Pennsylvania Intergovernmental Cooperation Authority

Staff Report
on the
City of Philadelphia's
Five-Year Financial Plan
for
Fiscal Year 2014 - Fiscal Year 2018

September 17, 2013

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

1500 Walnut Street, Suite 1600, Philadelphia, PA 19102
Telephone: (215) 561-9160 – Fax: (215) 563-2570
Email: pica@picapa.org

Board of Directors

Chairperson

Sam Katz

Vice-Chairperson

Michael A. Karp

Secretary/Treasurer

Rhonda Hill Wilson

Assistant Secretary/Assistant Treasurer

Joseph A. DiAngelo

Member

Gregory S. Rost

Ex-Officio Members

Representative of the Commonwealth of Pennsylvania

Charles Zogby
Secretary of the Budget

Representative of the City of Philadelphia

Rob Dubow
Director of Finance

Staff

Stephen K. Camp-Landis .... Director of Research and Analysis

Dora Andonova .... Senior Associate

Deidre A. Morgenstern .... Accounts Manager

Kim Richardson .... Secretary/Receptionist

Professional Advisors

Authority Counsel

Reed Smith LLP

Independent Auditors

Heffler, Radetich and Saitta LLP

TABLE OF CONTENTS

I. Introduction and Staff Recommendation

This report analyzes the revised *Five-Year Financial Plan* for fiscal years 2014 through 2018 (the "Plan" or "Revised Plan") as submitted by the City of Philadelphia ("City") to the Pennsylvania Intergovernmental Cooperation Authority ("PICA" or the "Authority") on September 10, 2013. The Plan is a revision of a *Five-Year Financial Plan* covering the same period submitted to PICA on July 3.

The Revised Plan was required due to the City's decision on September 6 to withdraw its appeal of an arbitration award received by the International Association of Fire Fighters (IAFF) Local 22 in July 2012. This award covered the period from FY10 to FY13. The legislation that established PICA requires that: "If, after the exhaustion of all appeals, the final arbitration award is not in compliance with the approved financial plan…the assisted city shall submit to the authority a proposed revision to the plan which demonstrates that revenues sufficient to pay the costs of the award will be available in the affected fiscal years of the plan."[1] Because of the City's decision to end the appeals process, the IAFF award was considered final, and a revision to the Five-Year Plan was required that would take into account all the costs of the award.

The report is organized as follows. Section I contains an introduction which discusses the PICA Act criteria for financial plans. It also includes a discussion about the form of the City's Plan and options for change. This section concludes with a staff recommendation for PICA Board action on the Plan. Section II is a brief analysis of the Plan's projections of revenues and expenditures. Section III analyses the risks to the Plan, focusing on risks related to the cost of employee wages and benefits. Section IV is a discussion of spending and performance trends for various City agencies. Section V discusses trends in broad measures of the City's financial and economic health. Finally, section VI discusses policy and management issues that are related to the fiscal health of the City.

The first section of this introduction describes the PICA Act criteria for the Plan and assesses how well the Plan meets them. The remaining sections discuss the potential benefits of a new *Five-Year Financial Plan* structure that could better meet the demands of the PICA Act in today's fiscally stringent environment, while also promoting greater transparency and accountability and improving the City's ability to achieve its financial and policy goals.

PICA Act Criteria

The City of Philadelphia's *Five-Year Financial Plan* for Fiscal Year 2014 through Fiscal Year 2018 ("Plan") is the 22nd submitted to PICA since the Authority's establishment in 1991. The legislation that created PICA, the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class ("PICA Act") mandated that the Plan meet certain criteria.

Elimination of Deficits. The PICA Act requires that the Plan include projected General Fund revenues and expenditures for five fiscal years, including the current fiscal year and the succeeding four years. It shall include "components that will…eliminate any projected deficit for

[1] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(k)(3)(iv)

the current fiscal year and for subsequent fiscal years…”[2] The Plan as submitted meets this test. The Plan does include certain revenue enhancement and cost reduction initiatives that are sufficient to result in positive General Fund balances over the term of the Plan. However, this requirement of the Act does not assure that deficits will actually be avoided unless revenue and expenditure estimates in the Plan are based on reasonable and appropriate assumptions, another PICA Act requirement (see below).

Structure of the Plan. The Act requires that the first two years of the Plan shall present “total expenditures by fund and by lump sum amount for each board, commission, department or office of an assisted city…”[3] The following three years shall present “total expenditures by fund and by lump sum amount for major object classification…”[4] The Plan meets this requirement with respect to the General Fund, but not for all operating funds of the City. The Plan as submitted to PICA includes total expenditures for each agency of the City by major object classification for each of the five years of the Plan, not only the first two.[5] However, the Plan includes five-year projections of revenues and expenditures for the General Fund, Water Fund, and Aviation Fund only. Projections for the other 11 operating funds are not included. While the General Fund is the most important operating fund, the other funds are critical to the operations of certain departments.

The Act also requires that cash flow forecasts by fund shall be presented for the first year of the Plan. The Plan as submitted to PICA does meet this criterion, but only for the General Fund and other funds that are part of the consolidated cash account. Also, detailed projections of receipts and disbursements by month are provided only for the General Fund.

Description of Assumptions and Methods of Estimation. Under the PICA Act, the Plan must “be accompanied by a statement describing, in reasonable detail, the significant assumptions and methods of estimation used in arriving at the projections contained in [the] plan…”[6] This requirement is met primarily through information in the published Plan document and supporting documents provided to PICA by the City. The City does not supply a consolidated written statement of all the assumptions and methods of estimation used to determine the Plan projections.

Reasonableness and Appropriateness of Assumptions and Methods of Estimation. The Act also requires that assumptions and methods of estimation used to project revenues and expenditures must be “reasonable and appropriate…”[7] Reasonable and appropriate is defined in the Act as follows:

> Accounting Basis. The Act requires that estimates be on a modified accrual basis. The Plan meets this criterion. The City uses the modified accrual basis of accounting to

[2] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(b)(2)
[3] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(d)(1)(i)
[4] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(d)(1)(ii)
[5] Major object classification includes the following categories: personal services; purchase of services; materials, supplies and equipment; contributions, indemnities and taxes; debt service; advances and miscellaneous payments; and payments to other funds.
[6] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(d)(4)
[7] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(c)(1)

recognize revenues and expenditures for budgeting purposes. All Plan projections are presented on this basis.

Revenue Estimation. Under the Act, estimates of City-generated revenues must be "based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models." Revenues received from federal or state government are to be based on "historical patterns," "currently available levels," or levels contained in a budget proposed by the Governor or President or in a Congressional budget resolution. Estimatations of locally-generated non-tax revenues are to be based on "current or proposed rates, charges or fees, historical patterns and generally recognized econometric models."[8]

The Plan, as submitted, meets these tests. Tax revenue projections are based on spreadsheet models that take into account proposed tax rates, past collection patterns, and reasonable projections for growth in each tax base. Projected tax base growth is based on economic forecasts prepared by IHS Global Insight. These forecasts and the underlying models are reviewed by professional economists and their input is considered by City officials and incorporated into the Plan's projections of the tax base. Estimated federal and state revenues are based on historic trends and federal or state budget or policy proposals. Estimated locally-generated non-tax revenues are based on historic patterns, adjusted for any expected changes in fee levels or initiatives that will impact collections.

The City's revenue projections in aggregate have proved accurate in recent years, in part as a result of the discipline imposed by the Five-Year Financial Plan process. The revenue forecasts are one of the Plan's strengths.

Expenditure Estimation. The Act requires that estimates of appropriations shall include "all obligations incurred during the fiscal year and estimated to be payable during the fiscal year or in the 24-month period following the close of the current fiscal year, and all obligations of prior fiscal years not covered by encumbered funds from prior fiscal years."[9]

In assessing whether the Plan as submitted meets this criterion, the most significant assumptions relate to the cost of employee wages and benefits. It is these assumptions that are most crucial, in part because they are related to factors that are not entirely under the control of the City, and because employee compensation represents approximately two-thirds of the General Fund budget. The Plan's key assumptions relating to employee wages and benefits are as follows:

- In the case of bargaining units with contracts determined by arbitration, the Revised Plan generally assumes no wage increases in years for which a contract is not currently in force. The exception to this is that the Plan

[8] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(c)(2)

[9] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(c)(2)

assumes members of the International Association of Fire Fighters (IAFF) will receive wage increases of 2.5 percent in the first two fiscal years of the Plan.

- The Revised Plan assumes that the City will receive court approval to impose the terms of its final contract offer for DC33. It further assumes that the City will be able to achieve wages and benefit terms for DC47 that are similar to those it has proposed for DC33.

- The Plan assumes that for the Fraternal Order of Police (FOP) health fund, costs will increase 10 percent annually.

- For the IAFF, DC33, and DC47 health plans, the Revised Plan assumes no growth in the "per member per month" contributions that the City pays for the next five fiscal years.

- The Revised Plan assumes that the City will achieve pension cost savings for non-uniformed workers by requiring new employees to participate in a new hybrid pension plan, and by requiring increased contributions from current employees.

In the view of PICA staff, these assumptions collectively result in a high level of risk to the Plan. Because DC33 and DC47 employees have not received an across the board pay increase since 2007, the wage assumptions for these unions appear optimistic. For the City's uniformed employees that have continued to receive wage increases in recent years, past history suggests that the trend of modest annual wages will continue. While the health cost inflation has moderated in recent years, an assumption of no growth for five years for three major unions appears optimistic. Finally, there are significant obstacles to implementing the pension reforms the City has proposed.

A key mitigating factor is that the City can take various steps to moderate the cost of employee compensation. These steps might include: privatization of services, restructuring of employee health programs, expanded use of technology to increase labor productivity, and reductions in service levels. The problem presented by the Plan is that it does not provide detailed information about the actions the City might take to offset labor cost increases that are beyond the Plan assumptions, and their potential financial impact. For this reason, the Plan projections of employee compensation are not well supported. More specific information about the City's potential cost saving initiatives and their financial impact is needed.

Consistency between Budgets and Plan. The Act requires that "the proposed operating budget and capital budget" must be "consistent with the proposed financial plan."[10] The Plan, as submitted, meets this criterion. The estimates of operating revenues and expenditures in the first year of the Plan are consistent with the operating budget. Further, the Plan's five year projection

[10] Act of Jun. 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.209(f)(1)(ii)

of debt service costs is consistent with the funding requirements of the capital budget and six-year Capital Program.

An Alternative Structure for the Plan

The financial plan of the City should be an opportunity to clarify and develop strategies to solve long-term financial problems. The process of preparing the Plan should aid the City in developing effective solutions to these problems by requiring impact analyses of alternative courses of action and demonstrating the financial feasibility of the proposals that are ultimately chosen as the City's desired strategies.

Ideally, the City would initially prepare a baseline forecast that reflects no change in current policies or laws. The baseline would take into account reasonable projections of revenue growth due to economic growth, but would make no assumptions about changes in tax structure or rates. Further, the baseline would not only include the impact of labor contracts currently in force, but also make reasonable assumptions about future growth in the cost of employee wages and benefits based on past trends. This baseline forecast would indicate whether the City could maintain financial balance with no action, or whether changes would be required.

The next step in the planning process would be for the City to identify key financial problems and possible initiatives to address them. For instance, initiatives could be designed to create a more rational and competitive tax system, a sustainable pension system, an efficient system of employee health benefits, competitive wages for workers, more robust economic growth, well-maintained infrastructure, and improved services. The impact of alternative initiatives on revenues and expenditures would be estimated. The Administration would then propose, and City Council would adopt, a mix of strategies that reflects its collective wisdom about how to balance competing priorities in the best interest of the whole city. The strategies chosen would have to be financially feasible. In other words, the baseline forecast, combined with the impact of the chosen initiatives, would have to produce a balanced General Fund budget for the five-year term of the Plan.

The adopted plan would show clearly the baseline forecast and the impact of the City's adopted initiatives. This would allow the public to understand and assess the City's choices. It would also allow elected officials to monitor progress and make periodic corrections based on actual results. From a PICA perspective, the PICA Board would have greater assurance that the City could not only maintain short-term financial stability, but also take measured steps to address issues that threaten the City's long-term financial health.

The first two Five-Year Financial Plans approved by PICA, the Fiscal Year 1992 to Fiscal Year 1996 Plan, and the Fiscal Year 1994 to 1998 Plan, essentially followed this format. The plans presented a baseline forecast, and then showed a series of initiatives to increase revenues and reduce expenditures. The collective impact of all these initiatives was aggregated and the overall impact was reduced by 25 to 40 percent to reflect the possibility of implementation failure. The baseline forecast was adjusted by the anticipated discounted impact of initiatives to produce the final plan forecast. With this approach, the City tackled a structural deficit of over $100 million in three fiscal years, ending FY94 with a General Fund surplus of $15.4 million.

The City should give strong consideration to returning to this more structured and transparent approach to financial planning. The impact of the Great Recession and the slow recovery that has followed, combined with the ongoing crisis that the City is facing with respect to the sustainability of its pension promises, suggest that the City needs to revert now to a more proactive planning approach. If it does not, it risks a serious deterioration of its financial condition, and a reversal of the progress it has made in recent years toward lowering taxes and improving the quality of City services.

The Costs and Benefits of Change

It is worth considering the costs and benefits of the current approach versus the suggested alternative. This section will describe the impact of the alternative planning approach on several important values: transparency, accountability, labor contract affordability, and long-term results.

Transparency. The proposed alternative would be more transparent. It would clearly delineate the City's proposed courses of action with respect to services, tax policy, employee compensation, and other matters, and their financial impact. It would clarify the importance of each initiative in the short term and the long-term. It would also provide additional information to the public and elected officials about the basis for financial decision-making.

Accountability. The proposed alternative would improve the ability of the public to hold the Administration and City Council accountable for financial results. To the extent that actual financial results did not reflect initial projections, City officials would be responsible for explaining why and developing corrective action plans or alternative proposals. Credit for strengthening finances or blame for weakening finances could be more clearly attributed to particular causes and decisions. Elected officials would have even greater incentive to develop credible and feasible plans since they would be judged on their ultimate results.

Labor Contracts. The alternative proposed structure of the Plan could have a positive impact on the City's ability to achieve affordable and fair labor contracts through the arbitration and collective bargaining process. If the City were to include, in the Plan, various initiatives for increasing revenues and reducing expenditures, it would necessarily improve its apparent ability to pay for wages and benefits. But the proposed alternative would also include, as part of its baseline forecast, assumptions about increases in the cost of wages and benefits that the City believes are reasonable. This would tend to reduce the projected fund balance. Overall, these changes would result in a more realistic projection, not necessarily a projection of higher fund balances.

From the standpoint of an arbitrator, the more realistic projection might result in that arbitrator's placing more weight on the City's proposals based on its *Five-Year Financial Plan*. The arbitrator would have to demonstrate that any wage or benefit increases in excess of the City's

Plan assumption would be affordable. This would be difficult to do, given that the City would already have incorporated a series of initiatives to reduce spending and increase revenue. It is possible that the more transparent Plan would result in a more realistic discussion of the City's ability to pay for increased wages and benefits without impacting services, a discussion that could lead to results that were more satisfactory to both sides.

Long-Term Results. This is the area in where the alternative Plan format would likely pay the greatest dividends to the City. It would ensure that the planning process becomes more long-term in orientation and focused on problem solving. By embedding initiatives into the Plan, City officials would have a real incentive to prioritize initiatives to reduce costs and increase revenue because they are assumed in the City's Plan and necessary to the City's financial stability. Strategic thinking about the City's long-term financial challenges would become more widespread, and the resulting decisions would have to be defensible in the public forum. Progress in implementation could be assessed through public reports, and through annual updates of the Plan. Over time, it could be expected that a Plan focused on long-term problems would be much more likely to yield progress toward solutions.

From the perspective of PICA staff, the benefits of the alternative structure of the Plan are likely to far outweigh the costs. Staff hopes that future versions of the Five-Year Financial Plan move in the direction of this more transparent structure. This would return the Plan to its format during the early years of PICA's existence, and would result in a Plan more appropriate to the current period of resource constraint.

Risks of the Plan

As described in Section III below, the Revised Plan faces significant risks. The primary quantifiable risks are the impact of wage increases beyond those assumed in the Plan, employee benefit cost increases that exceed Plan projections, and the potential inability to achieve savings due to changes in pension benefits that have been proposed for DC33 and DC47 and are incorporated into the Plan projections. Under varying assumptions which are described in detail in Section III, the aggregate total of these risks ranges from $267.3 million to $590.5 million over the five fiscal years of the Plan.

In addition, there are other significant risks to Plan projections that are not readily quantifiable. They include: the possibility of higher pension contributions due to actual events that deviate from the assumptions upon which the projections are based; the potential need to provide additional City funds or tax authority to the School District of Philadelphia; the potential impact of the new property assessment system on the level of successful appeals of real estate assessments; and the potential that the City's economic growth could be below the Plan assumption, which would negatively impact tax revenues.

A Way Forward

In light of the significant risks to the Plan, and the problems created by the current structure of the Plan, the most appropriate course of action for PICA and the City may be to discuss changes in the basic structure of the Plan. Such changes would potentially have long term benefits for the

City's ability to address strategic issues. It would also ensure that the City is in a better position to comply with the PICA Act criteria for the Plan in the future. If the Plan included a baseline projection that reflected realistic projections of salary and benefit costs for all five years, combined with projections of the impact of initiatives to reduce spending and increase revenues, projections would more clearly meet the reasonableness test of the PICA Act, and the Plan would be more useful as a strategic document. In the long run, the City would be more likely to make progress on its most important challenges since the approach to addressing these problems would be clearly presented, and City officials and labor arbitrators would more clearly understand the importance of implementing them.

When Philadelphia was at the brink of insolvency in 1991, it was recognized by the General Assembly that the creation of an authority with the power to issue bonds on behalf of the City could resolve Philadelphia's short term cash problems. At the same time, an essential part of the solution was to mandate that the City annually prepare a five-year financial plan that could be certified as realistic by an independent financial oversight board. PICA came into existence to accomplish both these missions.

The process for the first 22 years of PICA's existence has generally worked well. The initial PICA bond issues resolved the over $200 million of General Fund deficit and restarted the City's capital program. The initial Five Year Plan, for Fiscal Years 1992 through 1996, in turn, provided the structure within which the City successfully negotiated new labor contracts with reduced costs of health benefits, moderate wage increases, and fewer official holidays. The FY92-96 Plan also was predicated on initiatives to reduce costs and increase revenues. These initiatives included: the creation of the Mayor's Office of Information Services, the centralization of fleet management, the privatization of the Philadelphia Nursing Home, a state mandate for Pennsylvania employers to withhold the City wage tax, a new 1 percent City sales tax, and a restructuring of the City's worker disability programs. These initiatives were generally successful, and the City achieved structural balance within two years.

Since that time, the Plan process has allowed the City to maintain fiscal stability over a twenty year period spanning two recessions, including the deepest recession since the Great Depression. It has provided the structure that has allowed the City to maintain fiscal stability for two decades, while also making significant reductions in wage and business taxes, reforming property tax assessment, while upgrading the quality of City services and capital infrastructure.

Despite these successes, significant challenges remain. There is the potential that much of the progress of the past two decades could be reversed if the City does not successfully confront the challenges of this decade. One of these challenges, the unsustainable pension system, has been decades in the making. Another challenge, the inability to resolve outstanding labor issues after four years, is more recent, but equally a problem. The City also continues to underperform other major cities in terms of several indicators of socioeconomic health: employment growth, poverty, and crime. The financial problems facing the City today are more acute than at any time since 1991. They call out for a different approach. A more structured and transparent financial plan is needed that is equal to these challenges. With such a Plan, the City will have a much better chance of sustaining the progress of the past two decades.

Staff Recommendation

PICA staff recommends that the Board disapprove the Plan as submitted to the Authority on September 10. The reason for this recommendation is as follows:

(1) The Plan obligation projections are not "reasonable," as required under the PICA Act, due their non-incorporation of reasonable assumptions relating to the cost of employee wages and health benefits over the next five years.

(2) The Plan includes the financial impact of initiatives to increase revenues and reduce expenditures, but these initiatives are not sufficient in themselves to produce a reasonable likelihood of positive fund balances over the next five years.

(3) Reasonable estimates of the cost of employee wages and benefits, if incorporated into the Plan, would produce a budget imbalance of $411 million by FY18.

As required under Section 209(g) of the PICA Act, the Board should request a revised financial plan to be submitted to the Authority within 15 days. This plan should eliminate the estimated budget imbalance. The Board should request that this budget imbalance be eliminated through the following measures: (1) changes to revenue estimates based on reasonable and appropriate assumptions as described in the PICA Act; and (2) initiatives to achieve cost reductions and revenue increases.

The Board should further request that the initiatives included in the revised financial plan should be described in detail, with the following information provided for each initiative: (1) a description of the initiative; (2) if the initiative is already underway, an indication of what has been accomplished to date; (3) a timetable for implementation; (4) a description of potential obstacles to implementation or other factors that could affect the timing or success of implementation; and (5) an estimate or range of estimates of the impact on revenues and expenditures of the initiative in each fiscal year of the plan, including the basis of the estimate or range of estimates.

PICA staff further recommends that the PICA Board enter into discussions with City officials to consider changes to the structure of the annual *Five-Year Financial Plan* of the type described in the Introduction to this report. The goal would be to produce a plan that is more transparent, promotes accountability, and serves as a vehicle to achieving solutions for the City's long-term financial problems. The Board should request that the *Five-Year Financial Plan* for fiscal years 2015 to 2019 incorporate these structural changes.

II. Analysis of Plan Projections

Overview of the Revised FY14-FY18 Plan

Table 2.1 presents an overview of the revised FY14-FY18 *Five-Year Financial Plan* ("Revised Plan" or "Plan") submitted to PICA on September 10, 2013. The Revised Plan projects a year-end fund balance of $223.9 million in FY13 and smaller fund balances thereafter.

This year's Plan, as in previous years, is balanced with a very slim margin. The fund balance projected in FY18 is $15.4 million. This fund balance represents 0.4 percent of obligations in FY18. The Plan presents an operating deficit viewed from the perspective of the full five-year period from FY14 through FY18. Over this period, Plan-projected obligations and prior year adjustments total $19,347.4 million, which exceeds projected revenues by $402.3 million (2.1 percent). The Plan is able to project a positive fund balance in FY18 because of the estimated FY13 surplus of $223.9 million.

The Revised Plan does not make provisions for building up a substantial General Fund surplus or a budget reserve fund, which could serve as a cushion against future economic downturns or other contingencies. The Plan projects a fund balance of $8.4 million in FY17 and $15.4 million in FY18. These amounts represent, respectively, 0.2 percent and 0.4 percent of obligations. Moreover, despite the establishment in 2011 of a Budget Stabilization Reserve Fund, the Plan does not make provision for any contributions to this fund. Under the amendment of the Home Rule Charter that created the Fund, no appropriations to the Fund are required unless the projected General Fund balance equals or exceeds 3 percent of General Fund appropriations. This threshold is not met in any fiscal year of the Revised Plan. Accordingly, the Plan makes no provisions for contributions to the Reserve Fund.

