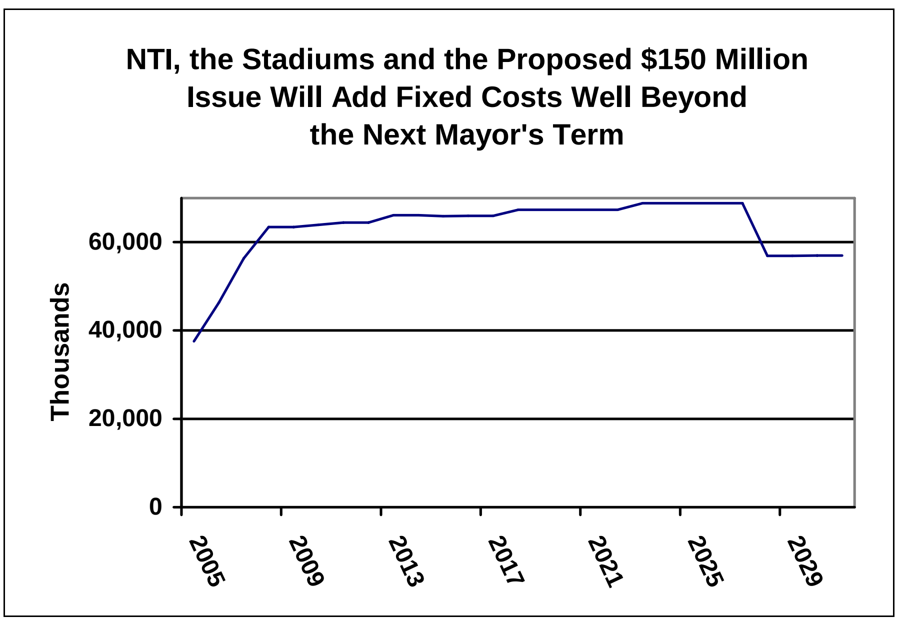
The following graph compares the FY01 to FY09 *increase* in pension and benefits costs to *totals* for other components of the FY09 budget.



If the new mayor does not take steps to halt the dramatic increase in health insurance and pension costs he or she will be making a *de facto* decision to shift more of the City's resources away from services or attacking the City's long-term structural issues and towards employee benefits.

Increasing Debt Service Costs

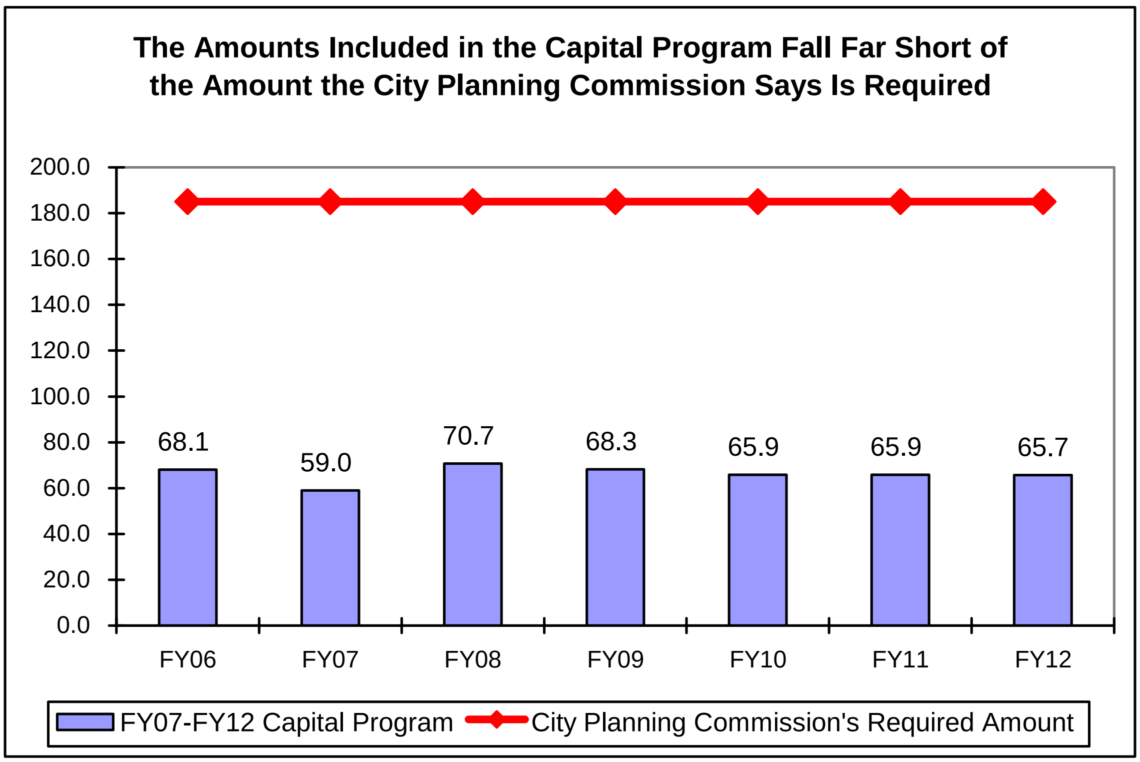
By FY09 the cost of the City's debt will be almost $50 million higher than it was in FY06 and almost $90 million higher than in FY01   That increase would have been even larger if not for the $14 million reduction in the costs for PICA debt service from FY06 to FY09. The largest reason for the increase in the City's debt service costs is the surge in borrowing done by the City through authorities. As the City's ability to issue its own debt has declined because of limits imposed by the Pennsylvania Constitution, it has increasingly turned to authorities to issue debt for it. The payments on that authority debt will have jumped from $42 million in FY01 to a projected $100 million in FY09. The projected increase in authority debt, in turn, was caused by bond issues to fund new stadiums and the Neighborhood Transformation Initiative and by the proposed bond issue to fund cultural institutions and commercial corridors. The combined costs of those three issues is scheduled to be $63 million in FY09 and will be at least $63 million each year through FY28, when they drop to $57 million where they are scheduled to remain until the debt is finally retired in FY31. Even if the next mayor serves two full terms, that debt service will be around for 14 years after the mayor's term ends.