Table 2.1. Summary of Revised FY14-FY18 Five-Year Financial Plan ($ in Millions)

	FY12 Actual	FY13 Est.	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.
Revenues	3,591.4	3,696.6	3,729.9	3,691.2	3,763.1	3,840.8	3,919.9
Obligations	3,484.9	3,637.3	3,894.7	3,761.7	3,799.8	3,861.8	3,932.3
Prior-Year Adjustments	40.2	17.7	19.4	19.4	19.4	19.4	19.4
Adjusted Operating Surplus/(Deficit)	146.7	77.1	(145.4)	(51.1)	(17.3)	(1.6)	7.0
Prior Year Fund Balance	0.1	146.8	223.9	78.5	27.3	10.1	8.4
Year-End Fund Balance	146.8	223.9	78.5	27.3	10.1	8.4	15.4

Revenues

Table 2.2 presents Revised FY14-FY18 Plan projections of revenues by category, and Table 2.3 presents projected annual growth rates for major revenue categories from FY14 through FY18.

Table 2.2. Projected General Fund Revenues in Revised FY14-FY18 Five-Year Financial Plan ($ in Millions)

	FY12 Actual	FY13 Est.	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.
Taxes							
Real Estate	500.7	540.1	536.6	547.0	559.4	572.1	585.0
Wage and Earnings	1,196.3	1,228.7	1,274.1	1,313.0	1,334.5	1,351.0	1,363.5
Business Income and Receipts	389.4	453.0	410.0	403.1	392.1	400.8	411.6
Sales	253.5	257.6	270.8	165.0	179.8	190.2	199.4
Real Property Transfer	119.4	146.8	157.6	173.4	187.3	196.6	202.5
Parking	70.9	73.2	75.0	76.9	78.8	80.8	82.8
Other	40.2	37.4	36.7	37.4	38.1	38.8	39.4
Total	2,570.4	2,736.8	2,760.8	2,715.9	2,769.9	2,830.2	2,884.1
Locally-Generated Non-Tax							
Innovation and Technology	19.3	22.8	21.3	22.9	24.5	26.1	26.9
Streets	21.2	21.4	23.4	20.7	21.0	21.7	21.7
Fire	27.7	33.4	37.9	37.9	37.9	37.9	37.9
Licenses and Inspections	49.7	54.8	48.2	48.9	49.3	49.6	49.9
Records	16.1	17.3	17.4	18.1	18.1	18.1	18.1
Finance	17.9	17.5	20.3	19.5	20.3	19.6	20.4
First Judicial District	44.2	37.6	40.6	40.8	41.1	41.3	41.6
Other	60.7	67.7	66.8	66.9	67.4	67.9	68.5
Total	256.7	267.2	273.3	273.2	277.1	279.8	282.6
Revenues from Other Governments							
Public Health	54.7	54.5	59.2	59.2	59.2	59.2	59.2
Public Property	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Human Services	63.3	31.7	--	--	--	--	--
Finance	201.0	165.5	160.0	160.7	161.0	162.1	162.3
Revenue	48.7	38.7	39.2	36.2	36.2	36.2	36.2
PICA City Account	302.7	313.5	325.1	337.6	350.9	364.0	385.7
First Judicial District	15.4	15.1	15.1	15.1	15.1	15.1	15.1
Other	11.6	6.9	11.9	11.9	11.9	11.9	11.9
Total	715.9	647.4	628.6	638.8	652.3	666.5	688.5
Revenues from Other Funds	48.3	45.3	67.2	63.3	63.8	64.3	64.8
Total General Fund Revenues	3,591.4	3,696.7	3,729.9	3,691.2	3,763.1	3,840.8	3,919.9

Annual Tax Growth Rates. As shown in Table 2.3, real estate tax revenues are projected to decline 0.7 percent in FY14 and increase at annual rates of 1.9 to 2.3 percent in the following years, due to projected assessment growth of 3.0 percent in FY15 through FY18 and properties returning to the tax rolls after the expiration of tax abatements. Wage and earnings tax revenue is projected to increase in each year of the Plan, although at declining annual rates dues to projected reductions in the tax rate. Business income and receipts tax (BIRT) revenue is projected to decline 9.5 percent in FY14. However, due to the historic volatility of this tax, the City does not expect that the large increase in FY13 will be maintained in FY14 and beyond. BIRT revenues are projected to decline 1.7 percent in FY15 and 2.7 percent in FY16, due to tax reform initiatives, and increase 2.2 percent in FY17 and 2.7 percent in FY18, due to tax base growth.

Sales tax revenues are projected to increase 5.1 percent in FY14 due to tax base growth. A significant 39.1 percent decline in sales tax revenues is projected in FY15 due to the shift in that year of $120 million of tax proceeds to the School District of Philadelphia (SDP). Sales tax growth in the final three years of the Plan is relatively rapid because the SDP allocation is fixed at $120 million annually, while tax base growth continues to increase the City's revenues from the tax.

Real property transfer tax (RETT) revenues are projected to increase 7.4 percent in FY14, 10 percent in FY15, 8 percent in FY16, 5 percent in FY17, and 3 percent in FY18. The projected tax base growth rates for the RETT are the highest of any tax, reflecting an anticipated recovery in the housing market. The Plan's projected growth rates will result in projected FY18 revenues of $202.5 million, an increase of 38.0 percent from FY13. The FY18 projection is 14.3 percent below the FY06 peak of $236.4 million.

Table 2.3. Projected Annual Percentage Revenue Growth, Revised FY14-FY18 Five-Year Financial Plan

	FY13 Est.	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.
Taxes						
Real Estate	7.9	(0.7)	1.9	2.3	2.3	2.2
Wage and Earnings	2.7	3.7	3.1	1.6	1.2	0.9
Business Income and Receipts	16.3	(9.5)	(1.7)	(2.7)	2.2	2.7
Net Profits	2.3	(17.5)	2.3	1.9	1.5	1.2
Sales	1.6	5.1	(39.1)	8.9	5.8	4.8
Real Property Transfer	23.0	7.4	10.0	8.0	5.0	3.0
Parking	3.1	2.5	2.5	2.5	2.5	2.5
Amusement	(15.3)	10.2	2.0	2.0	2.0	2.0
Other	7.6	0.9	0.9	0.9	0.9	0.9
Total	6.5	0.9	(1.6)	2.0	2.2	1.9
Locally-Generated Non-Tax	4.1	2.3	0.0	1.4	1.0	1.0
Revenues from Other Governments	(9.6)	(2.9)	1.6	2.1	2.2	3.3
Revenues from Other Funds	(6.3)	48.5	(5.8)	0.8	0.8	0.7
Total General Fund Revenues	2.9	0.9	(1.0)	1.9	2.1	2.1

Tax Rate and Structure Changes. The Revised Plan makes provisions for tax changes that will affect the rates of the wage, earnings and net profits taxes, as well as the structure of the BIRT. Under the Revised Plan, over the period from FY13 to FY18, the resident wage tax rate will decrease from 3.928 to 3.7568 percent, and the non-resident rate, from 3.4985 to 3.346 percent. BIRT revenues are projected to decline 1.7 percent in FY15 and 2.7 percent in FY16 due to policy reform, notably the exclusion of the first $100,000 in receipts from the gross receipts tax base, and single sales factor apportionment for the net income tax. The exclusion will first impact revenues in FY15 with an estimated reduction of $18.4 million. The impact of the exclusion will increase to $26.0 million in FY18. Single factor apportionment is expected to impact revenues beginning in FY16, with a reduction of $19.5 million in FY16 through FY18.

With the implementation of the Actual Value Initiative (AVI) beginning in FY14, the combined City and School District property tax rate will decrease from 9.771 percent in FY13 to 1.34 percent in FY14. Under AVI, the City will implement a homestead exemption of $30,000 per property and gentrification relief of $20 million per year. The tax rate decrease from FY13 to FY14 will be combined with the move to full valuation of property. Real property tax revenue is expected to decline by $3.6 million from FY13 to FY14, maintaining approximate revenue neutrality even as the assessment system is changed significantly.

Extension of Two Percent Local Sales Tax. One of the significant changes between the version of the Plan submitted to PICA on July 3 and the Revised Plan submitted on September 10 is its incorporation of the impact of recent state legislation that will extend the 2 percent local sales tax in Philadelphia. On July 9, the Governor signed Act 52 of 2013 into law. This Act provides for the extension of the 2 percent local sales tax in Philadelphia. Under prior law, the rate of the tax had been scheduled to return to 1 percent after June 30, 2014. Act 52 requires that $120 million of the additional proceeds from the higher tax rate be allocated to the School District of Philadelphia (SDP). Of the remaining amount, $15 million from FY15 through FY18 is allocated annually to support debt service for City borrowing that will provide $50 million in one-time funding to SDP in FY14. Any remaining proceeds are required to be allocated to the City pension fund. The Revised Plan incorporates these provisions.

The Revised Plan projects that the incremental sales tax will generate approximately $600 million in additional revenue for the City and School District from FY15 to FY18. Of this amount, $480 million will be allocated directly to SDP. An additional $60 million will support debt service for a City bond issue to provide one-time support to SDP in FY14. The remaining $60 million will be utilized to increase the level of the City’s contributions to the Pension Fund. The Plan projects that the additional pension contributions supported by sales tax revenue will supplement the minimum municipal obligation (MMO) amount the City is required to contribute under state law. Overall the changes related to the increased sales tax are budget-neutral to the Plan; the increased revenues to the City are offset by increases in debt service and pension obligations. Nonetheless, they represent an important aspect of the Plan. The additional revenue provided to SDP under Act 52 will assist the District in dealing with its financial challenges. The increased funding for the City Pension Fund will help reduce the unfunded liability of the fund, which represents one of the major long-term financial risks of the City.

Non-Tax Revenue. Locally-generated non-tax revenues are projected to increase 2.3 percent in FY14, primarily due to initiatives to increase collections of commercial property refuse collection fees, fees for emergency medical services, and revenue from asset sales. This category of revenues is projected to remain roughly unchanged in FY15, and increase modestly in FY16 through FY18 at rates not exceeding 1.4 percent annually.

Revenue from other governments is projected to decline 2.9 percent in FY14, due to the phase out Department of Human Services (DHS) revenue. Since FY12, state and federal grants supporting DHS services have been primarily recognized in the Grants Revenue Fund, although small amounts of grant revenue were recognized in the General Fund in FY12 and FY13 for reimbursements of costs incurred prior to FY12. Overall revenue from other governments is projected to increase modestly over the final four years of the Plan at rates ranging from 1.6 to 3.3 percent annually.

Obligations

Table 2.4 presents the Revised Plan projected obligations for all major agencies and cost centers. Most cost categories change minimally over the course of the Plan, with certain exceptions. Pension costs are projected to increase significantly from FY13 to FY14, reflecting repayment of prior year deferred contributions from FY11 and FY12, lower-than-expected investment returns in FY12, a decrease in the assumed rate of return on investment, and other factors. Police Department obligations are projected to increase from $571.7 million in FY13 to $595.6 million in FY14, primarily due to wage increases required under the 2012 arbitration award. Debt service obligations are projected to increase from $210.0 million in FY13 to $288.5 million in FY18. This increase reflects the projected debt service on City borrowing to provide funding to the SDP in FY14, and projected new issuances of General Obligation debt in 2014, 2016, and 2018.

The Plan includes a provision for future labor obligations of $84.7 million in FY14, $35.2 million in FY15, $29.5 million in FY16, and $28.8 million in FY17 and FY18. Over the life of the Plan this provision totals $207.0 million, and includes the following four components:

- *FY10-FY13 IAFF Arbitration Award.* Over the life of the Plan, $111.9 million is included to fund the wage portion of the 2012 IAFF arbitration award covering FY10 through FY13. On September 6, the City withdrew its appeal of the award. These costs include retroactive payments to cover wage increases that would have occurred in prior years, as well as the increased annual costs in FY14 and beyond due to the ongoing impact of the annual wage increases mandated under the award.

- *Future IAFF Award.* A future arbitration process is expected to result in a new IAFF contract for the FY14-FY18 period. The Revised Plan includes funding for 2.5 percent annual wage increases for IAFF members in FY14 and FY15. Actual costs will depend on the outcome of the future arbitration process. The Plan includes $38.1 million to cover these wage increases.

- *DC33.* The Plan includes $36 million to fund the net cost of a package of compensation changes that the City presented as its final offer to DC33. This package includes wage increases, lump sum payments to the union health care fund, work rule changes to achieve overtime savings, pension reforms, and restoration of step and longevity increments. The proposed final offer also includes the right to furlough employees, but the Plan cost estimates do not assume savings from furloughs. The City is seeking court authorization to impose the terms of this offer.

- *DC47.* The Plan includes $21.0 million that represents its proposed compensation package for DC47. This package includes wage increases, a lump sum payment to the union health care fund, work rule changes to reduce overtime costs, pension reforms, and restoration of step and longevity increments. The package also includes the right to furlough employees, but the Plan cost estimate does not assume savings from furloughs.

The most significant risks related to obligation projections in the Revised Plan is that the reserve for future obligations will not be sufficient to cover actual labor-related costs. The Plan assumes no wage increases for a number of bargaining units during periods for which there is no currently settled contract – with the exception noted above. As discussed in Section III, these assumptions present a serious risk to the Plan. In addition, the Plan assumes no growth in per member per month (PMPM) payments to three of the union health plans, those operated by the IAFF, DC33, and DC47. In light of current trends in health care inflation, this assumption also poses a risk. Finally, the Plan projections assume the City will be successful in achieving reduced pension costs by requiring new employees to enter the City's new hybrid pension plan, and by increasing pension contributions for current employees. These assumptions may prove overly optimistic and as such pose an additional risk. These risks are quantified and discussed further in the next section.

Table 2.4. Projected General Fund Obligations in FY14-FY18 Five-Year Financial Plan ($ in Millions)

Agency/Cost Center	FY12 Actual	FY13 Est.	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.
Community College Subsidy	25.4	25.4	26.4	26.4	26.4	26.4	26.4
School District Contribution	48.9	69.0	69.1	69.1	69.2	69.2	69.3
Convention Center Subsidy	15.0	15.0	15.0	15.0	15.0	15.0	15.0
City Council	13.8	14.1	15.8	15.8	15.8	15.8	15.8
Debt Service	201.0	210.0	226.3	266.2	263.4	277.6	288.5
District Attorney	30.6	31.5	32.1	32.1	32.1	32.1	32.1
Fire	195.0	200.1	197.2	196.4	192.8	193.3	193.7
First Judicial District	116.9	108.3	105.0	105.0	105.0	105.0	105.0
Fleet Management	55.9	60.9	56.4	57.4	57.4	57.4	58.4
Free Library	33.3	34.0	35.3	35.3	35.3	35.3	35.3
Pension Payments	547.8	619.3	667.5	580.3	608.0	630.8	652.6
Other Employee Benefits	518.4	505.3	559.1	537.4	554.7	574.6	598.7
Human Services	101.9	101.7	98.3	98.3	98.3	98.3	98.3
Indemnities	32.6	32.5	32.5	32.5	32.5	32.5	32.5
Legal Services	37.1	38.7	40.1	40.1	40.1	40.1	40.1
Licenses and Inspections	21.2	21.8	22.6	22.6	22.6	22.6	22.6
Managing Director	21.7	35.0	33.9	33.9	33.9	33.9	33.9
Innovation and Technology	63.3	63.3	85.0	76.9	76.3	76.3	76.3
Supportive Housing	38.3	42.7	42.6	42.6	42.6	42.6	42.6
Finance/Risk Management	15.4	14.0	17.3	14.3	15.6	14.8	15.6
Property Assessment	8.0	11.6	13.3	11.9	11.9	11.9	11.9
Parks and Recreation	45.4	50.8	51.3	51.3	51.3	51.3	51.3
Police	552.3	571.7	595.6	592.0	592.1	592.6	599.0
Prisons	231.5	241.7	238.8	238.8	238.8	238.8	238.8
Public Health	107.2	108.8	114.5	114.5	114.5	114.5	114.5
Public Property	167.5	174.5	173.9	174.2	177.6	181.5	185.6
Sheriff	15.4	15.6	14.7	14.5	14.5	14.5	14.5
Streets	115.9	109.8	115.6	117.3	118.1	118.9	119.7
Provision for Future Labor Obligations	--	--	84.7	35.2	29.5	28.8	28.8
Other	108.0	110.4	114.9	115.4	115.6	116.5	116.7
Total General Fund Obligations	3,484.9	3,637.3	3,894.7	3,761.7	3,799.8	3,861.8	3,932.3

III. Risks to the Plan

This section analyzes the risks to the Revised Plan. Its focus is on labor-related costs not assumed in the Plan that could be incurred by the City. These risks depend on arbitration and collective bargaining processes, as well as City initiatives to contain employee health care costs and reform pension programs. The Revised Plan assumes savings from pension reforms for non-represented employees and employees represented by DC33 and DC47. Achieving these savings will require contractual and legislative changes.

This section estimates the range of potential risks and the impact on the General Fund balance if they are realized. The analysis does not consider the potential cost savings or revenue enhancements that could offset labor-related risks. The City can improve the financial position of the General Fund through various initiatives to increase collections, enact new revenue sources, deliver services more efficiently, or reduce service levels. The Plan makes some assumptions about cost saving and revenue enhancement initiatives, but these are modest.

Following the discussion of labor-related risks and their potential impact on fund balance, the section discusses other major risks that have not been quantified but are nonetheless significant.

Risks related to Potential Wage Increases

The City faces significant financial risks related to wage increases that are not assumed in the Revised Plan. As in the past, the Plan incorporates wage increases that are required under contracts currently in force. In addition it includes 2.5 percent annual raises for IAFF members in the first two years of the Plan. With respect to the major non-uniformed unions, the Plan also includes provisions for modest near-term wage increases. For DC33, the Plan assumes that the City will receive court approval to impose a package of changes to DC33 wages and benefits that were included in the City's "final offer" to that bargaining unit. The package includes wage increases of 2.5 percent, effective March 2013, and 2.0 percent, effective January 2014. For DC47, the Plan assumes that City will implement a similar package of wage and benefit changes, including a 2.5 percent wage increase, effective July 2013. The risk to the Plan is that actual wage increases over the next five years will be significantly greater than those assumed in the Plan.

For purposes of the analysis below, wage risk is estimated under three scenarios. For each bargaining unit, the risk is measured as the impact of additional wage increases in fiscal years for which no wage increase is assumed. Three assumptions are made regarding wage increases: annual increases of one, two, and three percent. These three assumptions are likely to cover a realistic range of possibilities with respect to most major bargaining units. Particularly for DC33 and DC47, wage increases beyond those assumed in the Plan are likely. These bargaining units have not received an across-the-board increase in the pay schedule since a 4 percent increase was implemented in July 2007. The overall price level in the Philadelphia region, however, has increased by 8.5 percent from FY08 to FY13, according to the U. S. Bureau of Labor Statistics.[1] Thus for many workers, inflation has eroded the purchasing power of wages substantially since

[1] U. S. Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers.

FY08. More substantial wage increases for these workers are likely to be needed to maintain the competitiveness of the City's compensation package.

The current status of labor contracts with each major bargaining unit is discussed in detail below. The Plan assumptions for each unit are described, as well as the risk associated with potential additional wage increases.

Fraternal Order of Police – Police Officers. The Fraternal Order of Police (FOP) is currently in the final year of a five-year contract determined under an arbitration award issued on December 18, 2009. This award covered the period FY10 through FY14. Under this award, wages were held flat in FY10 and increased by 3 percent in FY11 and FY12. Wages in FY13 and FY14 also increased by 3 percent under the terms of a reopener arbitration award issued on December 20, 2012. The 2009 award also increased the stress differential – a premium on regular base pay – from 4 to 5 percent beginning in FY11. The reopener award increased the stress differential from 5 to 6 percent in FY14. The City did not appeal the 2009 award or the 2012 reopener. Accordingly, wage increases required under both awards have been included in the *Five-Year Financial Plan* since the FY11-FY15 Plan.

The FY14-FY18 Plan includes funding for the 3 percent raise and 1 percent increase to stress pay in FY14, which results in an additional $20.1 million in Class 100 costs in FY14 and each subsequent year. No additional wage increases in FY15 and beyond are included. As shown in Table 3.1, the risk to the Plan ranges from $52.8 million to $161.7 million, depending on the level of wage increases assumed for FY15 through FY18.

Fraternal Order of Police – Deputy Sheriffs and Register of Wills. On June 21, 2011, Sheriff's Office and Register of Wills employees represented by the FOP received an arbitration award covering the period FY10 through FY14. For Sheriff's Office employees, the award included 2.5 percent wage increases in FY11 and FY12 with a reopener to determine wages in FY13 and FY14. For Register of Wills employees, the award included wage increases consistent with those negotiated between the City and DC33.

The FY14-FY18 Plan does not include potential costs for wage increases that might be awarded to Sheriff's Office employees in FY13 and FY14 under the reopener arbitration, nor does it include provision for additional wage increases after FY14. The wage risk for this bargaining unit ranges from $2.5 million to $7.7 million. The risk associated with Register of Wills employees ranges from $1.0 million to $1.6 million.[2]

International Association of Fire Fighters. The International Association of Fire Fighters (IAFF) received an arbitration award covering the period of FY10-FY13 on October 12, 2010. The award provided no wage increase in FY10, and 3 percent annual increases in FY11, FY12, and FY13. The City appealed the award to the Court of Common Pleas. The court upheld the appeal and remanded the award to the arbitration panel. On July 2, 2012, the panel issued a new award with wage provisions unchanged. The City appealed this award as well. The Court of Common Pleas denied the City's second appeal in November 2012. The City appealed this ruling to

[2] The estimate assumes that Register of Wills employees receive wage increases in FY13 and FY14 consistent with those proposed by the City under its "final offer" to DC33.

Commonwealth Court. On September 6, the City announced that it would withdraw its appeal. Pursuant to the PICA Act, the economic provisions of the award must be taken into account in the Five-Year Financial Plan. The Revised Plan, accordingly, includes funding to retroactively pay IAFF members the wage increases required under the FY10-FY13 award.

A new arbitration process to determine the IAFF contract for the period FY14 through FY17 is currently underway. The Revised Plan includes funding for IAFF wage increases of 2.5 percent in both FY14 and FY15. No additional wage increases are assumed beyond FY15. The risk to the Plan from additional wage increases in FY16 through FY18 ranges from $11.6 million to $35.4 million.

District Council 33. The last contract with District Council 33 (DC33) expired on June 30, 2009. In January, the City announced it had reached a stalemate in its negotiations with this bargaining unit. The City is seeking court approval to impose new contract terms on DC33 that reflect the City's "final offer." The terms include a 2.5 percent wage increase to take effect 30 days after a contract is implemented, which the Plan assumed to be March 1, 2013, and a 2.0 percent wage increase, effective January 1, 2014.[3] The Plan assumes that the City is successful in its effort to impose these terms on DC33. Accordingly, it reflects the costs of the proposed FY13 and FY14 wage increases. However, no additional wage increases are assumed. The risk of wage increases for FY15 through FY18 ranges from $19.9 million to $61.0 million.

District Council 33, Local 159. DC33, Local 159 represents correctional officers, youth detention counselors, and security guards. On March 16, 2012, an arbitration panel awarded a contract to Local 159 covering FY09 through FY14. The contract included a $1,100 lump sum payment as of the date of the award and 2.5 percent wage increases in FY13 and FY14.[4] The City has implemented the portion of this award relating to wages. The risk of wages increases in the final four years of the Plan ranges from $11.1 million to $34.1 million.

District Council 47, Local 2187. Local 2187 of DC47 includes non-supervisory, non-court employees. The City remains in negotiation with this bargaining unit. For this bargaining unit, the Plan assumes a 2.5 percent wage increase in FY14. The risk of wage increases in the later years of the Plan ranges from $7.3 million to $22.3 million.

District Council 47, Local 810. On July 11, 2012, an arbitration panel issued an award covering the period FY10 through FY14 for court employees represented by DC47, Local 810. The award required 2.5 percent wage increases in FY13 and FY14 and additional wage increases consistent with any increases negotiated with Local 2187 for FY11 and FY12. The award also required advancement of certain probation officers to a higher pay range. The Plan includes funding for the FY13 and FY14 wage increases. However, the City dissented from the award's requirement to increase probation officer pay and has not provided funding to the First Judicial District to

[3] The City's proposal also includes restoration of step and longevity increases (which were frozen in July 2009) on a prospective basis, changes to overtime policies, and authorization of furloughs for up to 15 days per year.
[4] The award also stipulated that employees have a right to receive additional wage increases consistent with those negotiated for other members of DC33 from FY10 through FY12, prospective restoration of step and longevity increments, and changes to overtime policies.

implement this provision. In response, Local 810 has filed an unfair labor practice charge. Should Local 810's position be upheld, the risk to the Plan is approximately $500,000 annually. The risk of additional wage increase beyond FY14 ranges from $1.8 million to $5.5 million.

Non-Represented and DC47 Local 2186. In September 2012, the City announced changes to compensation and work rules for non-represented employees and members of DC47, Local 2186, who are generally supervisory employees. The financial impact of these changes is included in the Revised Plan. They include a 2.5 percent wage increase, effective October 1, 2012, prospective restoration of step and longevity increments, and overtime changes. The risk of additional wage increases from FY14 through FY18 ranges from $5.8 million to $17.9 million for Local 2186 and $35.8 million to $110.3 million for non-represented employees.

Table 3.1 summarizes the wage risks described above for each bargaining unit in each fiscal year of the Plan. The impact of 1 percent, 2 percent, and 3 percent annual increases is shown. In addition, the impact total also includes the estimated cost of payroll taxes. Including payroll taxes, the wage risk to the Plan ranges from $157.2 million to $480.4 million.

Risks Related to Employee Health Benefits

Health care for City employees is provided through five separate funds, one of which is administered by the City, with the remaining funds administered by boards of trustees that are composed primarily of union representatives.

The City-administered health plan poses a relatively low risk to the Plan since the City controls its design. The City can change the terms of the plan, the scope of its benefits, and its required level of employee contributions. To control costs, effective in January 2013, the plan eliminated the point of service option and required higher employee contributions for the HMO and PPO options. The Revised Plan assumes no growth in the cost of this plan. Because the City has discretion to design the plan, the risk of this assumption is minimal.

The FOP health plan has adopted a self-insurance arrangement under which the City pays the actual cost of claims and administration. The cost of this plan increased approximately 10 percent in FY12 and 7 percent in FY13.[5] The Revised Plan projects that the costs will increase 10 percent annually through FY18. However, this appears to be a conservative assumption. The PricewaterhouseCoopers Health Research Institute projects that the net growth rate of health care costs (after taking benefit design changes into account) will be 4.5 percent in 2014.[6]

---

[5] This calculation excludes a one-time $28.0 million payment in FY12 to create an escrow fund required under the 2009 FOP arbitration award. Growth from FY12 through FY13 is based on spending through April.

[6] *Medical Cost Trends: Behind the Numbers 2014* (PWC Health Research Institute, June 2013).

Table 3.1. Wage Risk, FY14-FY18 Five-Year Financial Plan

Union Affiliation	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY14-FY18 Total
FOP – Police						
1 Percent	--	5.2	10.5	15.8	21.2	52.8
2 Percent	--	10.5	21.1	32.0	43.1	106.7
3 Percent	--	15.7	31.8	48.5	65.6	161.7
FOP – Sheriff						
1 Percent	0.4	0.4	0.5	0.6	0.7	2.5
2 Percent	0.7	0.7	1.0	1.2	1.5	5.1
3 Percent	1.1	1.1	1.5	1.9	2.3	7.7
FOP – Register of Wills						
1 Percent	0.1	0.2	0.2	0.2	0.3	1.0
2 Percent	0.1	0.2	0.3	0.3	0.4	1.3
3 Percent	0.1	0.2	0.3	0.4	0.5	1.6
IAFF						
1 Percent	--	--	1.9	3.9	5.8	11.6
2 Percent	--	--	3.9	7.8	11.8	23.4
3 Percent	--	--	5.8	11.7	17.9	35.4
DC33						
1 Percent	--	2.0	4.0	6.0	8.0	19.9
2 Percent	--	3.9	8.0	12.1	16.3	40.3
3 Percent	--	5.9	12.0	18.3	24.8	61.0
DC33 – Local 159						
1 Percent	--	1.1	2.2	3.3	4.5	11.1
2 Percent	--	2.2	4.5	6.7	9.1	22.5
3 Percent	--	3.3	6.7	10.2	13.8	34.1
DC47 – Local 2186						
1 Percent	0.4	0.8	1.2	1.5	1.9	5.8
2 Percent	0.8	1.5	2.3	3.1	4.0	11.7
3 Percent	1.1	2.3	3.5	4.8	6.1	17.9
DC47 – Local 2187						
1 Percent	--	0.7	1.5	2.2	2.9	7.3
2 Percent	--	1.4	2.9	4.4	5.9	14.7
3 Percent	--	2.2	4.4	6.7	9.1	22.3
DC47 – Local 810						
1 Percent	--	0.2	0.4	0.5	0.7	1.8
2 Percent	--	0.4	0.7	1.1	1.5	3.7
3 Percent	--	0.5	1.1	1.7	2.2	5.5
Non-Represented						
1 Percent	2.4	4.7	7.1	9.6	12.0	35.8
2 Percent	4.7	9.5	14.4	19.4	24.5	72.6
3 Percent	7.1	14.3	21.8	29.6	37.5	110.3
Total Wages						
1 Percent	3.2	15.2	29.4	43.7	58.2	149.7
2 Percent	6.3	30.4	59.0	88.2	118.0	302.0
3 Percent	9.4	45.6	89.0	133.7	179.8	457.5
Total Wage and Payroll Tax						
1 Percent	3.4	16.0	30.9	45.9	61.1	157.2
2 Percent	6.6	31.9	62.0	92.6	123.9	317.1
3 Percent	9.9	47.9	93.5	140.4	188.8	480.4

For health plans administered by DC33, DC47, and IAFF, the City makes contributions on a monthly basis for each active employee and retiree. For DC33 and DC47, these “per member per month” (PMPM) contributions have been unchanged at $975.76 since June 30, 2009, when contracts for these bargaining units expired. The Revised Plan projects no change in these costs through FY18. For IAFF, the FY10-FY13 IAFF arbitration award mandated significant increases in the PMPM amounts, from $1,270 in FY09 to $1,443 in FY10, $1,475 in FY11, $1,522 in FY12, $1,679 in the first quarter of FY13, and $1,620 in the final three quarters of FY13. While the award was under appeal, the City continued to pay into the fund the amount required under the expired contract, $1,270. However, an August 7 court ruling required the City to begin paying $1,620 per month into the fund, lifting the stay on the health fund portion of the award that had been in place while it was under appeal. With the City’s September 6 decision to withdraw its appeal of the award, it will be required to make retroactive payments to the IAFF health fund based upon what it would have been required to pay during the FY10-FY13 period under the award. In addition, the City will be required to continue to pay PMPM contributions of $1,620 until a new arbitration award is issued covering FY14 through FY17.

DC33. The Revised Plan includes a one-time payment of $25 million to the DC 33 health fund, which was a component of the City’s “final offer.” Beyond these one-time payments, the Plan assumes that the PMPM cost of the DC33 health plan will remain unchanged at $975.76 for the life of the Plan. This amount represents the amount the City has paid since FY08. The City’s proposal for $25 million in one time payments to the DC33 health fund (an amount that represents 29 percent of the overall costs of the DC33 plan in FY12) indicates that the current PMPM payment is insufficient to meet the costs of the plan as currently designed. Substantial increases in costs are likely in the future, unless the City succeeds in reforming plan design or administration. The City has not indicated what such reforms might be and the savings that might result. The risk to the Plan is estimated based on the assumption that costs will increase by 4.5 percent per year from FY12 through FY18. This will result in an additional $84.3 million in costs.

DC47. The FY14-FY18 Plan includes one-time payments of $14.2 million in FY14, $14.0 million in FY15 to the DC47 health fund, and no change in the cost of the Plan from FY14 through FY18. The situation with the DC47 plan appears similar to that of the DC33 plan. Current contribution rates are likely inadequate to meet the costs of the plan. Risk is estimated based on the assumption that actual costs increase by 4.5 percent per year from FY12 through FY18. This will result in an additional $33.8 million in costs.

International Association of Fire Fighters. The risk to the Plan has been substantially reduced by the City’s decision to withdraw its appeal of the FY10-FY13 arbitration award. The Plan projects that the PMPM cost for the IAFF health plan will remain unchanged at $1,620 for the FY14-FY18 period. If future arbitration awards, plan design changes, or changes in administration do not moderate the growth of health costs, actual costs could be higher. The FY10-FY13 award did give the City the option of instituting self-insurance for the plan. This could result in moderation in the rate of cost increase, but it is unclear what level of savings might be achieved. If these contributions were to increase by 4.5 percent annually beginning in FY14, the increased cost to the Plan would be $25.7 million.

Fraternal Order of Police. The risk of higher costs for the IAFF, DC33 and DC47 plans is offset by the City's conservative assumption of 10 percent growth in the cost of the FOP health plan. Reducing this growth assumption to 4.5 percent, a level more consistent with projected industry trends, results in a savings to the Plan of $86.7 million.

As shown in Table 3.2, the net impact of higher costs for the IAFF, DC33, and DC47 plans and lower costs for the FOP plan is a risk of $57.2 million.

Table 3.2. Employee Health Benefits Risk, FY14-FY18 Five-Year Financial Plan ($ in Millions)

Health Plan	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY14-FY18 Total
FOP	(0.9)	(8.0)	(16.2)	(25.5)	(36.0)	(86.7)
IAFF	0.5	2.3	4.9	7.6	10.5	25.7
DC33	8.0	12.2	16.7	21.3	26.1	84.3
DC47	3.2	4.9	6.7	8.5	10.5	33.8
Total	10.8	11.3	12.0	12.0	11.1	57.2

Risks Related to Pension Reform Savings

DC33 and DC47. The Plan assumes the new employees included in the DC33 and DC47 bargaining units will enter the City's new hybrid pension plan, Plan 10. The Plan also assumes that participants in Plan 67 will increase contributions to 6 percent of payroll, while participants in Plan 87 will increase contributions to one-half of normal cost.[7] These reforms were part of the City's final offer to DC33. The Plan also assumes that these pension changes will be achieved for DC47. The total General Fund savings estimated from these changes is $22.7 million for DC33 and $10.1 million for DC47.

Non-Represented Employees. The Plan assumes that the City will achieve its goals for pension reform for non-represented employees. Under the City's proposal, newly-hired employees would be required to participate in Plan 10. In addition, Plan 67 participants will increase contributions from 3.75 percent to 6.0 percent of payroll, while Plan 87 participants will increase their contributions from 30 to 50 percent of plan normal cost. These changes will result in an estimated savings to the Plan of $20.1 million. Implementation of the proposal requires City Council legislation.

The risk to the Plan is that the City will not successfully achieve these pension changes due to failure to achieve City Council approval of required legislation, court approval to impose the changes as part of the final offer to DC33, or achievement of a collective bargaining agreement

[7] Plan 67 participants are generally employees hired prior to January 8, 1987. Plan 87 participants are generally employees hired after that date.

with DC47 that includes these changes. The total risk to the Plan associated with pension changes for these groups is $52.9 million.

Summary of Risks

Table 3.3 summarizes the quantified risks. The net impact of the labor-related risks ranges from $267.3 million to $590.5 million. Absent any other changes to actual revenues and expenditures, under all three scenarios regarding the rate of annual wage increases, the General Fund would incur a deficit at the end of FY15, and the deficit would increase each year through FY18. The deficit in FY15 would range from $33.4 million to $71.7 million. In FY18, the deficit would range from $251.8 million to $575.0 million.

The risk analysis is designed to represent a realistic range of possibilities for the rate of growth in wages and employee health costs over the next five years. In addition, the assessment of pension related risk is included because it is a realistic possibility that the City will not achieve these savings through collective bargaining or legislation. As such, the analysis suggests that growth in worker compensation costs over the next five years will likely require significant initiatives – beyond those already included in the Revised Plan – to improve the General Fund's financial position so that a positive fund balance will be maintained.

Table 3.3. Summary of Risks and Potential Impact on Plan Fund Balance, FY14-FY18 Five-Year Financial Plan ($ in Millions)

Category	FY14 Est.	FY15 Est.	FY16 Est.	FY17 Est.	FY18 Est.	FY14-FY18 Total
Wage and Payroll Tax Risk						
1 Percent Growth	3.4	16.0	30.9	45.9	61.1	157.2
2 Percent Growth	6.6	31.9	62.0	92.6	123.9	317.1
3 Percent Growth	9.9	47.9	93.5	140.4	188.8	480.4
Health Benefits Risk	10.8	11.3	12.0	12.0	11.1	57.2
Pension Cost Risk	9.4	9.9	10.6	11.4	11.6	52.9
Total Risk						
1 Percent Growth	23.5	37.2	53.5	69.3	83.7	267.3
2 Percent Growth	26.7	53.1	84.7	116.1	146.6	427.1
3 Percent Growth	30.0	69.1	116.1	163.8	211.4	590.5
Plan Fund Balance						
As Submitted	78.5	27.3	10.1	8.4	15.4	
Taking Risk Into Account						
1 Percent Growth	55.0	(33.4)	(104.2)	(175.1)	(251.8)	
2 Percent Growth	51.7	(52.5)	(154.4)	(272.1)	(411.7)	
3 Percent Growth	48.5	(71.7)	(205.2)	(370.6)	(575.0)	

The Revised Plan does not make aggressive assumptions about initiatives to achieve cost savings or increased revenues through more efficient service delivery, changes in tax enforcement or other collection procedures. The primary assumptions are that $73.8 million in real estate tax revenue will be collected as a result of new enforcement initiatives over the life of the Plan, and that $63.1 million in increased non-tax revenue collections and expenditure savings will result from initiatives recommended by FTI consulting.[8] Within the context of the $19 billion five-year spending plan, these assumptions are modest. The City could find ways to increase revenues and reduce expenditures in ways that are not included in the Plan. This analysis shows that the City will have to do so to maintain fiscal balance over the next five years.

Alternative service delivery mechanisms, automation, new revenue sources, enhanced collections of existing resources, and targeted reductions in low-priority services are the types of changes the City should consider. In addition, more robust tax reform initiatives that shift the tax burden in ways likely to enhance economic growth may also contribute to fiscal balance in the long run. A primary weakness of the FY14-FY18 Plan as submitted to PICA is that it does not delineate the types of initiatives that will be necessary to maintain General Fund balance through FY18, and the City's strategy to implement them. As described in the Introduction to this report, the City should consider restructuring the *Five-Year Financial Plan* so that it clearly presents a baseline projection that incorporates realistic estimates of all costs required to maintain current service levels and estimated impacts of initiatives to improve the City's financial position.

The City notes that past arbitration awards have demonstrated the City's ability to successfully argue that wage increases should be accompanied by changes in benefit programs or work rules that will allow the City to afford the overall package of contract changes. For example the 2009 FOP arbitration award was accompanied by changes to pension and health care benefits and provisions that improved the City's ability to manage overtime costs. These savings at least partially offset the costs of the increased wages in the award. Similarly, other recent arbitration awards have been accompanied by changes in pension provisions that should result in cost savings. However, in the view of PICA staff, any cost savings the City is likely to achieve through future labor contracts are unlikely to fully offset the cost of potential wage increases. The point of this risk analysis is to demonstrate the potential for cost increases and the likely savings that will be necessary to maintain Plan balance. It must be concluded that substantial changes to cost of labor, the mechanisms of service delivery, or the portfolio of City responsibilities, will be needed to maintain Plan balance.

Other Risks Facing the Plan

The Plan faces other risks that have not been quantified in this analysis.

Pension Costs. The pension projections are based on an actuarial study that includes numerous assumptions that may not hold over the next five years. These include assumptions about the rate of return of pension fund investments, retirement rates, longevity, and the rate of wage increases. To the extent that actual experience deviates from the assumptions, the City's required minimum municipal obligation (MMO) contribution to the Pension Fund could be substantially higher than

[8] The recommendations are contained in *City of Philadelphia: Report on Findings*, February 26, 2013, FTI Consulting, available at: http://www.phila.gov/pdfs/2013-PhilaFindingsReport-Findings.pdf.

projected in the Plan. While it is possible that actual events could result in lower contributions, most pension analysts believe this is unlikely over the long run. The City estimates that the return on investments for the Pension Fund in FY13 was 12 percent, substantially higher than the assumed rate of return of 7.95 percent. This will result in an actuarial gain to the fund, which will have a positive impact on required contributions. The risk to the General Fund is that the *net* impact of all deviations from assumptions made by the City's actuary may result in higher General Fund contributions than currently projected.

School District of Philadelphia. Despite recent legislation providing additional resources for the School District of Philadelphia (SDP), the District continues to face a substantial long-term financial problem. To maintain educational services at an adequate level, it may be necessary to provide additional local resources to SDP, either through new taxes, increased dedication of existing City taxes to SDP, or increased direct General Fund transfers to the District. The amount of possible additional resources that the District could require is unknown at this time, but it could be substantial. Even if the District is granted new taxing authority, the impact on the City's tax base could reduce the rate of economic growth in the City going forward. At the same time, it should also be recognized that quality of public education in the City is a key component of the City's long-term economic competitiveness. Moreover, investments in education are likely to have long-term returns for City finances in the form of lower social service and criminal justice costs.

Actual Value Initiative. The City's reform to the property assessment system could result over the near term in a substantial increase in the rate of successful assessment appeals granted by the Board of Revision of Taxes. The Plan assumes that assessment reductions due to successful appeals will increase from 1.5 percent of the initially certified assessment in 2013 to 2.5 percent in 2014. However, the actual increase could be higher, which would result in real estate tax revenue below the Plan projection.

Another factor that could impact real estate tax collections is utilization of the homestead exemption which will be granted to owner-occupied residential properties beginning in FY14. The Plan assumes that 275,000 exemptions will be granted, each resulting in an exemption of the first $30,000 of assessed value. According to City officials, the Office of Property Assessment has approved 205,000 exemptions to date. If the actual number of approved exemptions is less than the Plan assumption, this could positively impact the Plan estimates.

The net impact of changes from Plan assumptions with respect to appeals and homestead exemptions, along with other factors, will determine the relationship between actual revenues from the real estate tax and Plan projections.

Economic Growth. The recovery from the Great Recession has continued steadily in recent years. City tax bases have also shown modest but steady growth since FY11. However, there is a risk that the pace of recovery could decline or another recession could occur. If so the City's tax revenue projections, which assume steady growth through FY18, could be overly optimistic. One particularly sensitive assumption may be the rate of growth of the real estate transfer tax, which is projected to increase at a rate of 10 percent in FY14 and FY15, 8 percent in FY16, 5 percent in

FY17, and 3 percent in FY18. If the housing recovery is less robust than this projection assumes, this projection will be at risk.

IV. Spending and Performance

This section contains brief summaries of financial, personnel and performance data for major City agencies for the period from FY08 through FY14. Data through FY12 are actual amounts. Financial data for FY13 and FY14 are estimates drawn from the City's proposed FY14 budget document.[1] Performance and personnel data for FY13 are actual figures from the most recent Quarterly City Managers Report. Performance and personnel data for FY14 are not shown because these data are not available on a basis comparable to the data through FY13.

This section is presented as a way to prevent a broad overview of financial and performance trends in major City agencies. It is hoped that the section provides some perspective on the service priorities of the City and the extent to which City departments are making progress toward meeting their basic mission.

Police Department

Table 4.1. Police Department: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	509.1	517.4	512.5	520.7	536.5	555.0	579.7
Other	14.8	16.9	16.4	15.5	15.7	16.7	15.9
Total	524.0	534.3	528.9	536.2	552.3	571.7	595.6
Total Obligations							
Personal Services	526.4	534.6	530.2	540.8	556.1	574.1	603.8
Other	19.1	24.2	24.2	19.4	24.1	58.5	42.1
Total	545.6	558.8	554.4	560.2	580.2	602.6	645.9
Positions							
General Fund	7,367	7,443	7,378	7,219	7,225	7,193	
Total	7,531	7,605	7,546	7,384	7,390	7,357	
Performance							
Clearance Rate (Percent)							
Homicide	66.0	79.3	71.8	67.6	64.0	72.4	
Part 1 Violent Crime	49.8	50.7	51.4	49.7	48.8	51.1	
Part 1 Property Crime	17.2	17.7	17.1	15.9	16.4	17.8	
Total Part 1 Crime	25.3	26.1	25.6	24.0	24.1	25.9	
Crime							
Homicide	350	314	305	318	350	239	
Part 1 Violent Crime	20,596	20,279	18,602	18,521	18,224	15,874	
Part 1 Property Crime	62,073	58,712	56,493	58,809	59,061	49,501	
Total Part 1 Crime	82,669	78,991	75,095	77,330	77,285	65,375	

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; Pennsylvania Uniform Crime Reporting System.

[1] Financial data for FY13 and FY14 are not generally comparable to actual data through FY12. In the case of FY13, these amounts are estimates, and in the case of FY14, the amounts are budgeted. Because the City generally cannot exceed the overall appropriation levels contained in the budget, budgeted figures are generally somewhat higher than actual figures.

Obligations and Personnel. Obligations for the Philadelphia Police Department (PPD) increased $34.6 million from FY08 through FY12, primarily due to a $29.7 increase in personal services. Filled full-time positions, as of the end of the fiscal year, declined by 141 over this period. The increase in personal costs has occurred despite reductions in personnel due to the 2009 arbitration award for the FOP, which granted across the board wage increases of 4 percent in FY09, 3 percent in FY11, and 3 percent in FY12.[2] This trend of increasing personal service costs is projected to continue in FY13 and FY14, due to the terms of the 2012 reopener arbitration award, which included wage increases of 3 percent in both FY13 and FY14. Personal services costs have also been impacted by increases in the stress differential from 4 to 5 percent in FY11, and from 5 to 6 percent in FY14, under the terms of the 2009 arbitration award and the 2012 wage reopener.