By increasing the City's debt service burden, these bond issues cut into the City's financial flexibility and diminish its ability to address its infrastructure needs.

A Deteriorating Core Infrastructure

In FY00, the City Planning Commission did an analysis that found that the City should be investing $185 million annually in its infrastructure. Unfortunately, the City has fallen far short of that mark. In fact, the City's investment has not exceeded $90 million in any year since FY01 and is not programmed to be above $71 million in any year included in the FY07-FY12 Capital Program. The inevitable result of this chronic underinvestment is that facilities will deteriorate to the point at which they will need costly emergency repairs. By under investing in infrastructure today, the City is creating a large future liability. The next mayor is unlikely to be able to go through a complete term without facing at least one infrastructure emergency.



An Uncompetitive Tax Structure

Countless analyses have shown that the City's tax structure puts it at a competitive disadvantage. There are many explanations for why the City has higher taxes than its competitors, but that does not make it any less important to reduce the City's tax rates. The City has made some progress. Business privilege and wage tax rates have each been reduced every year for 12 consecutive years.

If the City were still imposing the rates it imposed before it started cutting the wage and business privilege taxes, taxpayers would be paying just over $275 million more in tax revenues in the current fiscal year than the budget projects – unless keeping the higher rates had shrunk the tax base. More, however, still needs to be done. The latest tax comparison done by Washington D.C. still shows that Philadelphia's wage tax is higher than income based taxes in other large cities. In addition, a study by Vertex for the Philadelphia Business Journal, ranked Philadelphia as having the second highest tax burden for business. Unless Philadelphia reduces those tax rates it will continue to be at a competitive disadvantage.

A Simmering Crisis at PGW

The new mayor will quickly be confronted with PGW's financial problems. The mayor will be faced with the strong likelihood that PGW will not make the $45 million loan repayment that is now scheduled to be made in FY09. But, the problem is much more severe that just the $45 million. PGW's problems are so deep that it is possible that the City will have to make additional financial contributions to the utility or even face a PGW financial collapse that would have ramifications for the entire region.

While the utility now has a narrow positive annual operating balance, its nearly $1 billion debt load and other fiscal constraints make it unlikely it will ever be able to repay the City loan. In fact, without its commercial paper program and the City loan, PGW would have a negative cash balance every month of the year. As the utility's capital demands continue to increase, even greater pressure will be exacted on the slender amount of funds available. Effectively, PGW is treading water financially until serious plans for its future can be determined.