The Revised Plan includes funding sufficient to maintain uniformed personnel levels at 6,500 through FY18. It also includes funding to meet the terms of the federal Community Oriented Policing Services (COPS) grant, which will fund an additional 25 uniformed positions from FY14 through FY16. Under the terms of this grant, the City cannot reduce uniformed levels until one year after the expiration of this grant.

Performance. Recent trends indicate that the Department's strategy to reduce crime is having a positive effect. From FY08 to FY13, Part 1 violent crime incidents declined 22.9 percent, and Part 1 property crime declined 20.3 percent. Homicide declined from 350 in FY08 to 305 in FY10 before increasing to 350 in FY12, and then declining to 239 in FY13. Nonetheless, crime remains a serious problem. In 2012, Philadelphia's homicide rate of 21.5 per 100,000 residents ranked third out of 25 of the largest US cities. Its overall Part 1 violent crime rate ranked seventh out of 25 cities. Philadelphia's homicide rate was 2.4 times that of Boston and 4.3 times that of New York City.[3] The gap between Philadelphia and its nearest competitor cities suggests that significant reductions in crime are possible over the long term, assuming the City maintains a disciplined strategy and provides adequate financial support to PPD and other agencies within the criminal justice system.

Program Goals and Initiatives. Since FY08, PPD has implemented a wide range of initiatives to address crime. The department's 2008 Crime Fighting Strategy, and *Making Philadelphia a Safer City*, a progress report issued in 2011, describe these initiatives. One of the most notable initiatives is the creation of Police Service Areas (PSAs), small geographic units within each police district. Uniformed personnel are assigned to specific PSAs, with each PSA responsible for developing an action plan to address crime. Other initiatives include: targeting resources to high-crime areas; establishing and reporting on performance goals; collaboration between the PPD and community institutions; employee development; and emphasis on research and evaluation.

[2] The FY09 wage increase included a 2 percent increase effective July 2008 and an additional 2 percent increase effective January 2009.

[3] Federal Bureau of Investigation, Preliminary Annual Uniform Crime Report, 2012. The 25 comparison jurisdictions were: New York City, Los Angeles, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas, San Jose, Jacksonville, Indianapolis, Austin, San Francisco, Charlotte-Mecklenberg, Fort Worth, Detroit, El Paso, Memphis, Boston, Denver, Seattle, Baltimore, Nashville, Milwaukee, and Portland (Oregon). Chicago and Washington, DC were excluded from the comparison group because comparable data was not available.

Fire Department

Table 4.2. Fire Department: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	169.9	170.0	169.5	174.4	173.5	176.2	173.2
Other	19.3	19.1	19.4	19.4	21.5	20.3	23.9
Total	189.2	189.1	188.9	193.8	195.0	196.5	197.2
Total Obligations							
Personal Services	175.1	175.6	174.7	180.0	179.9	187.5	186.4
Other	19.8	19.6	20.5	20.4	22.7	28.0	32.7
Total	194.9	195.2	195.3	200.4	202.6	215.5	219.1
Positions							
General Fund	2,326	2,259	2,187	2,146	2,072	2,125	
Total	2,390	2,327	2,256	2,218	2,144	2,202	
Performance							
EMS Incidents	215,305	217,505	222,882	227,147	229,813		
EMS Response Time	7:05	6:49	7:14	7:46	7:48		
Fire Response Time	4:32	4:33	4:46	4:57	4:57		
Number of Structural Fires[1]	1,791	1,634	1,362	3,041	3,108		
Fire Deaths	33	36	32	41	24		

Note:
[1] The definition of structural fires changed on July 1, 2010 when the City switched to a new reporting system required by the federal government.

Obligation and Personnel. Departmental obligations increased $7.72 million from FY08 to FY12. Personnel costs increased 2.8 percent, while full time positions decreased by 246.

Program Goals and Initiatives. In FY14, the Department will be hiring an EMS Deputy Commissioner to address the growing need for EMS services and improve the efficiency and effectiveness of these services. This includes overseeing the development of a priority dispatch system and a public education campaign focused on appropriate use of the 911 system. Additionally, PFD will be implementing Geographical Information System software to improve operations management, provide real time information, and equip the department with a data analytic capacity needed to inform policy and management decisions.

Prisons System

Table 4.3. Prisons System: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	122.7	124.6	120.9	117.9	121.5	128.0	128.6
Other	99.3	116.7	112.9	113.2	110.0	111.7	110.2
Total	222.0	241.3	233.8	231.2	231.5	239.7	238.8
Total Obligations							
Personal Services	122.7	124.6	120.9	117.9	121.5	128.0	128.6
Other	99.4	116.8	114.4	114.7	110.7	112.7	110.9
Total	222.1	241.4	253.3	232.6	232.2	240.6	239.5
Positions							
General Fund	2,131	2,067	2,254	2,166	2,144	2,248	
Total	2,131	2,067	2,254	2,166	2,144	2,248	
Performance							
Average Daily Population	8,987	9,333	8,614	7,847	8,240	8,987	

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; Philadelphia Prisons System.

Obligations and Personnel. Philadelphia Prisons System (PPS) obligations peaked at $241.4 million in FY09, and declined to $231.5 million in FY12. The primary driver of prison costs is the inmate census. The census drives staffing, food service, and medical service costs. Obligations are projected to increase to $240.6 million in FY13, and decline slightly to $238.8 million in FY14. In recent years, PPS has allocated an increasing level of resources to programming for sentenced inmates. By providing vocational programs to inmates, it is expected that their ability to gain employment and successfully integrate into society will be increased. This should in the long run reduce crime and recidivism.

Program Goals and Initiatives. Reintegration Services for Ex-Offenders (RISE) is a program that helps ex-offenders access the services they need – schooling, job training, and job placement – to integrate into society. Programs are actively serving approximately 400 inmates (1900 have used the services). Recidivism is below 6 percent for RISE program participants. Most inmates are required to participate in the program. The City has a monetary incentive to decrease recidivism, as the cost of recidivism per inmate is $30,000 to $40,000. RISE is expected to be a major actor in this effort.

PPS officials remain concerned about an increase in population, potential overcrowding, aging facilities, and delays in court processing. The First Judicial District's Bench Warrant Court may lead to unpredictable increases in population. Pretrial length of stay is also a concern as a potential contributor to increases in population.

First Judicial District

Table 4.4. First Judicial District: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	96.8	95.2	85.8	85.0	90.0	91.9	92.8
Other	28.1	26.0	26.0	30.2	27.0	16.4	12.2
Total	124.9	121.3	111.7	115.2	116.9	108.3	105.0
Total Obligations							
Personal Services	114.7	112.8	107.4	107.3	109.8	116.2	117.3
Other	34.3	32.7	31.9	36.1	32.7	24.6	21.2
Total	149.0	145.5	139.4	143.4	142.5	140.8	138.5
Positions							
General Fund	2,087	2,008	1,862	1,869	1,957	1,909	
Total	2,526	2,459	2,410	2,372	2,460	2,360	
Performance[1]							
Clearance Rate (Percent)	98	104	120	108	111	116	
FTA Rates (Municip. Ct)	8.57	7.98	7.81	7.92	5.91	4.72	
FTA Rates (CCP)	2.39	2.25	2.2	1.97	1.47	1.26	
Filings	62,774	58,515	55,210	54,196	52,396	12,257	
Adjudications	20,596	20,279	18,602	18,521	18,224	12,964	
Bench Warrants Issued (Municip. Ct.)				15,902	11,657	2,956	
Bench Warrants Issued (CCP)				2,210	1,641	456	

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; *FJD Municipal Court Dispositions and Filings.*
Note:
[1] FY13 figures are YTD.

Obligations and Personnel. First Judicial District (FJD) obligations decreased by $6.5 million from FY08 to FY12. Personal services costs decreased during this time by $4.9 million; however, they are projected to increase thereafter. Personnel decreased by 2.6 percent between 2008 and 2012. The decline in personal services accounts for approximately 75.4 percent of the overall decline in obligations since 2008.

Performance. Failure to appear (FTA) rates have decreased in both the Municipal Court (by 3.85 percent) and in the Court of Common Pleas (by 1.13 percent) since the inception of the Bench Warrant Court in April 2012. Prior to 2012, the FTA rate remained stable in both courts. Subsequently, the change from 2012 to 2013 showed a quick drop in these rates. Simultaneously, the issuance of bench warrants also decreased markedly, by approximately 26 percent in the second year of the Bench Warrant Court's operation.

The clearance rate for felonies and misdemeanors has increased by 18 percent since 2008. The clearance rate, which ranges from 98 to 116 percent, indicates that the court is resolving at least as many cases as the incoming caseload. The ideal for any court system is to have a 100 percent clearance rate so that there is no backlog of cases. In Philadelphia, the clearance rate has now exceeded 100 percent.

It should be noted that some experts prefer not to rely heavily on clearance rates as a measure of performance. These critics argue that it is difficult to tell whether a clearance rate can be attributed to true efficiency combined with fairness, or whether a high clearance rate is an indication that cases are being resolved arbitrarily to speed up the process. Thus, there is an ongoing debate in many jurisdictions whether clearance rates should be used to measure performance.

Program Goals and Initiatives. FJD has instituted a number of reforms in recent years. Among these are the Bench Warrant Court, changes to the rules of criminal procedure that increased the time to trial, and increased use of video conferencing and e-filing. The court has also commissioned a number of independent studies to evaluate its systems and make recommendations on how to improve performance.

The Bench Warrant Court was instituted to prevent defendants from missing their court dates. This initiative allows the court to issue warrants for defendants who do not appear when summoned. The program is only in its second year, yet the above numbers indicate that it has already reduced FTAs.

The Supreme Court also recently changed the Rules of Criminal Procedure to lengthen the time between preliminary hearings and trials in order to reduce the number of continuances. There is now a 21-day gap between these two events, which serves to provide both parties with sufficient time to prepare for trial and therefore reduce pushing back court dates.

Department of Human Services

Table 4.5. Department of Human Services: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14 Est.
General Fund Obligations							
Personal Services	96.3	98.4	94.1	93.0	23.2	20.1	18.9
Other	518.5	501.4	467.0	449.9	78.7	81.6	79.4
Total	614.8	599.8	561.1	542.9	101.9	101.7	98.3
Total Obligations							
Personal Services	100.0	102.1	97.9	96.7	93.5	95.8	98.3
Other	525.4	506.6	477.4	457.5	438.2	507.8	519.0
Total	625.4	608.7	575.3	554.3	531.7	603.6	617.3
Positions							
General Fund	1,784	1,741	1,751	1,668		349	
Total	1,825	1,807	1,803	1,716		1,549	
Performance[1]							
GPS Reports	9,185	6,882	8,005	8,363	8,253	9,172	8,751
CPS Reports	3,908	4,136	4,186	3,973	4,130	3,824	3,977
In Dependent Placement	8,699	8,187	7,624	6,945	6,286	6,120	6,203
In Delinquent Placement	3,347	3,571	3,668	3,327	2,790	2,389	2,435
Adoptions Finalized	358	440	594	660	482	373	428

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; *Report on Progress from the City of Phialdelphia Community Oversight Board for the Department of Human Services*, 2013.
Notes:
[1] FY14 figures are projections based on the average of the last two fiscal years.

Obligations and Personnel. The Department of Human Services (DHS) obligations in all funds declined steadily from FY08 to FY12. This significant decline reflects reductions in the number of children and youth in out-of-home placement. The reduction in placements has been made possible by the Department's success at increasing family reunification, and improving supervision of children in their own homes. These changes have occurred without significant increases in the number of substantiated cases of child abuse or neglect.

Beginning in FY12, all reimbursed obligations are recognized in the Grants Revenue Fund. It is anticipated that this accounting change will reduce the extent to which General Fund financial results are influenced by changes in the timing of state and federal reimbursements for DHS costs.

Performance. One of the performance measures used by DHS is the occurrence of maltreatment after an initial report has been made on a particular case. There are two categories in which DHS classifies maltreatment of children, each depending on one of two types of reports that may be filed: Child Protective Services (CPS) cases and General Protective Services (GPS) cases. GPS cases have a less formalistic definition thus including a wider range of child maltreatment scenarios, while CPS requires a case to meet the statutory definition of child abuse. In other words, a GPS report covers children who are abused or neglected but do not meet the statutory definition of child abuse. GPS reports can either be based on an incident, or they may be non-incident specific. In addition to giving the numbers of GPS and CPS reports generated, the table above also focuses on figures of children in dependent and delinquent placement, and finalized adoptions.

The numbers for children in placement represent the unique count of children who received placement services during each fiscal year. The delinquent placement numbers do not include youth who are in pre-trial (detention) settings. Dependent and delinquent placements have decreased 29 percent and 27 percent, respectively. DHS seeks to decrease these dependent and delinquent figures even further with its emphasis on keeping family units together whenever possible.

Program Goals and Initiatives. DHS has been recognized by the Community Oversight Board, an independent entity comprised of experts in the field, for its hard work and progress in implementing reforms recommended by the Child Welfare Review Panel.

Improving Outcomes for Children (OIC), a new initiative, is undergoing a phased implementation. OIC will allow Community Umbrella Agencies (CUAs) to directly manage cases involving child welfare and protection services. DHS expects providers to be fully integrated into the case management system by 2015. The underlying goals of OIC include: keeping children in their homes if possible, strengthening familial ties and involvement, and reducing the need for congregate care. DHS has established a Family Team Decision Making Model to further these objectives. The Model will combine efforts with CUAs to assist with decision making, case-closing, and other tasks. In addition to facilitating conferences with all parties included, the group will formulate a case plan with the families undergoing the process.

DHS is also revamping its work with older youth, due to the fact that approximately half of young people involved with DHS fall into this category. An Older Youth Coordinator now works to develop programs to coach and educate older youth in preparation for their transition out of foster care. To this end, DHS recognizes that older youth discharged before 17 ¾ years of age may require re-entry into the system before they turn 20, and allows them to do so upon meeting certain criteria.

Department of Public Health

Table 4.6. Department of Public Health: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	42.1	42.9	41.4	37.7	39.1	40.7	47.3
Other	70.6	73.4	69.7	71.2	68.1	71.6	66.9
Total	112.7	116.2	111.1	108.8	107.2	112.3	114.1
Total Obligations							
Personal Services	54.6	54.6	53.8	53.0	52.8	54.7	64.6
Other	134.6	185.6	237.4	282.8	275.9	278.4	269.7
Total	189.2	240.3	291.1	335.8	328.7	333.1	334.3
Positions							
General Fund	665	675	662	661	669	673	
Total	880	890	875	885	893	842	
Performance							
Visits to Health Centers	334,139	349,078	350,695	339,032	348,472	345,607	
Avg. Wait for Appointment (Days)			56	66	80	83	

Source: Obligations, *Supplemental Report of Revenues and Obligations*; Positions and Performance Indicators, *Quarterly City Managers Report*; FY14 DPH Budget Testimony.

Obligations and Personnel. While Department of Public Health (DPH) General Fund obligations remained stable from FY08 to FY12, costs within other funds increased substantially from FY08 to FY11, before declining in FY12. The increases through FY11 were predominantly attributable to growth in Acute Care Hospital Assessment Fund obligations. The decrease in FY12 was a result of a reduction in payments to the Capital Fund.

Performance. The City of Philadelphia has eight health centers, which provide primary care, dental care, podiatry, prenatal care, and specialty care. Health center visits grew by 4.2 percent from FY08 to FY12. Between FY10 and FY13 alone, the average waiting time for an initial appointment has increased by 33 percent. DPH stated in its FY14 budget testimony before City Council that it hopes to increase physician salaries in FY14, which it anticipates will result in higher levels of staffing and lower waiting periods for appointments.

Program Goals and Initiatives. DPH is building an electronic health record system that will promote efficiency between health centers and speed up the process of treating patients. DPH launched a module of this system in January 2013. A fully developed system is expected to begin implementation in mid-2013. The Department is anticipating opening a health center, library, and recreation center in late 2015 through a joint initiative with Children’s Hospital of Philadelphia (CHOP). This initiative will combine a CHOP pediatric primary care practice with a City health center. Benefits resulting from the project will include an expanded ability to provide prenatal care, dental care, and many other health care services.

Office of Supportive Housing

Table 4.8. Office of Supportive Housing: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	6.2	6.7	6.3	5.8	7.6	7.7	7.7
Other	34.3	32.7	32.0	30.5	30.8	35.0	34.9
Total	40.5	39.4	38.4	36.4	38.3	42.7	42.6
Total Obligations							
Personal Services	8.9	9.2	9.0	8.2	8.0	8.3	8.3
Other	61.6	59.9	67.1	72.8	66.1	83.1	83.6
Total	70.5	69.1	76.1	81.0	74.0	91.4	92.0
Positions							
General Fund	126	126	124	116	147	145	
Total	175	171	168	160	191	154	
Performance							
Singles in Emergency Housing	8,566	8,114	7,835	7,441	6,471	6,122	
Families in Emergency Housing	5,125	5,221	5,491	5,485	4,973	4,736	
Total	13,791	13,335	13,326	12,926	10,526		

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; *Philadelphia's General Fund Budget: A Citizen's Guide*, 2012.

Obligations and Personnel. Obligations for the Office of Supportive Housing (OSH) increased by $3.5 million from FY08 to FY12, and are projected to increase by another $18 million through FY14. Grants Revenue Fund costs have fluctuated due to the timing of temporary grants. In FY13, OSH received $3 million in an additional funding to create more accommodations for victims of domestic abuse.

Performance. The U. S. Department of Housing and Urban Development has acknowledged OSH three times for exemplary best practices. However, the agency is challenged by federal and state funding reductions. Transitional housing programs may lose significant resources, which will cause longer emergency housing stays and a decreased capacity to take in more people.

Program Goals and Initiatives. OSH adopted a ten-year plan to end homelessness in 2005 and began its implementation in 2008. The plan is in its eighth year. Objectives of the plan include: decreasing homelessness, decreasing the length of stay in shelters, increasing affordable housing, in addition to other community-related initiatives for homelessness. Recently, OSH's focus has shifted from prevention towards management of chronic homelessness because of the poor economy. OSH has partnered with the Philadelphia Housing Authority (PHA), which is creating 500 housing opportunities per year in existing PHA facilities (200 singles and 300 families).

In 2012, OSH established a permanent supportive housing Clearinghouse, which has housed 432 people. The Clearinghouse provides individuals with a streamlined plan for housing. This plan is meant for people who have both service and housing needs.

Law Department

Table 4.9. Law Department: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	10.9	12.7	10.1	9.2	6.4	6.5	6.6
Other	10.2	6.6	7.8	7.7	8.0	8.3	6.3
Total	21.1	19.3	17.9	17.0	14.3	14.8	12.8
Total Obligations							
Personal Services	14.9	16.4	13.9	13.1	10.1	10.5	10.7
Other	27.2	20.2	22.7	17.0	9.4	10.3	7.8
Total	42.0	36.6	36.7	30.1	19.5	20.8	18.4
Positions							
General Fund	192	182	176	160	105	138	
Total	249	235	236	215	160	192	
Performance[1]							
No. of Closed Cases (Percent)							
Closed without Payment	65	66	69	65	71	65	
Closed with Payment	35	34	31	35	29	35	
No. of New Cases	1,656	1,750	2,031	2,117	2,024	973	
No. of Closed Cases	1,781	1,743	1,771	1,807	1,881	811	
Closed without Payment	1,154	1,143	1,224	1,167	1,336	525	
Closed with Payment	627	600	547	640	545	286	
Settlement Cost	44.09	40.43	25.78	32.05	26.59	13.45	

Source: *Supplemental Report of Revenues and Obligations*; *Quarterly City Managers Report*; Law Department data on Case Settlement and Costs.
Notes:
[1]FY13 figures include the first two quarters of the fiscal year only

Obligations and Personnel. Obligations decreased by $22.5 million from FY08 to FY12. A decline in personal services accounts for approximately 21.3 percent of the overall decline in obligations since 2008. Another factor is the transfer of the Tax Unit from the Law Department to the Department of Revenue in 2012. This resulted in the transfer of approximately $4.5 million in General Fund and $8 million in Grants Revenue Fund obligations. FY12 also brought the elimination of vacant positions and a reduction in Community Development Fund obligations, which also contributed to the overall decrease.

Performance. The number of cases closed by the Department has remained relatively consistent from 2008 to 2012, with minor fluctuations. Cases closed without payment have also remained steady, in the mid-to-upper 60 percent range. Consequently, cases closed with payment have also stayed consistent. The only area where there has been notable change is in the settlement cost of cases. In 2008, settlement cost was $44.09 million; in 2012, it was $26.59 million, a 40 percent decline in four years.

Program Goals and Initiatives. The Department has worked closely with the Department of Revenue to improve tax and non-tax revenue collections through City efforts and the efforts of contracted agencies. These initiatives brought in over $10 million in additional revenue from outside agency collections alone. The Department has also been working to decrease the time to process and approve City contracts. The average time for contract processing is currently 24 days. The Department plans to implement a new case management system, which will improve the efficiency of the contracting process.

The Department has lowered its expenses for outside counsel by 36 percent since FY09 by increased assignment of cases to in-house personnel. Outsourcing is increasingly being used only for cases that require specialized expertise or involve conflicts of interest.

The Department also monitors indemnities costs and and works with other agencies to reduce them. The Police and Streets Departments account for a significant share of the City's indemnities costs. The Law Department helps train incoming Police classes and conducts quarterly reviews of indemnity cases with the Police Department.

Board of Pensions and Retirement

Table 4.10. Board of Pensions and Retirement: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
Pension Fund Administrative Costs							
Personal Services	3.6	3.7	3.8	3.6	3.6	3.8	3.9
Total	7.9	8.4	8.2	8.3	8.2	8.8	8.8
Positions							
Pension Fund	59	59	67	65	65	53	
Performance Indicators							
Funded Ratio (Percent)	55	45	47	50	49		
UAAL as a Percent of Covered Payroll	259.4	337.1	347.3	364.5			
Actuarial Value of Assets	4,623	4,042.1	4,380.9	4,489.1			
Actuarial Liability	8,402.2	8,975	9,317	9,487.5			

Source: Obligations, *The Mayor's Operating Budget for Fiscal years 2008-2013*; Positions, *Quarterly City Managers Report*; Service Level Indicators and Outcome Indicators, *Comprehensive Annual Financial Report.*

Performance. The funded ratio of the Pension Fund has decreased dramatically since 2002, when it was at 72.7 percent. Between 2008 to 2012, the ratio has decreased by approximately 6 percent, currently reaching a funding level of 49 percent. Despite the minor increase since 2009, the current level is well below par, especially as compared with other funds around the country.

The unfunded actuarial accrued liability (UAAL) is the difference between the actuarial value of assets (AVA) and the actuarial liability. The UAAL shows the amount currently owed to active members and retirees based on previous service, less the AVA. If a plan is fully funded, it has no UAAL, and annual contributions are equal to the "normal cost," which is the cost of pension benefits earned in the current year. With the current funding level of the Pension Fund, the City is paying contributions that are several times the normal cost.

Program Goals and Initiatives. The Board of Pensions and Retirement has one clear objective, which is stated in its mission and in the City Home Rule Charter: to sustain an actuarily sound pension fund. To that end, the Board is closely monitoring its investments and attempting to increase the funded ratio. The Board has decreased the Fund's assumed rate of return on investments to 7.95 percent in trying to create a more successful investment strategy.

The City has implemented a new pension plan, called Plan 10, which is a combination of a defined benefit and defined contribution approach. This plan is for Police, Fire, Register of Wills and Deputy Sheriff personnel. It will serve to help reduce the rate at which the City is incurring additional liabilities for pension benefits for new employees. In another effort to decrease costs, the Board is also monitoring fees it pays to investment managers and negotiates to reduce them regularly.

Department of Licenses and Inspections

Table 4.11. Department of Licenses and Inspections: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	17.8	16.6	14.2	13.7	13.9	14.4	15.2
Other	12.5	10.1	8.5	4.4	7.3	7.4	7.4
Total	30.3	26.7	22.7	18.1	21.2	21.8	22.6
Total Obligations							
Personal Services	18.7	17.4	15.1	14.5	14.8	15.1	15.7
Other	16.0	10.1	8.6	18.2	11.9	13.2	11.9
Total	34.7	27.5	23.7	32.7	26.7	28.3	27.6
Positions							
General Fund	356	309	305	290	298	292	
Total	374	323	316	302	310	300	
Performance							
Properties cleaned and sealed	1,416	952	1,470	1,448	1,632	1,111	
Residential buildings demolished	405	452	568	567	540	423	
Building permits issued	16,060	13,182		16,448	16,672	12,579	
Operations division inspections	113,405	121,608*	98,553	82,490	85,947	58,780	
Service license customers within 30 minutes	N/A	52%	92.0%	84.0%	96.0%	99.0%	
Perform building permit inspection within 2 business days	N/A	94%	97.0%	97.0%	98.0%	99.0%	

Source: Obligations, *Supplemental Report of Revenues and Obligations*; Positions and Performance Indicators, *Quarterly City Managers Report.*
Notes:
*During FY 2008 and FY 2009, inspection activity was counted differently. This is not a reduction in service, just a different definition.

Obligation and Personnel. Department of Licenses and Inspections (L&I) obligations decreased by $8.0 million from FY08 to FY12. Over this period, full-time positions decreased by 64. The FY14 budget includes an additional $780,000 for salaries for 20 new code enforcement and building inspectors. This increased funding is expected to be budget-neutral, as the increased staffing should generate an equivalent level of permit and citation revenue for the City.

Program Goals and Initiatives. In FY14, L&I intends to reduce the number of property maintenance cases that end up in court by expanding the number of code violation notices issued. The Department also plans to launch Project eCLIPSE, which will allow the public to apply, pay for, and receive licenses and permits online and enable inspectors to electronically record inspection notes and violations from the field. L&I also will continue its proactive inspections of vacant properties. The Department hopes to receive accreditation through International Accreditation Services.

Streets Department

Table 4.12. Streets Department: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	66.2	73.1	69.8	66.6	66.0	65.9	66.0
Other	62.4	58.3	60.5	57.5	49.9	48.4	49.6
Total	128.6	131.4	130.4	124.1	115.9	114.3	115.6
Total Obligations							
Personal Services	78.1	79.7	77.0	74.5	73.4	74.2	74.5
Other	82.3	81.3	85.4	81.5	73.6	87.0	93.9
Total	160.4	161.0	162.4	156.0	147.0	161.2	168.4
Positions							
General Fund	1,839	1,719	1,693	1,689	1,682	1,690	
Total	1,840	1,719	1,693	1,689	1,682	1,690	
Performance[1]							
On-time collection: recycling	98%	97%	94%	96%	97%	97%	
On-time collection: trash	98%	97%	90%	94%	94%	96%	
Pothole response time (days)	0.79	0.86	1.59	1.6	1.4	1.3	
Recycling Rate	8%	12%	16%	19%	19%	20%	

Source: Obligations, *Supplemental Report of Revenues and Obligations*; Positions, Service Level Indicators, and Outcome Indicators, *Quarterly City Managers Report.*
Notes:
[1] FY13 figures include the first nine months of the fiscal year only.

Obligation and Personnel. Obligations decreased by $13.4 million from FY08 to FY12. FY14 obligations are above FY08 amounts by $8.0 million. Between FY08 and FY12, full-time positions declined by 158.

Performance. For FY14, the Department's goal is to maintain on-time recycling and trash collection rates at FY13 levels (97 percent and 96 percent, respectively). The recycling rate increased from 8 percent in FY08 to 19 percent in FY12, and it is projected to increase further to 20 percent in FY13.

Program Goals and Initiatives. The Department is engaged in a 15-year project to convert street lights from incandescent to LED bulbs. One advantage of the LED lighting is that the Department will be able to monitor the bulb status and anticipate replacement needs before a light goes out and make brightness adjustments as needed. In partnership with the Mayor's Office of Transportation and Utilities, the Department is creating a Traffic Operations Center which will allow for more efficient traffic flow, safer streets for drivers and pedestrians, and reductions in fuel consumption. In FY14, the Department will continue to expand the network of bicycle lanes on city streets.

Commerce Department

Table 4.13. Commerce Department: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations[1]							
Personal Services	1.1	1.7	1.8	1.9	1.9	2.3	2.2
Other	12.6	6.4	2.3	2.3	2.3	2.7	2.8
Total	13.6	8.1	4.1	4.2	4.2	5.0	5.0
Total Obligations[1]							
Personal Services	40.7	42.4	39.0	38.9	39.0	41.7	45.1
Other	150.5	131.5	132.7	148.8	152.3	177.7	199.9
Total	191.2	173.9	171.7	187.6	191.3	219.3	245.1
Positions							
General Fund	13	23	24	23	18	20	
Total	795	783	753	754	749	803	
Performance[2]							
New Business Contacts[3]	N/A	N/A	1,438	2,418	2,011	1,015	
OBS Cases[3]	N/A	N/A	701	729	801	263	
Percentage of Customers satisfied with OBS Services[3]	N/A	N/A	93%	94%	93%	86%	
Hotel Rooms[1]	10,045	10,262	10,580	10,586	10,992	10,992	
Hotel Occupancy[1]	72.1%	68.1%	70.1%	71.8%	73.1%	72.4%	

Source: Obligations, *Supplemental Report of Revenues and Obligations*; Positions, *Quarterly City Managers Report;* Performance Indicators, *Five Year Financial and Strategic Plan for Fiscal Years 2014-2018*

[1] Includes obligations for the City Representative

[2] FY13 figures include the first six months of the fiscal year only.

[3] Includes data for FY10 quarters 2-4.

Obligation and Personnel. General Fund obligations decreased by $9.4 million between FY08 and FY12. General Fund positions increased by 5 over this period, while positions in all funds decreased by 46. A substantial portion of Commerce Department obligations is allocated to the Aviation Division, which is responsible for administration of Philadelphia International Airport and Northeast Philadelphia Airport. Aviation Division obligations are budgeted at $164.1 million in FY14.

Program Goals and Initiatives. In FY14, the Department will continue to focus on making Philadelphia an attractive city for business and development. Commerce will continue its outreach and support of the private sector through initiatives to attract new businesses, support start-ups and existing businesses, examine local tax reform opportunities, and attract an international presence. Specific initiatives include the Goldman Sachs 10,000 Small Businesses, which provides small business owners with relevant business education, support, and access to capital; the Corridor Cleaning program, which provides funding to organizations tasked with litter removal responsibilities along commercial corridors; and Startup PHL, which provides support to start-up businesses and entrepreneurs.

Office of Housing and Community Development

Table 4.14. Office of Housing and Community Development: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	-	-	-	-	-	-	-
Other	5.2	4.0	2.8	2.3	4.2	2.5	2.5
Total	5.2	4.0	2.8	2.3	4.2	2.5	2.5
Total Obligations							
Personal Services	4.4	4.2	4.1	4.2	3.7	5.8	6.0
Other	149.9	162.5	158.5	138.3	155.1	184.6	157.9
Total	154.3	166.7	162.6	142.4	158.8	190.4	163.9
Positions							
General Fund	0	0	0	0	0	0	
Total	79	75	74	72	72	58	
Performance							
Owner-occupied homes repaired	8,232			8,323	7,129	5,409	
City lots greened and cleaned	7,130			8,417	8,500	9,238	
Clients receiving counseling	11,591			12,900	11,768	12,463	
Homebuyer grants awarded	939			307	200	221	
Mortgage foreclosures diverted	0			1,647	1,423	1,754	

Source: Obligations, *Supplemental Report of Revenues and Obligations*; Positions, *Quarterly City Managers Report;* Performance Indicators for FY08 and FY11-FY13, *Five Year Financial and Strategic Plan for Fiscal Years 2014-2018.*

Obligation and Personnel. Obligations increased by $4.5 million from FY08 to FY12. The vast majority of the OHCD annual budget comes from state and federal sources, such as the Community Development Block Grant (CDBG). The General Fund budget decreased by $1.0 million during this time period. This downward trend continues with the FY13 estimated budget and the FY14 adopted budget. The FY14 budget includes an 8 percent decrease in CDBG funding. From FY08 to FY12, full-time positions decreased by 7.

Performance. From FY08 through FY12, repairs to owner-occupied homes decreased by 1,103 and homebuyer grants decreased by 739. Between FY11 and FY12, the number of mortgage foreclosures diverted decreased by 224. These service decreases reflected reduced funding levels. From FY08 through FY12, the number of lots greened and cleaned increased by 1,370 and clients receiving counseling increased by 177. For FY14, the agency expects to maintain services at the FY13 level. Once federal and state funding levels become clearer, OHCD may revise its performance goals to reflect actual funding.

Program Goals and Initiatives. In FY14, OHDC plans to continue providing programs to stabilize vacant land, prevent residential mortgage foreclosures, provide basic repairs and weatherization, and develop affordable housing.

Office of Innovation and Technology

Table 4.15. Office of Innovation and Technology: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	9.6	9.0	10.5	16.9	16.4	17.8	19.3
Other	24.4	27.4	28.0	44.4	46.9	53.4	65.7
Total	34.0	36.4	38.5	61.3	63.3	71.2	85.0
Total Obligations							
Personal Services	10.96	10.14	11.75	21.69	21.1	23.2	25.2
Other	26.6	29.2	50.5	98.9	89.6	110.9	141.1
Total	37.6	39.3	62.2	120.6	110.7	134.0	166.3
Positions							
General Fund	141	146	174	258	255	255	
Total	158	162	190	325	322	324	
Performance[1]							
Percent of customer issue closed within the service level for time to resolve				74%	65%	79.5%	
Percent of customers satisfied with services provided				96.8%	96.6%	96.0%	
Gartner IT Organization Maturity Score					2.0		

Source: Obligations, *Supplemental Report of Revenue and Obligations*, Positions, *Quarterly City Managers Report*; Performance Indicators for FY11-FY13, *Five Year Financial and Strategic Plan for Fiscal Years 2014-2018*.
Notes:
[1] FY13 figures include the first six months of the fiscal year only.

Obligation and Personnel. Office of Innovation and Technology (OIT) obligations increased by $73.1 million between FY08 and FY12. Non-personal services obligations account for $63.0 million of this increase. Estimated FY14 obligations are $128.7 million more than FY08. Between FY08 and FY12, the number of filled fulltime positions increased by 164. These increases in obligations and personnel reflect centralization of information technology responsibilities within OIT.

Performance. With the appointment of the current Chief Innovation Officer in 2011, OIT has undergone a management shift. As part of this change, the Office adopted new service level and outcomes indicators. OIT measures the maturity of the City's use of information technology by using the Gartner IT scoring program. When the baseline assessment was initially done, OIT was determined to be a strong 1. In FY12, the measure increased to 2. OIT's goal for FY14 is to increase the City's score to 3, which would indicate that IT is viewed as enabling change and is seen as a partner.

Program Goals and Initiatives. For FY14, the Office is working to implement eight major business application projects and 16 smaller projects. The eight major projects include: an applications to improve revenue collections; prison inmate management; an application connected to 311, which will allow operators to more efficiently create, assign, and manage requests; and a code enforcement application for the Department of Licenses and Inspections. The 16 smaller projects will modernize government and streamline service delivery.

Department of Parks and Recreation

Table 4.16. Department of Parks and Recreation: Spending and Performance, FY08-FY14 ($ in Millions)

	FY08	FY09	FY10	FY11	FY12	FY13 Est.	FY14 Est.
General Fund Obligations							
Personal Services	40.5	39.0	35.8	36.2	35.5	38.2	40.2
Other	11.4	11.0	9.5	9.3	9.9	13.1	10.9
Total	51.9	50.0	45.3	45.5	45.4	51.3	51.2
Total Obligations							
Personal Services	43.2	41.5	38.4	38.9	37.9	40.7	42.8
Other	15.6	15.4	14.2	16.6	16.0	19.3	17.3
Total	58.8	56.9	52.6	55.5	53.9	60.0	60.1
Positions							
General Fund	620	602	590	590	574	568	
Total	642	623	613	612	596	589	
Service Level Indicators							
Acres mowed	40,671	39,566	39,706	37,477	35,984	40,275	
New trees planted	9,879	7,992	9,427	18,328	20,282	26,015	
Unique attendees	218,626	254,096	287,985	276,064	295,060	263,236	
Visits (millions)	2.26	2.39	2.91	6.57	6.60	7.30	

Source: Obligations, *Supplemental Report of Revenue and Obligations*, Positions, *Quarterly City Managers Report*, Performance Indicators, FY08 and FY11-FY13, *Quarterly City Managers Report,* FY09 and FY10, Department of Parks and Recreation.

Obligation and Personnel. Obligations decreased by $4.9 million from FY08 to FY12, primarily due to a $5.3 million decrease in personal services. Over this period, full-time positions declined by 46. For FY13 and FY14, these trends are slowly reversing. FY14 total General Fund obligations are only $200,000 less than the obligations in FY08. FY14 total obligations are actually 2.3 percent higher than FY08 obligations.

Program Goals and Initiatives. When the Recreation Department and the Fairmount Park Commission merged to create the Department of Parks and Recreation in FY10, the two units came together to create a joint vision, which would be achieved through a focus on five strategic objectives: to develop and equitably distribute new urban green spaces; to develop high level practices and expand leadership in out-of-school time activities; to implement a national model for natural resource and urban forest management; to provide high-quality facilities to showcase urban outdoor recreation and the City’s environmental, cultural and historical assets; and to imbed “green” practices throughout the Department.

Major initiatives scheduled for FY14 include the development of Bartram’s Mile, the greening of schoolyards and recreation centers, improvements to the green space along the Benjamin Franklin Parkway, the creation of the Delaware River Wetlands Park, expansion of out-of-school time programs in Mantua, the restoration of City-owned skating rinks, and safety improvements to recreation sites. Additionally, the Department will continue to offer youth recreation programs throughout the year and increase the amount of tree coverage in the City.

V. Indicators of Financial Health

Economic Indicators

Major indicators of the City’s economic health include payroll employment, the unemployment rate, and personal income.

Employment. Table 5.1 presents average monthly payroll employment for the city of Philadelphia, the Philadelphia region, and the nation. Average monthly payroll employment in the City increased by 2,300 in 2012. As a share of the region, Philadelphia’s 2012 employment was 24.3, percent down from 24.4 percent in 2011. Philadelphia’s share of national payroll employment declined slightly from 0.502 percent in 2011 to 0.495 percent in 2012.

Unemployment Rate. Table 5.2 presents average annual unemployment rates in the city, the region, and the nation from 2003 through 2012. While the City’s unemployment rate over the past decade has been generally above that of the region and nation, in relative terms, it did not increase as rapidly as that of the nation or region from 2007 to 2010. Philadelphia’s unemployment rate was 10.8 percent in 2012, 26 percent above the regional rate, while the city’s rate of 6.0 percent in 2007 was 40 percent higher than region. However, the City unemployment rate was 10.8 percent in 2012, unchanged from 2010, while the regional and national rates declined over the past two years.

Table 5.1. Non-Farm Payroll Employment, Philadelphia City, Region and Nation, 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City (in Thousands)	671.5	657.8	660.2	662.5	662.6	663.3	652.6	657.1	660.1	662.4
Region (in Thousands)	2,728.7	2,745.3	2,773.5	2,798.5	2,811.2	2,807.2	2,711.1	2,696.5	2,707.6	2,726.2
Nation (in Millions)	130.1	131.5	133.7	136.1	137.6	136.8	130.9	129.9	131.5	133.7
City as a Percent of the Region	24.6%	24.0%	23.8%	23.7%	23.6%	23.6%	24.1%	24.4%	24.4%	24.3%
City as a Percent of the Nation	0.516%	0.500%	0.494%	0.487%	0.481%	0.485%	0.499%	0.506%	0.502%	0.495%

Source: Bureau of Labor Statistics, Current Employment Statistics. Philadelphia region is the Philadelphia-Wilmington-Camden PA-NJ-DE-MD Metropolitan Statistical Area. Figures are calendar year averages of monthly, seasonally adjusted data.

Table 5.2. Unemployment Rate, Philadelphia City, Region, and Nation, 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City	7.5	7.3	6.7	6.2	6.0	7.1	9.6	10.8	10.8	10.8
Region	5.4	5.1	4.7	4.5	4.3	5.4	8.2	8.9	8.6	8.6
Nation	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6	8.9	8.1
City Percent of Region	139%	143%	143%	138%	140%	131%	117%	121%	126%	126%
City Percent of Nation	125%	132%	132%	135%	130%	122%	103%	112%	121%	134%

Source: Bureau of Labor Statistics, Current Population Survey and Local Area Unemployment Statistics. Philadelphia region is the Philadelphia-Wilmington-Camden PA-NJ-DE-MD Metropolitan Statistical Area. Figures are annual averages, seasonally adjusted.

Poverty Rate. There has been a gradual increase in the poverty rate in Philadelphia since 2007. However, the City's poverty rate in 2011 was 75.5 percent above the national rate, a modest improvement from the 87.2 percent disparity between the City and national rate in 2007.

Median Household Income. The City's median household income has declined 6.5 percent from 2008 to 2010, compared to a national decline of 3.8 percent. Over the past decade, Philadelphia's median household income has been approximately 70 percent of the national level.

Table 5.3. Poverty Rate and Median Household Income, Philadelphia and Nation, 2003-2011

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Poverty Rate									
City	20.2	21.6	24.2	24.9	23.5	23.8	24.5	26.4	27.9
Nation	12.5	12.7	13.3	13.3	13.0	13.2	14.3	15.3	15.9
City as Percent of the Nation	161.6%	170.1%	182.0%	187.2%	180.8%	180.3%	171.3%	172.5%	175.5%
Median Household Income									
City	30,517	30,892	32,671	33,368	35,431	37,090	36,959	34,667	34,433
Nation	43,318	44,334	46,242	48,451	50,740	52,029	50,221	50,046	50,502
City as Percent of the Nation	70.4%	69.7%	70.7%	68.9%	69.8%	71.3%	73.6%	69.3%	68.2%

Source: U. S. Bureau of the Census, Small Area Income and Poverty Estimates.

Financial Indicators

Fund Balance. The end of year General Fund balance in FY12 was $146.8 million, 4.2 percent of General Fund obligations. In percentage terms, this is the highest surplus since FY07. The General Fund's financial position deteriorated from FY07 through FY09, when it ended the year with a deficit of $137.2 million. Over the past three years, the General Fund has posted operating surpluses, which has improved the year end fund balance from FY10 through FY12.

Table 5.4. General Fund End of Year Fund Balance and Obligations, FY03-FY12 ($ in Millions)

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Fund Balance	$91.3	($46.8)	$96.2	$254.5	$297.9	$119.5	($137.2)	($114.0)	$0.1	$146.8
Obligations	3,153.2	3,248.2	3,386.3	3,426.0	3,736.7	3,919.8	3,915.3	3,653.7	3,785.3	3,484.9
Fund Balance as Percent of Obligations	2.9%	(1.4%)	2.8%	7.4%	8.0%	3.0%	(3.5%)	(3.1%)	0.0%	4.2%

Source: *Comprehensive Annual Financial Report*, Office of the Director of Finance, City of Philadelphia, various years.

Debt Burden. At the end of FY12, total City debt outstanding was $4,143.1 million, of which $1,379.3 million was the City's pension obligation bonds. This included City general obligation debt, PICA special tax revenue bonds, and debt issued on behalf of the City by independent agencies, including the Philadelphia Municipal Authority (PMA), the Philadelphia Authority for Industrial Development (PAID), and the Philadelphia Redevelopment Authority (RDA). Debt issued by PMA, PAID, and RDA is secured by lease payments made by the City.

Including debt issued by the School District of Philadelphia (SDP), overall debt outstanding at the end of FY12 was $7,225.1 million, which represented $4,669 per capita. As of the end of 2011, the total value of outstanding City and SDP debt was 12.0 percent of resident personal income. Since 2003, City debt per capita increased modestly, from $2,566 to $2,677, while SDP debt per capita increased significantly, from $918 to $1,991.

City debt service payments as a percent of General Fund obligations increased from 7.2 percent in FY03 to 8.6 percent in FY12, largely as a result of the increase in debt service for pension obligation bonds.

Table 5.5. Debt Indicators, 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Outstanding ($ in Millions)										
City Pension Bonds	1,394.6	1,416.4	1,429.7	1,439.2	1,444.9	1,446.6	1,443.8	1,428.3	1,407.3	1,379.3
City Other	2,439.2	2.589.0	2,629.4	2,544.2	2,800.5	2,689.3	2,867.4	2,842.8	2,875.6	2,763.8
School District	1,371.8	2,294.4	2,365.6	2,346.9	2,591.6	2,564.6	2,776.1	2,946.5	2,921.8	3,082.0
Total	5,205.6	6,299.8	6,424.7	6,330.3	6,837.0	6,700.5	7,087.3	7,217.6	7,204.7	7,225.1
Debt Per Capita										
City	2,566	2,683	2,723	2,676	2,843	2,758	2,846	2,794	2,784	2,677
School District	918	1,537	1,587	1,576	1,735	1,710	1,833	1,928	1,899	1,991
Total	3,485	4,220	4,309	4,252	4,578	4,468	4,679	4,722	4,683	4,669
Debt as Percent of Personal Income										
City	9.1	9.2	9.0	8.4	8.4	7.6	8.0	7.5	7.1	NA
School District	3.3	5.3	5.3	4.9	5.1	4.7	5.2	5.2	4.9	NA
Total	12.3	14.5	14.3	13.3	13.5	12.3	13.2	12.6	12.0	NA
City Debt Service as Percent of General Fund Obligations										
Pension Bonds	1.8	1.8	2.0	2.1	2.0	2.0	2.2	2.6	2.6	2.9
Other	5.4	5.1	4.7	4.7	4.6	4.4	4.8	5.1	5.2	5.8
Total	7.2	6.9	6.7	6.7	6.6	6.4	6.9	7.7	7.8	8.6

Source: Debt Outstanding, *Comprehensive Annual Financial Report*, Office of the Director of Finance, City of Philadelphia, FY12, and *Comprehensive Annual Financial Report*, School District of Philadelphia, FY12; Population, Intercensal Estimates and Annual Estimates of Resident Population, U. S. Census Bureau, Personal Income, U. S. Bureau of Economic Analysis.
Note: Debt outstanding does not include water, airport, and Philadelphia Gas Works revenue bonds.