There Will Be No Rainy Day Fund to Provide a Cushion

In a number of state and local governments, a newly elected mayor or governor can find some comfort in knowing that the government can draw on a rainy day fund if a crisis developed. The next mayor of Philadelphia may not have that comfort. The FY07-FY11 Plan makes no provision for the creation of a rainy day fund. There is, however, a possibility that a fund will be in place by the time the next mayor takes office. In a letter to PICA, the City's Acting Finance Director said the Administration is working with City Council on the creation of a fund. The letter said that the Administration's goal is to have a question on the November ballot that would ask voters to approve an amendment to the home rule charter to establish the fund. If such a fund were created, it would provide some additional fiscal stability. If, however, the fund is not successfully navigated through the steps that are still required for its implementation, the City will have to rely on what is projected to be a rapidly declining fund balance to provide a cushion against financial downturns.

Potential Solutions to the City's Long-Term Problems

There Are Potential Solutions, but the New Mayor Will Only Have 90 Days to Develop A Plan

"How do I get the City out of this?"

That will be the second question that the new mayor asks after the scope of the long-term issues facing the City becomes clear. As described above, there won't be a lot of time. The new Mayor will have only 90 days to develop a five year plan that proposes solutions for all of the issues discussed in this paper. Then, three months later, the Mayor must negotiate collective bargaining agreements with the City's four major unions.

The financial situation facing the next mayor will be extremely challenging, but it will not be hopeless. There are steps the mayor can take to tackle the issues he or she will confront. The rest of this report will discuss options for dealing with each of the issues.

Improving the Health of the Pension Fund Without Slashing the Rest of the General Fund

Cities and states have begun taking more aggressive approaches to controlling their pension costs and ensuring the health of their pension funds. As discussed in PICA's report on pensions, "An Ounce of Prevention: Managing the Ballooning Liability of Philadelphia's Pension Fund," there are a number of ways in which cities have been trying to reduce their costs while at the same time protecting the health of their funds. PICA recommended that the City consider offering a defined contribution plan and making changes to its benefit calculation for new employees. Several cities including Denver and Detroit have taken steps to reduce their pension costs.

A number of states have also taken action to improve the conditions of their pension funds. Oregon, Alaska and Michigan all now offer defined contribution plans. Jurisdictions that have decided not to offer defined contribution plans, have taken other steps to reduce their liabilities. Colorado's unions agreed to have employees contribute an additional three percent of their salaries to the pension fund and to increase the minimum retirement age rather than go to a defined contribution plan.

There are some advantages to employees in having the option of choosing a defined contribution plan – particularly for employees who plan to stay with the City for a short time and want to have a portable retirement plan. For other employees, the City could consider providing a financial incentive to switch to a defined contribution plan. Even if the combined cost of that incentive and the City's payment under a defined contribution system were roughly the same as the payment under the City's current defined benefit system, the City would gain because no new unfunded liability would be created for employees participating in a defined contribution plan.

Under the current system, since the City guarantees a benefit to its employees, it incurs an increased liability when the assumptions its actuary uses turn out to be overly optimistic. So, for example, if the pension fund earns less than the actuary projects or employees retire earlier and, as a result, receive their pensions longer, the fund's liability will increase. Under a defined contribution plan, the City only guarantees its contribution, not the level of benefit the employee receives. The risk is transferred to the employee.

Unless the city makes changes to it benefits calculation for new employees and gives all employees the option to move to a defined contribution plan, it will not have reduced the risk that it will continue diverting increasing amounts to its pension fund.

Slowing or Stopping the Growth in Health Care Insurance Costs

A number of jurisdictions have taken steps to slow or eliminate the growth in their health care costs, including the following:

- ***Changing plan design:*** Among the ways in which jurisdictions can change the designs of their plans are, for example, changing from an indemnity plan to a health maintenance organization; reducing the size of the plan's provider network, changing what kinds of procedures are covered by the plan and changing the types of drugs that are covered by the plan.

- ***Vendor management:*** Some jurisdictions use competitive bidding processes or check to ensure that their provider is properly paying benefits

- ***Individual health management:*** A key tool that can be used to help hold down the increase in costs is promoting healthier lifestyles among participants, particularly those who are at higher risk of serious disease. Employers can contract with third parties who will target negative behaviors and lifestyles that put members' health at risk. In order to ensure that employees participate in these programs, employers can provide financial incentives. Investing in these prevention programs can produce savings by reducing the number of serious health problems that involve costly surgeries, hospitalization, and intensive care.

- ***Aggregation:*** By joining different membership pools under one plan, employers can achieve significant savings by increasing their purchasing power and reducing administrative expenses.