Pension Funding

Actuarial valuation reports for the City Pension Fund indicate a deteriorating position of the fund from 2002 through 2009, with modest improvements from since 2009. The reports present an "actuarial" value of assets as of July 1. The actuarial value differs from market value because, for purposes of calculating the actuarial value, annual investment returns are recognized over a period of time. Currently, this "smoothing" period is ten years. The actuarial liability of the Pension Fund is the estimate of the amount of funding that would be required to pay future benefits previously earned by employees and retirees, assuming a specific future rate of return on investments. As of July 1, 2012, the actuarial value of assets (AVA) was $4,716.8 million, and the actuarial liability was $9,799.9 million. The ratio between assets and liabilities, the funded ratio of the Pension Fund, was 48.1 percent.

The funded ratio declined from 63.3 percent in 2003 to 45.0 percent in 2009, in part due to investment losses. The ratio increased to 49.7 percent in 2011 and declined to 48.1 percent in 2012. This level is below what is considered appropriate, and below the typical level of other major municipal pension systems across the country.

The difference between the AVA and liabilities is known as the unfunded actuarial accrued liability (UAAL). Another pension funding adequacy benchmark is the UAAL as a percent of current worker salaries. This has increased from 208.0 percent in 2003 to 370.4 percent in 2012. Still another benchmark is the relationship between actual contributions and the Annual Required Contribution (ARC). As defined by the Government Accounting Standards Board (GASB), the ARC represents the amount necessary to pay costs of pensions earned by employees in the current year and to amortize the unfunded liability over a period not to exceed 30 years. In 2012, the City's actual contribution was 77.0 percent of the ARC.

Table 5.6. Pension Funding Indicators, 2003-2012 ($ in Millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Actuarial Value of Assets	4,548.1	4,333.1	4,159.5	4,168.5	4,421.7	4,623.6	4,042.1	4,380.9	4,719.1	4,716.8
Actuarial Liability	7,188.3	7,247.7	7,851.5	8,083.7	8,197.2	8,402.2	8,975.0	9,317.0	9,487.5	9,799.9
Unfunded Actuarial Accrued Liability (UAAL)	2,640.1	2,914.7	3,691.9	3,915.2	3,775.5	3,778.7	4,932.9	4,936.2	4,768.4	5,083.1
Funded Ratio	63.3%	59.8%	53.0%	51.6%	53.9%	55.0%	45.0%	47.0%	49.7%	48.1%
Covered Payroll	1,269.3	1,266.0	1,270.7	1,319.4	1,351.8	1,456.5	1,463.3	1,421.2	1,371.3	1,372.2
UAAL as Percent of Covered Payroll	208.0%	230.2%	290.6%	296.7%	279.3%	259.4%	337.1%	347.3%	347.7%	370.4%
Minimum Municipal Obligation (MMO)	142.4	195.7	293.9	306.8	400.2	412.4	438.5	447.4	511.0	519.3
Annual Required Contribution (ARC)	195.5	253.8	358.1	395.0	527.9	536.9	539.5	581.1	715.5	722.5
Percent of ARC Paid	91.9%	79.9%	83.6%	84.0%	81.9%	79.5%	84.4%	53.8%	65.7%	77.0%

Source: City of Philadelphia Municipal Retirement System Actuarial Valuation Reports, various years.

Other Post-Employment Benefits

Similar to the method of reporting the funding status of the Pension Fund, the City also reports on the extent to which other future employee benefit obligations are funded. These obligations reflect, primarily, the City's duty to provide health benefits for retirees in the first five years after retirement. The City finances these costs on a pay-as-you-go basis, but has been required by GASB since 2008 to report the liability associated with these other post-employment benefits (OPEB). As of July 1, 2011, the City's OPEB liability was $1,212.5 million. This liability represented 82.5 percent of FY11 employee salaries.

The City also reports its annual required contribution (ARC) associated with OPEB. Under GASB rules, this is the amount the City would be required to pay for the cost of benefits earned by current employees, as well as the amount necessary to amortize the unfunded OPEB liability over a 30-year period. In FY12, the City's actual payments for retiree health care were $76.3 million, which represented 72.5 percent of the ARC.

Table 5.7. Other Post-Employment Benefits Indicators, 2008-2012 ($ in Millions)

	2008	2009	2010	2011	2012
Actuarial Value of Assets	--	--	--	--	
Actuarial Liability	1,156.0	1,119.6	1,169.5	1,212.5	
Unfunded Actuarial Accrued Liability (UAAL)	1,156.0	1,119.6	1,169.5	1,212.5	
Funded Ratio	--	--	--	--	
Covered Payroll	1,456.5	1,461.7	1,419.5	1,469.2	
UAAL as Percent of Covered Payroll	79.4%	76.6%	82.4%	82.5%	
Annual Required Contribution (ARC)	83.2	98.7	93.6	101.2	105.4
Actual Payments Made	79.7	81.3	71.7	65.5	76.3
Percent of ARC Paid	95.7%	82.3%	76.6%	64.7%	72.5%

Source: *Comprehensive Annual Financial Report*, Office of the Director of Finance, City of Philadelphia, various years.

Tax Competitiveness

One benchmark study that compares tax burdens across major cities is published annually by the Government of the District of Columbia. This study estimates state and local taxes that would be paid by representative families at various income levels in the largest city in each state and in Washington, DC. Table 5.8 presents the estimated tax burden for a family earning $50,000 per year in Philadelphia and in the median city included in the study. Philadelphia's relative tax burden varies somewhat over the period from 2003 to 2011, ranging from 53 to 96 percent above the median.

In 2011, Philadelphia's tax burden was 77 percent above the median. This was an increase from 2010, primarily due to an increase in estimated real estate taxes from $2,303 to $3,731. This increase reflected an increase in the combined City and School District tax rate from 8.26 to 9.08 percent, and an increase in the assumed housing value for a Philadelphia household with income of $50,000. The assumed housing value increased from $87,099 in the 2010 study to $128,384 in the 2011 study.[1]

Table 5.8. Combined State and Local Taxes Paid by a Family Earning $50,000 Annually, Philadelphia and other Cities, 2003-2011

	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Philadelphia	6,591	6,237	6,838	6,839	8,629	6,864	6,859	6,928	8,327
Median City	4,070	4,073	4,235	4,214	4,398	3,849	4,182	4,484	4,693
Philadelphia as a Percent of the Median City	162%	153%	161%	162%	196%	178%	164%	155%	177%

Source: *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison*, Government of the District of Columbia, various years.

[1] Housing values for each city at each income level in the 2010 study were estimated based on the 2004 U. S. Census Bureau American Community Survey (ACS). Values in for the 2011 study were based on the 2009 ACS.

VI. Policy and Management Issues that Impact Financial Health

The City's Budget Document

The City's annual budget documents and *Five-Year Financial Plan* provide a high level of detail on revenue and expenditures, as well as an increasingly informative narrative regarding strategic objectives and performance measures. This year's Plan is notable because the majority of the document is organized in terms of the primary strategic goals of the City. The City's five major strategic goals are described, and the activities of each City agency are discussed in the context of these goals. Moreover, there is detailed discussion of budget and performance trends for each agency, as well as a discussion of recent accomplishments and future program goals. Performance relative to targets for major outcome goals related to each of the five strategic goals are also provided. This year's *Five-Year Financial Plan* document also contains new sections that describe, in detail, the City's budget process, methods of accounting, and financial policies.

In the future, it can be expected that the City's budget documents – the *Mayor's Operating Budget in Brief* and the two-volume *Mayor's Operating Budget* – may improve as well, with the 2012 voter referendum to amend the City Charter to authorize the creation of additional requirements for the City's operating and capital budget documents. These additional requirements will include additional information on costs, program effectiveness, and return on investment for capital projects. The Plan states that City Council is "developing two separate ordinances that will require a stronger link between budgeting and performance management for the operating budget and capital budget, respectively."[1]

Thus there is ample evidence that the City continues to upgrade the quality of its budget and Plan documents. This is a welcome development. The three annual budget documents do not appear to comply with many of the standards that have been articulated by the Government Finance Officers Association (GFOA) of the United States and Canada. According to a recent GFOA publication on financial policies:

> The operating budget is among the most important public documents a government produces. As a financial plan, it sets forth the government's taxing and spending direction. As a policy document, it establishes explicit service priorities. As an operations guide, it outlines the organizational subunits that will be responsible for achieving the service priorities and that will be accountable for spending. Finally, as a communications device, it makes all of the foregoing transparent to public officials and citizens alike. The budget is a powerful expression of the governing board's vision for how a government will serve its community.[2]

This description of the budget document points out its crucial role in linking policy, finance, operations, and communications. By bringing these normally separate organizational functions

[1] FY14-FY18 *Five Year Financial Plan*, p. 190.
[2] Shayne C. Kavanagh, *Financial Policies* (Chicago: Government Finance Officers Association of the United States and Canada, 2012), p. 119.

together, the budget can be a tool for aligning the efforts of the whole government on behalf of the strategic vision of the chief executive and the legislature.

GFOA administers an annual Distinguished Budget Presentation Award program. This award is granted to budgets that meet 27 specific criteria outlined by GFOA. These criteria were described in a recent GFOA publication and are summarized in Appendix A of this report. Administration and City Council officials who are involved in redesigning the budget documents to meet the new mandate of the City Charter should consider these criteria.[3]

The GFOA criteria include the requirement that the budget include long-term, entity-wide strategic goals, and strategies for achieving them. In addition, the budget should include an explanation of long-term financial plans and how they impact the budget. The impact of capital projects on the operating budget should be indicated.

For Philadelphia, perhaps the greatest need is to improve the departmental presentation within the budget document. GFOA recommends that for each department, there be a presentation of a mission statement, goals and objectives, performance measures, personnel, revenues and expenditures, and significant programmatic or financial changes. Further, all of this information should be broken down by each major organizational unit within the agency. In addition, GFOA suggests that each organizational unit should have clearly stated long-term goals and short-term objectives. Objectives should be quantifiable. Goals should be related to entity-wide strategic goals. Timeframes should be associated with each goal and objective.

Providing this level of detail within a budget document sounds daunting, but it is essential if the budget is to perform the many functions GFOA suggests it should. Only with this kind of information at the agency level, and at the level of divisions within agencies, will it be possible to link the budget process to strategic planning and performance measurement. These links are essential to make progress at solving important problems, and, over the long run, growing the economy and achieving financial stability.

Improving the budget documents in this way would be a major step toward greater managerial accountability, which the PICA Act envisioned as an important long-run goal for the City.

Strategic Planning to Reduce Poverty

The City took a major step with the 2013 release of *Shared Prosperity Philadelphia*, a strategic plan to reduce poverty. The plan addresses a complex coordination problem. It seeks to coordinate the efforts of numerous agencies to maximize the collective impact of local public policy on poverty. The plan also contains specific goals and objectives to allow external assessment of the City's progress in implementing the Plan.

The Administration has successfully developed a number of City-wide plans that state how actions across multiple agencies will be coordinated to seek a common goal. *Greenworks Philadelphia*, issued in 2009, is a comprehensive strategy for increasing environmental

[3] John Fishbein, *Building a Better Budget Document*, Second Edition (Chicago: Government Finance Officers Association of the United States and Canada, 2013).

sustainability. *Citywide Vision: Philadelphia 2035*, released in 2012, is comprehensive plan focusing on land use, housing, transportation, parks and public space, and infrastructure. *Shared Prosperity Philadelphia* complements these other City-wide plans.

A major challenge will be integrating these City-wide plans into the strategic goals contained in the *Five-Year Financial Plan* and the annual budget. While the goals stated in the three entity-wide plans have financial implications, the relationship between these plans and allocations in the *Five-Year Financial Plan* are unclear. One potential solution would be to increase the level of strategic planning at the agency level. Agency-level plans could provide the link between the entity-wide plans, the annual budget and Five-Year Plan. City-wide goals could be translated into annual agency-level goals and objectives that could be reflected in each agency budget.

Perhaps the most important way that the City government can impact poverty is through successful efforts to expand job opportunities.[4] In the wake of the 1996 welfare reforms, there is broad consensus among policy analysts that anti-poverty efforts should be based on the assumption that the primary source of income for non-elderly, non-disabled adults will be earnings from work, rather than government-provided cash assistance.[5] Given this consensus, the availability of work opportunities is critical. The City must assign high priority to job creation to assure that jobs are available so that the new work-based safety net can function. This means that economic competitiveness issues – tax policy, regulation, and quality public services – are crucial to the reduction of poverty. Accordingly, the City should consider making economic growth and job creation an additional focus of future iterations of *Shared Prosperity*. Alternatively, the City should consider developing a separate cross-agency plan for economic development.

Privatization

Under the PICA Act, the City is “charged with the responsibility to exercise efficient and accountable fiscal practices…” The Act gives several examples of these practices. One is “privatization of appropriate city services…” and another is “sale of city assets as appropriate…”

In the early 1990s, competitive contracting was a major focus of City efforts to reduce costs and achieve structural balance. Operation of the Philadelphia Nursing Home and food services at the Prison System were major privatization efforts, along with numerous other smaller operations. These moves toward private service provision resulted in cost savings which the City documented.

The budgetary pressures brought on the Great Recession would seem to provide sufficient reason for in-depth exploration of the opportunity for the City to deliver services at a reduced cost through more creative utilization of contracting and collaboration with the private sector.

[4] Paul Levy and Jeremy Nowak have also made the point about the crucial connection between job growth and poverty reduction. See Paul R. Levy and Jeremy Nowak, “Grow City Jobs to Fight Poverty,” *Philadelphia Inquirer*, July 20, 2013.
[5] Maria Cancian and Sheldon Danziger, eds., *Changing Poverty, Changing Policies* (New York: Russell Sage Foundation, 2009).

Among current initiatives, the City is exploring sale of the Philadelphia Gas Works (PGW). A strategic assessment conducted for the City in 2012 valued the utility from $1.4 to $2.15 billion. PGW-related liabilities were estimated to range from $1 to $1.4 billion. The study concluded that privatization "could well achieve adequate upfront sale proceeds that exceed the City's estimate of its PGW-related liabilities…" The assessment also stated that privatization of PGW would reverse the need for a rate increase in 2016, reduce "ongoing financial risk," and maintain quality service for customers. "The City would also be able to transfer ownership, operational control, and administrative responsibility to the private sector, establishing PGW as an investor-owned utility similar to most large-city utilities in the U.S."[6] The City is also collaborating with Children's Hospital of Philadelphia to construct and operate a new health center in South Philadelphia.

Still, many opportunities remain to improve service delivery and lower costs through collaboration with the private sector. Among the possibilities are solid waste collection, leveraging private sector involvement in City parks, and parking meters and garages.[7]

One recent example of privatization is the lease of parking meters by Chicago. In 2008, Chicago entered into a $1.15 billion, 75-year lease for operation of the city's parking meters. Chicago Parking Meters, LLC now operates the parking meters. After some initial difficulties during the transition, benefits of the initiative became apparent: quicker repair times, fewer jammed meters, an overhaul completed two years ahead of schedule, improved methods for measuring meter usage, and energy efficiency.[8] Chicago has undertaken other privatization efforts as well, including leasing its Skyway for $1.8 billion in 2005 and four parking garages for $563 million in 2006. In recent years, Chicago has made $3.5 billion through its privatization efforts.

In 2012, Mayor Emanuel established the Chicago Infrastructure Trust. The concept is that the trust would be "a form of public infrastructure bank that would raise capital from the private sector that would then be deployed by the public sector for public projects. The city would leverage that capital through partnerships with private investors to develop the city's infrastructure." Chicago anticipates $8 billion in private investments that will go towards improvements in water/wastewater, schools, streets, and parks. The private investors would be compensated through user fees and other methods.[9]

Indianapolis has also privatized operation of its parking meters.[10] The city leased its meters for 50 years to ParkIndy, which will be responsible for maintenance, operations and capital

---

[6] *Strategic Assessment: PGW*. Rep. Philadelphia: Lazard, 2012.
[7] Increasingly, the variety of ways in which government can utilize the private sector to enhance public missions is being recognized. John D. Donahue and Richard K. Zeckhauser, *Collaborative Governance: Private Roles for Public Goals in Turbulent Times* (Princeton, NJ: Princeton University Press, 2011) describes many examples of successful collaboration between the public and private sector. Aidan R.. Vining and David L. Weimer, "Economic Perspectives on Public Organizations," in Ewan Ferlier, Laurence R. Lynn, Jr., and Christopher Pollitt, eds., *The Oxford Handbook of Public Management* (New York: Oxford University Press, 2005) summarize the economic rationale for contracting out and privatization, along with summaries of research on its effects.
[8] Gilroy, Leonard, and Adrian Moore. *Savings for Fresno: The Role of Privatization* (2013).
[9] Kenny, Harris. *Annual Privatization Report 2013: Local Government Privatization* (2013).
[10] Kenny, Harris. *Annual Privatization Report 2013: Local Government Privatization* (2013)

investment. ParkIndy paid $20 million for the bid, in addition to approximately $300-600 million in revenues during the lease term.[11]

New York City has explored the use of “social impact” bonds; Goldman Sachs will finance an intervention program aimed at reducing recidivism from Rikers Island correctional facility through a $9.6 million loan to MDRC, a nonprofit organization. The city is contracting with MDRC, which will implement the program through nonprofit service providers. The city will pay MDRC “based on outcomes and cost savings achieved in reducing recidivism levels... At that rate the city would net over $20 million in long-term savings, nearly ten times the return that would be paid to Goldman Sachs.”[12]

In 2012, Baltimore entered into an agreement with Parks Heights Renaissance, which would handle operations of some of its recreational centers in a public-private partnership. The city is providing large seed grants that will help fund athletic and summer programs.[13]

Philadelphia should explore the many opportunities for collaboration with the private sector to deliver services more effectively and efficiently. The variety of forms that this collaboration might take is demonstrated by the range of efforts now occurring in other cities.

[11] Gilroy, Leonard, and Adrian Moore. *Savings for Fresno: The Role of Privatization* (2013).
[12] Gilroy, Leonard, and Adrian Moore. *Savings for Fresno: The Role of Privatization* (2013).
[13] Kenny, Harris. *Annual Privatization Report 2013: Local Government Privatization* (2013).

Appendix A:
Government Finance Officers Association
Distinguished Budget Presentation Award Criteria

The following is a summary of the criteria used by the Government Finance Officers Association (GFOA) of the United States and Canada for purposes of awarding its Distinguished Budget Presentation Award. These criteria are drawn from: John Fishbein, *Building a Better Budget Document*, Second Edition (Chicago: Government Finance Officers Association of the United States and Canada, 2013).

Budget Introduction and Overview

- *Table of Contents.* Comprehensive table of contents

- *Strategic Goals and Strategies.* Inclusion of long-term, entity-wide strategic goals, and strategies for achieving them, to provide perspective on the context budget decisions

- *Short-Term Factors Influencing the Budget.* Identification of the most significant short-term financial or operational factors that influenced the budget choices for the year, including key assumptions, constraints, or goals

- *Budget Year Priorities.* Statement of main issues and priorities that influenced the current year budget, how they have changed from the previous year, and how they affect the budget

- *Overview.* Presentation of a summary of the budget in a concise manner that highlights key issues and trends

Financial Structure and Policy

- *Organization Chart.* Presentation of an organization chart for the entire governmental entity.

- *Fund Structure Description.* A narrative or graphic presentation of the entity fund structure, including the names of major funds and their type (whether governmental, propriety, or fiduciary, and whether general, special revenue, or enterprise). Major funds are those with revenues or expenditures that exceed 10 percent of the total for all appropriated funds.

- *Relationship Between Departments and Funds.* A matrix or narrative indicating the relationship between the entity’s organizational units and funds.

- *Basis of Budgeting.* Description of the budget basis of accounting for each fund (e.g., cash, modified accrual, or accrual), and the extent to which this differs from the basis of accounting used in the entity-wide audited financial statements.

- *Financial Policies.* Description of adopted financial policies to clarify strategic intent with respect to issues such as balanced budgets, the financial planning process, condition assessment of capital assets, revenue diversification, use of one-time revenue sources, debt capacity and management, and fund balance reserves.

- *Budget Process.* Description of the process to prepare, adopt, and amend the budget, including relevant legal requirements and policies, and a calendar.

Financial Summaries

- *Consolidated Schedule.* A summary schedule that presents revenues and expenditures by category for all appropriated funds, either on an aggregate basis for all funds, or presented separately for each fund.

- *Three-Year Consolidated Schedule.* For each major fund, and for non-major funds in aggregate, a consolidated schedule that presents revenues and expenditures by category for three successive years: the actual amount for the prior year, the budget and/or estimated amount for the current year, and the budget for the next year.

- *Fund Balance.* A definition of fund balance or equity, and for each major appropriated fund and for non-major appropriated funds in aggregate, a presentation of beginning and ending fund balances, and an explanation of changes in fund balance that exceed 10 percent.

- *Revenues.* A description of major revenue sources accounting for at least 75 percent of revenues in appropriated funds, and a description of forecast methodology for each revenue source. Where trend analysis is used to estimate revenues, the trends and underlying assumptions should be described, as well as factors that influence the trends.

- *Long-Range Financial Plans.* Explanation of long-term financial plans and how they impact the budget and budget process. Long-term financial plans that extend at least two years beyond the budget year should use long-range forecasts to identify financial capacity and indicate strategies to align this capacity with long-term service level goals.

Capital and Debt

- *Capital Expenditures.* Definition of capital expenditures, a description of significant non-recurring capital expenditures (by user and project) and information on funding sources.

- *Impact of Capital Investments on Operating Budget.* Describe and quantify positive or negative impacts of significant capital projects on the operating budget in current or future years, in terms of personnel, maintenance, utility costs, or other costs. Description of impact of capital projects on service levels.

- *Debt.* Description of legal debt limits, amounts of outstanding debt subject to debt limits, and amount of principal and interest payments on outstanding debt in the budget year for all appropriated funds, significant unappropriated funds, and all funds in the aggregate. Discussion of variable rate debt, schedules for future debt service, coverage requirements and actual coverage for revenue-backed debt. Plans for future debt issuance.

Departmental Information

- *Position Summary Schedule.* Presentation of positions (in total or full-time equivalent) by major category or classification for the prior year, current year, and budget year for the entity as a whole. Explanation of any staffing level changes. This entity-wide schedule should tie to any agency-level position schedules.

- *Department Descriptions.* Description of each organizational unit within the government, including a description of each major service or function within each agency. This section could include a mission statement, goals and objectives for the budget year, performance measures, revenues, expenditures, personnel levels, and significant financial or programmatic changes. Where appropriate, information should be broken down by each major organizational division within each agency.

- *Unit Goals and Objectives.* Goals and objectives for each organizational unit should be clearly stated. Goals are long-term and general, while objectives are short-term, specific, and quantifiable. There should be a time frame associated with each goal and objective. Goals for the organizational unit should be related to goals for the entity as a whole, perhaps through a matrix.

- *Performance Measures.* Performance measures should be included that relate directly to the goals and objectives of each organizational unit. Measures should include output, efficiency, and effectiveness measures. Information should be included for the prior year actual, the current year estimate, and the budget year.

Document-Wide Criteria

- *Statistical/Supplemental Section.* Background information on the community that provides context for understanding the allocation decisions in the budget. This information could include statistical and narrative information on demographics, the economy, history, governmental structure, and indicators relating to crime, education, health, culture, and transportation. Factors that will affect the need for services currently or in the future are especially important.

- *Glossary.* Definitions of technical terms and acronyms used in the budget document.

- *Charts and Graphs.* Charts and graphs should be used throughout the document to communicate important points and clarify information.

- *Understandability and Usability.* The document should be attractive and oriented to the needs of users, with an appropriate level of detail, legibility, and accuracy.

Appendix B: Office of City Controller Report on the Plan

In accordance with Section 4.04(g) of the Intergovernmental Cooperation Agreement between PICA and the City, the City Controller's Office submitted to PICA a report on the City's Revised FY14-FY18 *Five-Year Financial Plan*. The Independent Auditor's Report submitted by the Controller's Office is reproduced in this appendix as well as the transmittal letter from the City Controller. Certain findings have been previously discussed in this report from a PICA staff perspective. PICA staff believes the reader will gain added value from a review of the Office of the City Controller's perspective on the *Five-Year Financial Plan*.

PICA staff is grateful for the assistance provided by the City Controller's Office staff in evaluating this Plan.

CITY OF PHILADELPHIA

12th Floor, Municipal Services Bldg.
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102
(215) 686-6680
FAX (215) 686-3832
Email: alan.butkovitz@phila.gov

ALAN BUTKOVITZ
City Controller
www.philadelphiacontroller.org

September 16, 2013

Mr. Stephen K. Camp-Landis
Executive Director
Pennsylvania Intergovernmental Cooperation Authority
1500 Walnut Street, Suite 1600
Philadelphia, PA 19102

Dear Mr. Camp-Landis:

In accordance with Section 12720.209(f)(1) of the Pennsylvania Intergovernmental Cooperation Authority Act, my office conducted an examination of the Forecasted General Fund Statements of Operations for the fiscal years ending June 30, 2014 through June 30, 2018, updated as of September 10, 2013 (the Updated Plan). The forecasted statements in the Updated Plan were prepared by the Office of the Director of Finance and submitted to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on September 10, 2013.

My staff conducted its examination of the forecasted statements in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we evaluate whether the assumptions used by the City of Philadelphia's management, at the time the Updated Plan was submitted, provide a reasonable basis for management's forecasted statements. Attached is the independent accountant's report signed by my deputy who is a Certified Public Accountant.

I urge PICA to reject the Updated Plan as it assumes that fund balance available for appropriations will decline during the forecasted period to a critically low amount of $8.5 million at the end of fiscal year 2017. The steady decline in fund balance occurs because the City failed to revise the revenue amounts in the Updated Plan for the anticipated favorable financial impact that management assumes will take place because of the ongoing economic recovery. Moreover, I believe that any significant deviations because of unforeseen circumstances such as litigation, severe weather, or future unexpected commitments to the School District of Philadelphia, could drastically impact city operations.

In addition, I would like to bring to PICA's attention that the Updated Plan continues to include the following particularly sensitive assumptions:

- The city has assumed it will realize $536.6 million of property tax revenue for fiscal year 2014 and $2.26 billion over the remaining years of the Updated Plan. However, these estimated revenues may not be fully realized, because it is difficult to estimate the extent of tax appeals that may arise as a result of the city's newly implemented Actual Value Initiative and because of more aggressive tax collection efforts implemented by the city with respect to additional current and prior year property tax receivables.

- The Updated Plan does not include any additional potential costs above the estimated $36 million for its final offer to District Council 33 made on January 16, 2013 for a contract to run July 1, 2009 through June 30, 2014.

- The Updated Plan does not include any potential costs above the estimated $21 million for the most recent offer to District Council 47.

These assumptions could further erode the critically low fund balance available for appropriations if the revenues fall short of expectations and/or union contract settlements cost more than anticipated.

We would like to express our thanks to the management and staff of the city's Office of Budget and Program Evaluation within the Office of the Director of Finance for their courtesy and cooperation in the conduct of our examination.

Respectfully submitted,

ALAN BUTKOVITZ
City Controller

cc: Chair and Board Members of the
Pennsylvania Intergovernmental Cooperation Authority
Michael A. Nutter, Mayor
Rob Dubow, Director of Finance
Rebecca Rhynhart, Budget Director

CITY OF PHILADELPHIA
PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

FORECASTED GENERAL FUND
STATEMENTS OF OPERATIONS
UPDATED AS OF SEPTEMBER 10, 2013

CITY OF PHILADELPHIA

ACCOUNTANT'S REPORT

FISCAL YEARS 2014 – 2018

City Controller
ALAN BUTKOVITZ

CONTENTS

CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

INDEPENDENT ACCOUNTANT'S REPORT

To the Chair and Board Members of the
Pennsylvania Intergovermental Cooperation Authority

We have examined the accompanying Forecasted General Fund Statements of Operations for the fiscal years ending June 30, 2014 through June 30, 2018, updated as of September 10, 2013 (the updated forecasted statements). The City of Philadelphia's management is responsible for the updated forecasted statements. Our responsibility is to express an opinion on the updated forecasted statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by the City of Philadelphia's management and the preparation and presentation of the updated forecasted statements. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note C.3.d and Note C.6.a. the updated forecasted statements take into account events and circumstances that were not anticipated at July 3, 2013, the date the previous forecasted statements were issued for the same periods, and those forecasted statements should no longer be relied on. We previously examined and, on July 19, 2013, reported on the previous forecasted statements. Our report on the previous forecasted statements is withdrawn and should no longer be relied on for any purpose.

As discussed in Note C.6.a under the caption "Labor Agreements" in the Summary of Significant Forecast Assumptions, the City is now expected to have additional funds due to the ongoing economic recovery. The revenue amounts in the updated forecasted statements do not reflect the favorable financial impact of this change, resulting in a steadily declining fund balance to a critically low amount of $8.5 million in fiscal year 2017.

In our opinion, the accompanying updated forecasted statements are not presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants because management's assumptions, as discussed in the preceding paragraph, do not provide a reasonable basis for management's forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Gerald V. Micciulla

September 13, 2013

GERALD V. MICCIULLA, CPA
Deputy City Controller

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2014 through June 30, 2018

Updated as of September 10, 2013

Prepared by:

Office of Budget and Program Evaluation
Office of the Director of Finance

City of Philadelphia - Office of the Director of Finance
Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2014 through June 30, 2018
(amounts in thousands)

NO.	ITEM	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate
(1)	(2)	(5)	(6)	(7)	(8)	(9)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	2,760,798	2,715,898	2,769,903	2,830,157	2,884,115
2	Locally Generated Non-Tax Revenues	273,328	273,240	277,077	279,799	282,555
3	Revenue from Other Governments	628,570	638,780	652,347	666,540	688,498
4	Sub-Total (1)+(2)+(3)	**3,662,696**	**3,627,918**	**3,699,327**	**3,776,496**	**3,855,168**
5	Revenue from Other Funds of City	67,249	63,317	63,817	64,328	64,753
6	Total - Revenue (4)+(5)	**3,729,945**	**3,691,234**	**3,763,144**	**3,840,824**	**3,919,920**
7	Other	0	0	0	0	0
8	**Total Revenue and Other Sources (6)+(7)**	**3,729,945**	**3,691,234**	**3,763,144**	**3,840,824**	**3,919,920**
	OBLIGATIONS/APPROPRIATIONS					
9	Personal Services	1,401,330	1,398,761	1,399,298	1,400,789	1,407,204
10	Personal Services-Pensions	667,520	580,325	608,001	630,777	652,573
11	Personal Services-Other Employee Benefits	559,104	537,407	554,680	574,554	598,651
12	**Sub-Total Employee Compensation**	**2,627,954**	**2,516,493**	**2,561,979**	**2,606,120**	**2,658,428**
13	Purchase of Services	790,552	806,906	802,791	808,417	816,353
14	Materials, Supplies and Equipment	88,626	88,959	84,562	84,567	85,567
15	Contributions, Indemnities, and Taxes	141,709	138,744	140,055	139,366	140,179
16	Debt Service	129,530	142,388	146,399	158,369	165,113
17	Capital Budget Financing	0	0	0	0	0
18	Advances & Misc. Pmts. / Labor Obligations	84,708	35,209	29,455	28,822	28,822
19	Sub-Total (12 thru 18)	3,863,079	3,728,699	3,765,241	3,825,661	3,894,462
20	Payments to Other Funds	31,644	33,038	34,567	36,176	37,868
21	**Total - Obligations (19+20)**	**3,894,723**	**3,761,737**	**3,799,808**	**3,861,837**	**3,932,330**
22	Oper.Surplus (Deficit) for Fiscal Year (8-21)	(164,778)	(70,503)	(36,664)	(21,013)	(12,409)
23	**Prior Year Adjustments:**					
24	Revenue Adjustments	0	0	0	0	0
25	Other Adjustments	19,388	19,388	19,388	19,388	19,388
27	Total Prior Year Adjustments	19,388	19,388	19,388	19,388	19,388
28	**Adjusted Oper. Surplus/ (Deficit) (22+27)**	**(145,390)**	**(51,115)**	**(17,276)**	**(1,625)**	**6,979**
	OPERATIONS IN RESPECT TO					
	PRIOR FISCAL YEARS					
	Fund Balance Available for Appropriation					
29	June 30 of Prior Fiscal Year	223,851	78,461	27,346	10,070	8,445
30	Residual Equity Transfer	0	0	0	0	0
31	Fund Balance Available for Appropriation					
	June 30 (28)+(29)+(30)	**78,461**	**27,346**	**10,070**	**8,445**	**15,424**

See accompanying summaries of significant accounting policies and assumptions and accountant's report.

A. Nature of the Forecast

The City of Philadelphia (City) Office of Budget and Program Evaluation (OBPE) is responsible for providing revenue and obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the FY2014 budget and the FY2014-2018 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on September 10, 2013. These financial forecasts present, to the best of management's knowledge and belief, the City's expected results of operations for the forecast periods. Accordingly, the forecasts reflect the City's judgment as of September 10, 2013, the date of these forecasts, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as forecasted or expected and those differences may be material.

B. Summary of Significant Accounting Policies

The Forecasted General Fund Statements of Operations are presented on the budgetary basis of accounting. The budgetary basis of accounting differs from the modified accrual (Generally Accepted Accounting Principles) basis used in the preparation of the City's governmental fund financial statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as a reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

C. Summary of Significant Forecast Assumptions

1. Approach to Revenue Forecasting

The City's estimated general fund revenues for FY14 total $3.730 billion. Approximately 74% of the City's budget comes from local taxes, and 17% comes from other governments. Locally generated non-tax revenues, which include fees, fines and permits, account for 7% of revenues.

OBPE provides forecasts of the six major taxes, totaling over $2.761 billion in the revised FY14 budget, as well as $276.3 million of Locally Generated Non-Tax revenues, and $628.6 million in Revenue from Other Governments. These three sources comprise 98% of the revenues anticipated for the FY14 budget.

OBPE employs a number of approaches to developing its forecasts of local revenues:

a. Forecasts of economic activity provided by several sources including the Congressional Budget Office and the Blue Chip Economic Indicators;

b. Continuous evaluation of national and local economic data on employment, inflation, interest rates, and economic growth;

c. Ongoing examination of the City's current tax receipts;

d. Economic forecasting of tax revenues provided by a revenue forecasting consultant;

e. Discussions with economists at the Federal Reserve Bank of Philadelphia; and

f. The extensive experience of its staff.

OPBE's tax estimates for the FYP were developed in conjunction with a revenue forecasting consultant, IHS Global Insight, Inc (IHS). IHS created econometric models which included variables such as wage and salary disbursements in the metropolitan statistical area (MSA) and the county, personal income in the county, the unemployment rate, home prices in the county, real estate transaction growth, and national corporate profits. These models, together with their forecast of the Philadelphia economy, were used by IHS to estimate tax revenues for the City. IHS focused on four taxes – Wage and Earnings Tax, Business Income and Receipts Tax, Real Estate Transfer Tax, and Sales Tax. These estimates were refined by OBPE after discussions with leading economists at the Federal Reserve Bank of Philadelphia.

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the City since tax revenues, which are directly tied to the economy's strength, account for 74% of the City's General Fund revenue. The national economic recovery after the recession and related fiscal crisis continues to be slow. The Blue Chip consensus forecast for U.S. Real Gross Domestic Product (GDP) which provides a forecast based on combining multiple leading separate economic forecasts, shows estimated growth of 1.8% for 2013, slightly lower than the 2.2% growth in 2012. Growth is expected to accelerate in

2014 to 2.7%. The consensus forecast estimates pre-tax corporate profits to grow 3.1% in 2013 and 5.1% in 2014, compared to 6.8% in 2012.[1]

Households are starting to show more confidence through spending; personal consumption expenditures are estimated to grow 2.1% in 2013, slightly above the 1.9% growth in 2012, and increase further to 2.5% growth in 2014. Nevertheless, disposable personal income is expected to grow by only 0.8% in 2013 compared to 1.5% in 2012. Unemployment is expected to decline slightly from 8.1% in 2012 to 7.5% in 2013 and then to 7.1% in 2014. The brightest spot in the economic forecast is that the housing market appears to be recovering, with 27% more housing starts expected in 2013 than in 2012. [2]

Like the nation, Philadelphia's economy continues to recover from the deep recession of 2007-2009. The number of people employed dropped from 593,307 in April 2009 to a low of 566,693 in March 2010, rebounding to 589,793 in April 2013, a decline of 0.6% since 2009. Unemployment had a sizable increase, from 5.9% in November 2007 to a high of 11.1% in July 2010 and has improved somewhat to 9.6% in April 2013.[3] Employment levels are particularly important for Philadelphia's budget because it is heavily reliant on the Wage Tax.

3. The City's Major Taxes

The City receives revenue to fund its services and programs from six major taxes (contributing to 74% of the expected General Fund revenue in FY14). These include:

a. Wage and Earnings and Net Profit Tax (Wage),

b. Property Tax,

c. Business Income and Receipts Tax (BIRT),

d. Real Estate Transfer Tax (RTT),

e. Sales Tax, and

f. Parking Tax.

[1] Blue Chip Economic Indicators July 10, 2013.
[2] Blue Chip Economic Indicators July 10, 2013.
[3] Bureau of Labor Statistics. Retrieved on July 11, 2013 from the bls.gov website.

The remaining taxes, including the amusement tax, provide less than 1% of General Fund revenue. Philadelphia's reliance on the Wage Tax (34% of the General Fund) and the BIRT (11%) places the City at risk from economic trends and employment fluctuations of the local economy. Other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

a. Wage Tax

The largest tax revenue source (comprising 47% of tax revenues) is the Wage, Earnings, and Net Profits (Wage) tax. The Wage Tax is collected from all employees working within city limits, and all city residents regardless of work location. In FY14, the Wage Tax rate has been reduced from 3.9280% to 3.9240% for residents and from 3.4985% to 3.4950% for non-residents. The resident rate includes 1.5% that is reserved for the Pennsylvania Intergovernmental Cooperation Authority (PICA). PICA has overseen the City's finances since 1992, when the State Oversight Board was first established. The PICA statute permits the Authority to a "first dollar" claim on its portion of Wage Tax proceeds, which is used to pay debt service on bonds issued by PICA for the benefit of the City. Excluding the PICA portion, the Wage Tax is estimated to bring in $1.287 billion in FY14. This estimate includes a 3.59% growth rate in the Wage and Earnings Tax and a 3.0% expected growth rate in the Net Profits Tax.[4]

The City resumed cuts to the wage tax in FY14 that were suspended in FY10 and plans to continue wage tax cuts in each year of the FYP assuming that the City's fund balances remains consistent with or higher than those in the FYP. The level of cuts to the Wage Tax rates increase over the course of the plan as the economy is projected to recover. By FY18, the Wage Tax rates in the FYP are 3.7568% for residents and 3.3460% for non-residents.

b. Property Tax

The Real Property Tax (Property) is the City's second largest source of tax revenue (19%), estimated to contribute $536.6 million of the FY14 tax revenues. This tax is levied on the assessed value of residential and commercial property in the City. The City's plan to implement the Actual Value Initiative (AVI) in FY 2014 has been adopted. The Adopted Fiscal Year 2014 Budget has a combined City/School District property tax rate for FY 2014 of 1.34%, down from

[4] Growth rates referenced throughout these notes are applied to the current portion of the tax base.

9.7710% in FY 2013. The City portion of the tax is 0.6018% (down from 4.4620% in FY 2013) and the School District portion is 0.7382% (down from 5.3090% in FY 2013). The adopted City tax rate of 0.6018% is lower than the City rate in the Mayor's proposed budget which results in FY14 Property Tax receipts being revised downward by $14.3 million and FY15-FY18 estimates being revised downward based on the approved tax rate. The Plan submitted to PICA also includes $14.8 million of additional revenues from increased current and delinquent property tax collections in each year from FY14-FY18. The Adopted FY14 Budget includes a homestead exemption of $30,000 for all eligible property owners and other relief measures equal to an additional $20 million. The property tax estimate takes into account these relief measures.

The estimate of $536.6 million of property tax revenue for FY 2014 ($2.8 billion for the five years) may not be fully realized, as historical data is insufficient to accurately estimate the extent of tax appeals that may occur because of the City's newly implemented AVI, and as a result of more aggressive tax collection efforts implemented by the City with respect to current and prior year property tax receivables. Accordingly, estimated amounts of property taxes associated with potential appeals ($14.9 million for FY14 and $55.5 million in total) and the collection of additional current and prior year tax receivables ($14.8 million for FY14 and $74.0 million in total) are considered particularly sensitive assumptions.

c. Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT, formerly the Business Privilege Tax) is estimated to produce $410.0 million in FY14, 15% of total tax revenue. The majority of the BIRT is derived from corporate profits which are volatile and dependent on economic conditions within the City. BIRT receipts are coming in significantly above estimates in FY13 which follows trends seen nationwide. While the FY13 estimates for BIRT were revised upward by $18 million in the August 15, 2013 Quarterly Financial Manager's Report, FY14-FY18 BIRT estimates have not been changed given the volatility in corporate profits.

In FY12, BIRT tax reform legislation was signed by the Mayor which incorporated several changes intended to help small and medium size businesses grow in Philadelphia. Under Bill 110548, business taxes for the first two years of operations for all new businesses that employ at least three employees in their first year and six in the second would be eliminated beginning in FY13. This legislation also provides for across the board exclusions on the gross receipts portion for all businesses scaled in over a three year period beginning in FY15 and reductions in the net income portion of the BIRT. When the exclusions are fully phased in, the first $100,000 of receipts will be excluded. Lastly, the bill calls for implementation of single sales factor apportionment. This enables businesses to pay BIRT solely on sales, not on property or payroll. By taxing property and payroll, the BIRT previously had provided disincentives to firms to locate in the City.

d. Sales Tax

Sales Tax revenues are estimated to generate $270.8 million in FY14, 10% of tax revenues. As part of its response to estimated budget deficits in 2009, the Commonwealth of Pennsylvania (the Commonwealth) provided authorization and the City passed legislation to temporarily increase the Sales Tax rate from 1% to 2%. This raised the total Sales Tax rate to 8%, with 6% going to the Commonwealth and 2% to the City. The FYP includes the additional 1% for the City's General Fund sunsetting on June 30, 2014 as is legally required. The Commonwealth has enacted legislation that would enable the City to extend the expiring 1% sales tax and use the proceeds of the tax to provide funds for the School District, pay debt service on a borrowing for the School District and provide funding for the City's pension fund. A portion of the additional sales tax would flow into the General Fund beginning in FY15 for debt service on the School District borrowing and for the pension fund. The revenues as well as related expenditures have been included in the revised Plan. This assumption has no net impact on the Plan's fund balances. The $120 million of sales tax funds that go to the School District flow directly from the Commonwealth to the School District and are therefore are not included in the revised Plan.

e. Real Estate Transfer Tax

While economic conditions negatively affected the Real Estate Transfer Tax (RTT) since the housing market decline began in 2007, the City is now seeing significant growth in this tax. The RTT is estimated to provide $157.6 million in FY14; a growth rate of 7.4% over FY13 anticipated collections. A growth rate of 10.0% is estimated for FY15 and lower growth rates of 8.0%, 5.0% and 3.0% are estimated for FY16, FY17 and FY18, respectively. Even with the estimated strong growth for transfer tax revenues, the $202 million the Plan includes for FY18 is more than $30 million below the $234 million in transfer tax revenues collected in FY06. The City imposes a 3% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4% total RTT.

f. Parking Tax

The Parking Tax is levied on the gross receipts from all parking transactions. Parking Tax revenue is estimated to generate $75 million in FY14.

Major Taxes ($ in Millions) with Percentage Change from Previous Year							
Tax	FY12 Actual	FY13 Estimate	FY14 Estimate	FY15 Estimate	FY16 Estimate	FY17 Estimate	FY18 Estimate
Wage & Net Profits - Current & Prior	1,211.4	1,244.2	1,286.9	1,326.1	1,347.8	1,364.5	1,377.1
% change from prior year	n.a.	2.70%	3.43%	3.05%	1.64%	1.24%	0.93%
Real Property - Current & Prior	500.7	540.1	536.6	547.0	559.4	572.1	585.0
% change from prior year	n.a.	7.87%	-0.66%	1.94%	2.26%	2.27%	2.25%
Bus. Inc. & Receipts - Current & Prior	389.4	453.0	410.0	403.1	392.1	400.8	411.6
% change from prior year	n.a.	16.33%	-9.48%	-1.67%	-2.74%	2.22%	2.71%
Sales	253.5	257.6	270.8	165.0	179.8	190.2	199.4
% change from prior year	n.a.	1.59%	5.13%	-39.06%	8.93%	5.79%	4.84%
Real Property Transfer	119.4	146.8	157.6	173.4	187.3	196.6	202.5
% change from prior year	n.a.	22.99%	7.38%	10.00%	8.00%	5.00%	3.00%
Parking	70.9	73.2	75.0	76.9	78.8	80.8	82.8
% change from prior year	n.a.	3.15%	2.50%	2.50%	2.50%	2.50%	2.50%
Other Taxes	25.1	22.0	23.9	24.3	24.8	25.3	25.7
% change from prior year	n.a.	-12.38%	8.79%	1.84%	1.84%	1.84%	1.85%
Total Taxes	2,570.4	2,736.8	2,760.8	2,715.9	2,769.9	2,830.2	2,884.1
% Change from prior year	n.a.	6.47%	0.88%	-1.63%	1.99%	2.18%	1.91%

Notes:

- Wage & Net Profits Taxes include rate reductions that take effect in FY14 and each year through FY18. Wage Tax does not include the PICA Tax.