- ***Cost sharing:*** Employers can control costs by increasing their employees' share of premiums, co-payments, and co-insurance. Generally, this strategy is effective for overly generous plans whose members are unaware of the true cost of the care they receive. In taking this approach, cities must be careful not to increase employee payments by so much that they dissuade participants from seeking preventive health care that can help avoid far more expensive health problems in the future.

To varying degrees, the City and its unions have tried some of these approaches – more can, and should, be done. The new mayor should propose an extensive health management program that would provide financial incentives for employees to participate. He or she should also pursue an aggressive vendor management program and the unions should agree to real joint labor-management control of the health funds. If an increasing portion of costs are shared with employees, the City should make sure those increases do not dissuade participants from seeking preventive and necessary care. To the extent those approaches do not control costs, the City should make plan design changes.

Investing in the City's Core Infrastructure

The first step towards improving the condition of the City's core infrastructure should be getting a better understanding of the magnitude of the underinvestment. The last estimate of the level of annual investment required to keep the City's infrastructure in good shape was done by the City Planning Commission in 2000 and, as written above, it determined that the City should invest $185 million annually.

In the six years since the City Planning Commission did its analysis, the City has consistently lowered its annual level of infrastructure investment and it has budgeted less than half of the Commission's recommended level each year since FY01. The combined impact of years of underinvestment and inflation likely means that the required level of funding has increased since 2000. In order to determine the appropriate level of investment, PICA will use a portion of its operating funds to pay for an updated assessment of the condition of the City's facilities. PICA's goal is to have the analysis done early enough so that it can be used as a resource for the next mayor's first capital budget and program.

Once the City knows the appropriate level of investment, it must identify funding sources. PICA has recommended that some of the infrastructure spending come from operating funds. By using operating funds, the City will meet a portion of its infrastructure needs without increasing its long-term obligations. Other cities, including New York, Baltimore and San Francisco use operating funds for capital investments.

Reducing the Growth in the City’s Long-Term Obligations

In addition to beginning to use some pay-as-you-go-funding, the next mayor should commit to incurring new debt only to fund investment in the City’s core infrastructure. By making this pledge, the next mayor would begin to reverse the trend of increasing debt for non-core items while underfunding the capital budget.

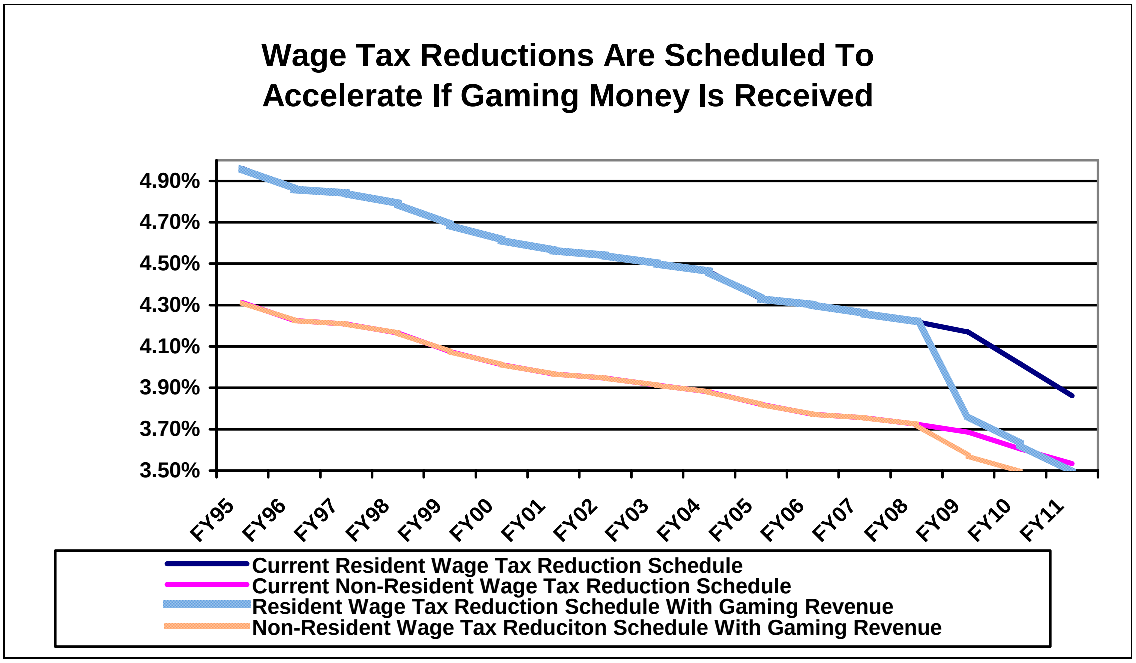
It is also important that the City have a public comprehensive debt policy. The last debt policy statement was issued in December, 1995, and has not been updated or adhered to. An updated debt policy could provide guiding principals for the City’s debt incurrence. For example, the policy should set an upper limit for debt service as a percent of the City’s locally generated revenues. With such a policy the City would be able to provide a rationale for why it is or is not issuing debt.

Making the City’s Tax Structure More Competitive

In order to make its tax structure more competitive, the City must continue to reduce rates for both the Wage Tax and the Business Privilege Tax.

Continuing to Cut Wage Tax Rates

The next mayor should continue with the current approach to reducing the Wage Tax. The Five-Year Plan’s scheduled annual reductions, when combined with reductions projected to be implemented when gaming revenue is received, would drop Wage Tax rates to 3.4885% for residents and 3.4249% for nonresidents by FY11. At those rates, the Wage Tax will have a much smaller impact on location decisions than it had in FY95, when it was 4.96% for residents and 4.3125% for non residents. The following graph shows the reductions in the resident and non-resident wage tax since FY95 and the scheduled reductions with and without gaming revenue.

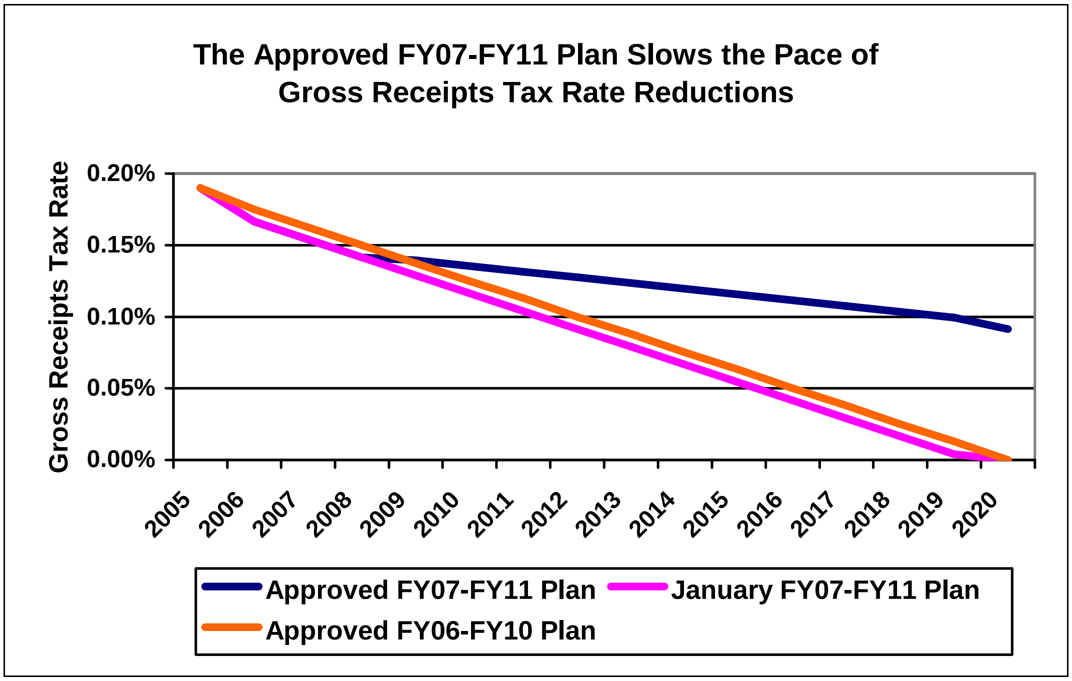


Even without gaming revenue, Wage Tax rates will have dropped 22 percent for residents and 18 percent for nonresidents from FY95 to FY11. With gaming revenues the Wage Tax reductions would be steeper – just under 30 percent for residents and just over 20 percent for nonresidents. By continuing the modest annual reductions that have led to those substantial cumulative reductions, the next mayor can further narrow the tax gap between Philadelphia and other jurisdictions.

Eliminating the Gross Receipts Portion of the Business Privilege Tax

The City should also continue to reduce the gross receipts portion of the Business Privilege Tax. The next mayor should commit to a schedule that would eliminate the gross receipts portion of the tax and that begins to reduce its net income portion.