- Business Income and Receipts Tax incorporate rate reductions and changes in recently passed legislation that began in FY13.

- Sales Tax has been adjusted to reflect the recent legislation extending the 1% with proceeds being used to provide funds for the School District, pay debt service on a borrowing for the School District and provide funding for the City's pension fund. A portion of the additional sales tax would flow into the General Fund beginning in FY15 for debt service on the School District borrowing and for the pension fund. This assumption has no net impact on the Plan's fund balances. The $120 million of sales tax funds that go to the School District flow directly from the Commonwealth to the School District and are therefore are not included in the revised Plan.

- Other Taxes include the Amusement Tax and miscellaneous taxes.

4. Locally Generated Non-Tax Revenues

Locally Generated Non-Tax revenues are estimated based on historical trends, rate changes, and current collection patterns. Certain revenues such as interest earnings, licenses and permits and recording fees are subject to economic contractions and are estimated accordingly.

5. Revenue from Other Governments

Revenue from Other Governments is estimated based on historical trends and state and federal budget information. The PICA city account, which represents 52% of Revenue from Other Governments, is estimated using Wage Tax variables.

6. Obligation Estimates

OBPE provided obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the revised annual FY2014 budget and FY2014-2018 Five-Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on September 10, 2013. OBPE provides forecasts of all major expenditure categories. In the FY14 budget, total expenses increase $257 million from FY13 estimated expenditures. The budget increase includes $118 million for pension, debt service and employee benefit costs and $105 million which is for labor including $20 million for the Philadelphia Police Department award and $85 million of appropriations for potential labor obligations. The remaining $34 million represents a small (0.9%) increase over FY 13 estimated obligations.

FY 14 Expenditure Increases:

The largest single investment in the FY14 Adopted Budget is the appropriations for potential labor obligations. The $84.7 million of appropriations included as a line item in the Civil Service Commission’s budget includes the following:

- $37.2 million to fund potential costs for future contracts with the International Association of Fire Fighters (IAFF), District Council (DC) 33 and DC 47; and

- $47.5 million for salary costs related to the IAFF 2012 arbitration award that is no longer under appeal. (see section on Labor Agreements).

The Adopted Budget also includes investments in the following:

- $4.7 million for the Fire Department to fund new Self Contained Breathing Apparatus equipment ($4.0 million) as well as air bottles and 35 new Jaws of Life.
- $1.7 million for the Office of Property Assessment to fully fund and maintain the department's complete overhaul of the City's property assessment function.
- $1.0 million for the Office of Supportive Housing's budget and $350,000 for Public Health's budget to fund larger than anticipated federal sequestration cuts.
- $1.1 million increase for the Managing Director's Office – Legal Services to fund two items: a $500,000 increase for Community Legal Services to partially offset cuts from other levels of government, and $590,000 for the Defender's Association to fund increased benefit and insurance costs.
- $1.2 million for the Revenue Department to improve tax collections.
- $1.0 million for the Free Library largely to expand hours at branches throughout the City.
- $1.0 million for Community College of Philadelphia to help offset tuition increases.
- $2.5 million for the Office of Innovation and Technology to fund several items including increased maintenance and departmental application costs, new positions necessary to implement court mandates related to public safety, and to fund positions previously funded through grants.
- $781,000 for Licenses and Inspections to hire additional code enforcement inspectors and building inspectors.
- $622,000 for Public Property to increase funding for the maintenance team to prevent deferring maintenance on city-owned facilities. This funding, in addition to the $734,000 added in FY13, brings the department's funding for this purpose up to industry standards.
- $624,000 to continue funding of the Keyspots program which was previously funded through American Recovery and Reinvestment Act and provides computer access to address the digital divide in underserved neighborhoods throughout the City.

- $570,000 for the Sheriff's Office to fund personnel costs related to 10 additional deputies and to fund the purchase of new bulletproof vests for all 210 deputy sheriffs.
- $500,000 for the Office of Housing and Community Development to expand a program for the rehabilitation of child care facilities.
- $447,000 to the District Attorney's Office largely for the costs related to the Fraternal Order of Police (FOP) arbitration award salary re-opener for uniform staff.

a. Labor Agreements

The City's labor agreements with its four major unions – FOP Lodge No. 5, IAFF Local 22, DC 33 and DC 47 – expired on June 30, 2009. An interest arbitration award to the FOP for police was made in FY10 and a Re-opener Award was issued in FY13. Contracts with DC 33 and DC 47 remain outstanding. The City issued a final offer to DC 33 in January 2013, which DC33 rejected. The Administration has asked the Courts for permission to impose the terms of this offer, citing the impasse between the two sides. Except for its pension provisions, the interest arbitration award granted to the IAFF on October 12, 2010 was appealed by the City. The Court of Common Pleas vacated the 2010 Award on November 16, 2010. On July 2, 2012, a new interest arbitration award was issued and the City appealed the award. The City decided to withdraw the appeal, leading to the Commonwealth Court closing the case on September 9th. The City decided to withdraw the appeal because the City now has the funds to cover the costs of the award due to the ongoing economic recovery.

American Federation of State, County and Municipal Employees (AFSCME) DC 33, Local 159

On March 16, 2012, a six year interest arbitration award with AFSCME DC 33, Local 159 was issued to cover FY 2009 through FY 2014. Local 159 includes approximately 2,000 employees who work as Correctional Officers, Youth Detention Counselors and Security Guards throughout facilities in the City's Prison System as well as in the Department of Human Services and the Police Administration Building. Important financial components of the award that affect FY 2013 through FY 2018 include:

- Two and one-half percent wage increases for covered employees on July 1, 2012 (FY 2013) and July 1, 2013 (FY 2014). Any wage increases negotiated with the larger DC 33 bargaining unit for FY 2010 through FY 2013 will automatically apply to Local 159.

- Prospective restoration of step and longevity increments that were frozen by the City in July 2009. Restoration was effective with the issuance of this award.
- No specific changes to the Health Plan. Any future changes agreed to with DC 33 will automatically apply to employees covered by the award.
- Any employee hired or rehired to a position covered under the award must participate in the new hybrid Pension Municipal Plan 10. Current employees may elect to make an irrevocable move to Plan 10.
- Effective July 1, 2013, current employees who are not participating in Plan 10 increase their contributions to the pension fund to no less than 50% of the normal cost of the plan in which they participate, without any offset.
- Effective, July 1, 2012 the uniform maintenance allowance for employees covered by the award is increased to $250 per year (previously paid at $175 per year).
- Only vacation leave (excluding holiday pay, sick time or annual leave days) will be considered hours worked for purposes of determining when overtime is due.

The FYP includes estimates for all of the above costs as well as savings related to FY 14 through FY 18.

AFSCME DC 47, Local 810 Courts

On July 12, 2012, a five year interest arbitration award with AFSCME DC 47, Local 810 Courts was issued to cover FY 2010 through FY 2014. The Local 810 Courts bargaining unit titles include Probation Officers, Hearing Officers and Court Representatives. Important financial components of the award that affect FY 2014 through FY 2018 include:

- Two and one-half percent wage increases for covered employees on July 1, 2012 (FY 2013) and July 1, 2013 (FY 2014). Any wage increases negotiated with the larger DC 47 bargaining unit for FY 2010 through FY 2012 will automatically apply to Local 810.
- No specific changes to the Health Plan. Any future changes agreed to with the larger DC 47 will automatically apply to employees covered by the award.
- Any employee hired to a position covered under the award must participate in the new hybrid Pension Municipal Plan 10. Current employees may elect to make an irrevocable move to Plan 10.

- The award contains a reclassification of Probation Officer 2 from EP Range 21 to EP Range 22 effective July 1, 2012. The City dissented from this portion of the award, which it thinks went beyond the arbitration panel's authority. As a result, increased costs pertaining to this salary adjustment are not reflected in the FYP. The Courts have chosen not to implement this provision out of their allocated funds. The union has filed an unfair labor practice charge challenging the City's decision not to provide the Courts additional funds for this portion of the award.

The FYP includes estimates for the above costs except as noted as well as savings related to FY 2014 through FY 2018.

I.A.F.F.

On July 2, 2012, a four year interest arbitration award with the IAFF was issued to cover FY 2010 through FY 2013. This award would have cost more than $200 million over the Five Year Plan at the time resulting in negative fund balances. As a result, the City appealed the award on the basis of the lack of the ability to pay. On August 8th 2013, the Court of Common Pleas ordered the City to pay certain costs related to the IAFF 22 2012 award while the appeal of that award was pending. Specifically, the court ordered the City's health care contribution increased from $1,270 per employee per month (pepm) to $1,620 pepm. That increase is estimated to cost $11.5 million per year. This cost is included in each year of the revised Plan. The court also ordered the City to make a one-time $6.2 million payment to the health fund and a one-time $7.5 million payment to the retiree trust fund. These costs are included in the FY14 obligations in the revised Plan.

Because of ongoing economic recovery, the City is now able to cover the cost of the award so has withdrawn its appeal, leading Commonwealth Court to close the case on September 9th. The full costs of the 2012 award are included in the Plan, including a one-time $24.8 million retroactive payment to the health care fund and a $247,000 retroactive payment to the legal services fund.

The portion of the award that was never appealed and has already been implemented is the change to the IAFF members' pension plan. Similar to the pension changes made in the arbitration award with the FOP, new IAFF members as of October 15, 2010, must choose between increasing their pension contribution from 5% to 6% of pay or enrolling in a new hybrid pension plan.

Because the contract for which the City withdrew its appeal expired on June 30, 2013, negotiations are underway for a new contract to begin on July 1, 2013. A new interest arbitration panel has been established and hearing dates began in August 2013 and extend into the fall 2013.

F.O.P. Lodge 5

On December 18, 2009, a five year interest arbitration award with the Fraternal Order of Police (FOP), Lodge No. 5 for employees of the Police Department was issued to cover FY10 through FY14. Important financial components of the award that affect FY13 through FY18 include:

- The award contained a re-opener for FY13 and FY14 for the determination by the arbitration panel as to what salary changes, if any, would be awarded for those two years. On December 20, 2012 (FY 13), the re-opener award was issued and contains a 3% wage increase on July 1, 2012, a 3 % wage increase effective July 1, 2013 and a 1% increase to stress differential pay effective July 1, 2013.
- In FY11, the FOP's health plan moved to self-insurance. Instead of paying a carrier for insurance, the FOP began paying the actual cost of services provided to members. This health insurance change followed a similar change made by the City in FY10 to the plan it administers for non-union employees.
- Pension changes for new hires – FOP members will now choose between increasing their pension contribution from 5% to 6% of pay and enrolling in a new hybrid pension plan. The hybrid pension plan reduces the risk to the City of poor market returns and is unprecedented for uniformed employees in any major city in the country. Meanwhile, increased employee pension contributions provide General Fund savings for the City.
- Up to 30 furloughs (days off without pay) in a fiscal year.

F.O.P. – Deputy Sheriffs and Register of Wills

On June 21, 2011, a five year interest arbitration award with the FOP, Lodge No. 5 concerning Deputy Sheriffs and Register of Wills employees was issued to cover FY10 through FY14. Important financial components of the award that affect FY14 through FY18 include:

- A 2.5% increase for Deputy Sheriffs in FY 11 and FY 12. The award will be reopened for FY13 and FY14 for a determination by the arbitration panel as to what salary changes, if any, will be awarded for those two years. Hearings have been held on the re-opener and an award is expected in the fall 2013.
- Register of Wills employee wage increases will be based on what is negotiated between DC 33 and the City.
- Restoration of step and longevity increments that were frozen by the City in July 2009. Increments were restored retroactively to July 1, 2009 for employees of the Sheriff's Office and restored as of the date of the award for Register of Wills' employees.
- The FOP's health plan, which includes Deputy Sheriffs, moved to self-insurance in FY11. This award continues that arrangement. It also reduced the City's monthly contribution from $1,165 per member to $965 per member for the period January 1, 2010 through June 30, 2010. The City received credit for contributions already made. Register of Wills employees will continue to participate in the City Administered plan.
- Pension changes for new hires. Deputy Sheriffs have to choose between going into the existing municipal Plan 87 and increasing their contribution from 30% of normal cost to 50% of normal cost, or going into the new hybrid plan. Register of Wills employees hired after the date of the award must enter the hybrid plan.

AFSCME DC 33

After having spent nearly four years in negotiations, the City has been unable to reach an agreement with DC 33.

On January 16, 2013, the City made a final offer to DC 33 for a contract to run July 1, 2009 through June 30, 2014. The City's offer includes wage increases of 2.5% following ratification and an additional 2% in January 2014 and restoration of step and longevity increments prospectively following ratification, along with $25 million in additional payments to the union managed health fund. Under the City's proposal, the City's per employee per month contribution to the union's health fund will remain at $975.76 for the term of the contract with the health fund using the lump sum payments to offset any cost increases it has experienced. The City also proposed two pension changes: (1) to require all new employees to enter Plan 10; and (2) increased pension contributions from current employees as was ordered for corrections officers represented by DC 33. Additionally, the City proposed changes in overtime rules based on the changes made in FY 2013 for non-represented employees and those represented by Local 2186 of DC 47 and the right to furlough employees when economic circumstances warrant, similar to the FOP award. The City estimates the Five-Year Plan cost of its final offer at more than $36 million. When DC 33 rejected this offer, the Mayor gave DC 33 two weeks to reconsider its refusal, but subsequent discussions were unproductive.

On February 1, 2013, the City filed an action in the Court of Common Pleas of Philadelphia County, asking the court for a declaration that the City has the right to implement its final offer for the currently-expired contract. The case continues in the Court of Common Pleas with the parties expected to file cross motions for summary judgment in fall 2013. During the period of litigation, the City is maintaining the status quo on the issues that separate the parties. The FY14-FY18 FYP includes the cost to implement the final offer to DC 33.

The forecasted statements do not include any additional potential changes above the estimated $36 million final offer referred to above because management expects to prevail in the City's filed action in the Court of Common Pleas. Accordingly, this assumption is considered particularly sensitive.

AFSCME DC 47

Negotiations continue with DC 47. The City's most recent offer to DC 47 is similar, but not identical to, the City's final offer to DC 33. The City seeks changes in overtime rules and other changes as part of an overall contract package that the City can afford.

The City also seeks to incorporate the new hybrid pension plan put in place by the award covering the employees of the Sheriff's Office, Register of Wills, Correctional Officers and Local 810 Courts and seeks increased pension contributions from employees.

The City has proposed multiple wage increases, prospective restoration of step and longevity increments that were frozen in 2009 and more than $20 million in lump sum payments to the union-controlled health fund.

The FYP includes a reserve of $21 million for DC 47 for future labor obligations.

In September 2012, the City announced that it was implementing a package of changes for exempt and non-represented employees that are similar to those being proposed to DC 33 and DC 47 effective October 2, 2013. The City applied these changes to DC 47 Local 2186 as well, providing a 2.5% wage increase in October 2012 and restoring step and longevity increments, along with implementing changes to the overtime rules and enacting regulations that permit the City to impose furloughs when economic circumstances warrant. The forecasted statements do not include any additional potential changes above the estimated $21 million recent offer referred to above because negotiations continue. Accordingly, this assumption is considered particularly sensitive.

b. Health / Medical

The Administration implemented a self-insured group health plan in 2010 for medical benefits for non-union employees. In FY 2011, coverage for members of the FOP, Lodge No. 5 also switched to self-insurance. For non-union employees, FY 2012 actual expenditures were used to determine cost estimates in the FYP. No increases were built in for the life of the plan as the City can change the design of the health plan (increase co-pays and employee contributions for example) to keep costs level. For the FOP, FY 2012 actual expenditures were used to estimate the annual cost. However, because the City has no control over the design of the FOP health plan, an increase of 10% per year based on medical cost trends has been included.

Cost estimates for DC 33 and DC 47 are based on FY 2012 actual expenditures under the provisions of the expired contracts ($975.76 per employee per month) to estimate the annual cost. Because there are no new contracts for these groups and therefore no change in the per member, per month City contribution, it is assumed costs for FY 2014 – 2018 will approximate the FY12 average expenditure. The Plan does, however, include the lump sum payments described above to the DC33 and DC47 health plans.

The cost estimate for the IAFF is based on an average of six months of actual expenditures under the provisions of the expired contract ($1,620 per employee, per month) with no increase assumed for the life of the plan.

The cost of that increased contribution is estimated at $11.5 million per year. This cost is included in each year of the revised Plan. The court also ordered the City to make a one-time $6.2 million payment to the health fund and a one-time $7.5 million payment to the retiree trust fund. These costs are included in FY14 obligations in the revised Plan.

Because the City withdrew the appeal as discussed above, all of the costs of the 2012 award are included in the Plan, including a one-time $24.8 million retroactive payment to the health care fund and a $247,000 retroactive payment to the legal services fund.

The revised Plan includes costs anticipated due to the passage of the federal Patient Protection and Affordable Care Act (ACA). These costs related to new fees are expected to total $1.8 million over the life of the Plan.

c. Pensions

As part of the effort to control major cost drivers and to improve the health of the pension fund, several changes have been made over the past few years and the Administration continues to seek additional changes.

The City's Act 111 interest arbitration award with the FOP, Lodge No. 5 issued on December 18, 2009 requires all FOP employees hired on or after January 1, 2010 to make a one-time irrevocable election between:

1) Participating in the City's current defined benefit pension plan and increasing their contribution by 20%, from 5% of pay to 6% of pay; or

2) Participating in a hybrid plan, containing both a defined benefit and a voluntary defined contribution component.

Similar pension changes were awarded in the October 12, 2010 interest arbitration award with IAFF, Local 22. The award's pension provisions were not part of the 2010 Award appeal and, therefore, have been implemented. New IAFF members hired as of October 15, 2010, must make the same one-time irrevocable election between increasing their pension contribution from 5% to 6% of pay and enrolling in a new hybrid pension plan.

The new Plan 10 hybrid plan for Uniform employees includes the following elements:

1) Employee Contribution: A 5.5 % employee contribution for the first 20 years of service, and no employee contribution thereafter.
2) Normal Retirement Benefit: A defined benefit equal to 1.75% multiplied by the average final compensation for the employee, multiplied by up to a maximum of 20 years of service.
3) Average Final Compensation: The average of the employee's 5 highest annual compensations calculated for either five calendar years or 5 anniversary years.
4) After 20 years of credited service, employees will no longer earned credited service, will no longer make contributions to the pension fund and their average final compensation shall not increase.
5) Voluntary Defined Contribution Plan: Employees may make voluntary contributions to their accounts under the City's 457 Plan. For each fiscal year, the City will make a contribution to a defined contribution plan individual account of 50 cents on the dollar for each dollar contributed by the employee to their 457(b) plan account, up to a maximum City contribution of 1.5% of compensation.

Municipal Plan 10 for Civilians is a hybrid plan with a mandatory defined benefit and a voluntary defined contribution component. This plan is mandatory for new hires in the DC 33 Local 159 and the DC 47 Local 810 Courts arbitration awards, pending City Council approval. Newly-hired unionized employees of the Sheriff's office have the option of entering Plan 10 or raising their employee contribution from 30% of normal cost to 50% of normal cost, without offset, while newly-hired unionized employees of the Register of Wills are required to enter Plan 10, . Key elements of Plan 10 include:

1) Years of Credited Service: Only the first 20 years will be calculated.
2) Average Final Compensation: City will take the 5-year period in which the employee's compensation is greatest.
3) Multiplier: 1.25% x Years of Credited Service up to 20 x Average Final Compensation.
4) Employees will contribute 50% of normal cost of the Plan toward the defined benefit.
5) Voluntary Defined Contribution Plan: the City will contribute $1 for every $2 the employee contributes up to 3% of the employee's compensation contributed to the Defined

Contribution Plan. The City will contribute no more than 1.5% of eligible compensation.

Pending City Council approval, Plan 10 will be mandatory for all newly-hired exempt, non-represented and DC 47 Local 2186 employees. In addition, the Local 159 interest arbitration award raised the contribution for existing employees who are not in Plan 10 to a minimum of 50% of normal cost without any offset. This change awaits City Council approval, along with a similar change for exempt, non-represented and DC 47 Local 2186 employees.

Increasing employee pension contributions and introducing a hybrid pension plan are expected to reduce the costs to the City in the short and long term and help minimize the risk that the City faces from potential dramatic decreases in the stock market, like the ones suffered in FY09. Similar pension benefit changes are being sought as part of the City's ongoing union negotiations.

In addition to the changes in pension benefits over the past few years as outlined above, the City's pension fund has undergone the following changes:

- Re-amortized the pension fund's unfunded actuarial accrued liability over a 30-year period using level-dollar amortization payments.
- Deferred payment of a portion of its Minimum Municipal Obligation (MMO) to be repaid by end of the fiscal year ending June 30, 2014 with 8.25% interest, which was the fund's earnings assumption rate when the state law enabling the deferrals was enacted. The City deferred about 20% of its pension costs, $150 million and $80 million for the fiscal years ending June 30, 2010, and June 30, 2011, respectively to be paid (including interest due annually as accrued on the outstanding deferral) over the period ending in FY 2014; $106 million was budgeted to be paid back in FY 2013 with the balance of $124 million in FY 2014. The City has applied the proceeds of certain bonds issued in October 2012, together with other available amounts, to repay the Municipal Pension Fund the entire outstanding $230.0 million of the deferred minimum municipal obligation payment and $5.6 million of interest due on such deferred contributions. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly as part of Act 44.
- Eliminated the eligibility of newly elected City officials to participate in Philadelphia's DROP.
- Reduced the pension fund's earnings assumption from 8.75% to 7.95%. Lower earnings assumptions allow funds to moderate the risk of their investments, which can also reduce the

likelihood of losses.

- Increased the smoothing period for actuarial losses and gain from five to ten years. Increasing the smoothing period reduces the impact that any particular year will have on the fund's funded status and on the City's required payments. This, in turn, reduces the volatility of pension payments.

The net impact of all of these changes to the City's pension benefits and fund is to moderate what would have been devastating increases in pension costs and to increase the City's ability to fund existing liabilities in the long term. The specific changes to the pension fund assumptions have been tested by the City's actuary and have been determined to be actuarially sound. The pension amounts included in the FYP are provided by the City's actuary and are based on the amounts required to be paid under state law.