In order to eliminate the gross receipts tax, the next mayor should, at a minimum, return to the pace of rate reductions included in the last years of the approved FY06-FY10 Plan. Carrying forward the pace of reduction included in that Plan – or the pace in the January version of the FY07-FY11 Plan -- would have eliminated the gross receipts portion of the business privilege tax by FY21. Using the slower pace of reduction included in the last years of the Approved FY07-FY11 Plan, on the other hand, would not lead to the elimination of the tax until FY44. The following graph compares the pace of reductions in the three plans.



Returning to the reductions included in the January version of the FY07-FY11 Plan would cost under $20 million through FY11 while reverting to the rates included in the FY06-FY10 Plan would reduce the City's cost by under $10 million over the life of the Plan. Making these cuts is the minimum the next mayor should do, while accelerating the cuts would enhance the City's competitive position.

Lowering the Risks at PGW

As PICA has said in its last several staff reports, PGW is one of the most difficult issues facing the City. Not only is it one of the few issues that could quickly create a fiscal crisis for the City, but it is also unlikely the City will be able to craft a solution to PGW's financial problems without outside help.

During discussions with PICA last year, the management of PGW placed its hope of regaining fiscal stability on three factors:

- A dramatic increase in funding of the Low Income Home Energy Assistance Program (LIHEAP);
- An increase in PGW collection rates from eighty-seven percent to ninety-two percent; and,
- The further development of the proposed Liquefied Natural Gas (LNG) plant.

Thanks in large part to new tools given to PGW by the State Public Utility Commission, PGW was able to increase average collection rates to over ninety-four percent. This dramatic increase enabled PGW to stabilize its finances and continue to pay its long-term obligations. This new fiscal stability resulted in better coverage ratios and a positive fund balance for FY2006 and a similar projection for FY2007. In making its projections, PGW assumed that it would no longer make a rent payment to the City.

Unfortunately, the other fixes anticipated by PGW were either not forthcoming or less helpful than originally anticipated. Although federal funding of LIHEAP did not change dramatically, the State provided additional supplementary funding for LIHEAP in response to the dramatic increase in fuel prices this past year. Despite this increase in available funds, extensive marketing, and the pressure of higher fuel bills on household budgets, most of the additional monies went unclaimed. PGW saw little to no benefit from the increase in LIHEAP funding.

While the proposed LNG plant could help PGW's finances, its likelihood of ever coming to fruition continues to diminish. PGW does have the facilities available, and has identified a viable private sector business to run the facility. However, among the estimated 50 proposed LNG sites, experts estimate that only ten will be approved. Security, local zoning and environmental issues have significantly slowed the approval process for these plants. Local opposition to the proposal will make it extremely difficult to implement.

There has also been a great deal of speculation about a potential sale of PGW. PICA staff has not seen any of the details of a potential sale, but in an ideal situation for the City, a buyer would be willing to acquire PGW; take on over $1 billion in debt; pay back the outstanding $45 million loan; and, make ongoing rent payments to the City -- all while maintaining the social service programs of PGW that relieve City government of the responsibility of directly providing those subsidies. While PGW provides valuable assets and a built-in customer base with growth potential in the commercial sector, it is unlikely that a buyer would be willing to agree to the above scenario.

A more likely sale scenario would still include the buyer's assumption of all outstanding PGW debt and payment of $45 million to cover the outstanding loan. The annual rent payments to the City would be a more complicated part of any negotiation, but should be used to offset the City's giving up PGW's social service requirements. The City would agree to eliminate PGW's low-income and elderly discounts. In return, the buyer would contribute a specified amount each year to be used for City residents eligible for the LIHEAP program[1]. This approach could assure the City that needy citizens will be aided through a proven program designed to help with energy costs. The buyer would be able to appropriately budget a set annual cost for funds that will directly aid its customer base and help those customers keep their accounts current.

The likelihood of a sale is uncertain, but such a sale with the appropriate conditions could all but eliminate one of the biggest risks facing the Plan.

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[1] These funds should supplement the currently available LIHEAP funds for City residents and not replace them.

Establishing a Rainy Day Fund

This issue may be resolved before a new Mayor takes office. If Council and the Administration are able to agree on rainy day fund legislation and if a ballot question is approved in the November 2007 election, a rainy day fund could be in place for the next mayor's first budget.

Conclusion

None of the issues discussed in this report will be easy for the next mayor to address. In many cases addressing these issues may require unpopular short-term sacrifices. These issues, however, will not go away. In fact, the longer the issues remain unaddressed the greater is the likelihood that they will push the City back into a fiscal crisis. It will, therefore, be imperative that the next mayor deal with the problems listed in this report immediately.