



PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
THIRTY YEARS OF FINANCIAL OVERSIGHT 1991 - 2021
APRIL 2022

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
1500 Walnut Street, Suite 1600, Philadelphia, PA 19102
(215) 561-9160 • www.picapa.org

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April 2022

To the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority:

As the Pennsylvania Intergovernmental Cooperation Authority (PICA) marks its thirtieth anniversary, we are pleased to provide you with this report highlighting our most impactful achievements. The report provides an overview of PICA's role in the City's continuing fiscal rehabilitation, through our robust financial impact and strong oversight authority, as well as through our recommendations in fostering sound budgeting and management practices.

Since its creation in 1991, PICA has been watching over the long-term fiscal stability of the City of Philadelphia. Thanks to the combined hard work and effort from City Council, Mayoral Administrations, PICA, City employees, community groups, and city taxpayers, the City is in a better financial position. However, there is still much work to be done and PICA welcomes the opportunity to be a part of the next chapter in the City's history.

The preparation of this report was made possible by the dedicated service of the PICA staff. I would also like to take this opportunity to acknowledge and express my sincere appreciation for the continuous support of the Board.

Sincerely,

Harvey M. Rice
Executive Director

Executive Summary

The Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was created to assist the City of Philadelphia in overcoming a severe financial crisis. PICA was created through the joint efforts of concerned Philadelphians and State officials who envisioned a structure which would assist the City in putting its revenue collection and spending processes in order.

PICA was established for the main purposes of facilitating financial stability, helping to “achieve and maintain access to capital markets,” eliminating deficits, and promoting “sound budgetary practices.” To this end, PICA’s work has been instrumental in assisting the City to overcome the financial challenges experienced in the late eighties and early nineties.

Over the last three decades, PICA has had an enormous positive impact on the City’s financial stability as follows:

- Since 1992, the City has financially benefited from an additional one percent sales tax included in the PICA Act.
- PICA has helped the City maintain access to capital markets by borrowing over \$1.137 billion on behalf of the City.
- The City is very limited in its ability to file for bankruptcy.
- PICA worked with the City to develop methodologies that were more realistic in making future revenue projections during the first five year plan process which continues today.
- The five year plan process has led to long-term financial planning and credible budgets, which include provisions for future labor agreements and unforeseen circumstances.
- Labor arbitrators shall take into consideration the City’s financial position in their deliberations.
- The City’s credit ratings have improved dramatically as the major rating agencies view PICA’s oversight as a positive factor.
- Establishment of a Budget Stabilization Reserve or rainy day fund.
- Higher fund balances presented in the five year plan.
- Overtime costs have become a part of the annual budget process.
- Modifications to the City employee health care plans have been implemented.
- Pension System reforms have been adopted to increase its funded ratio.
- Performance Based Budgeting has been instituted by the City.

According to the enabling legislation by the PICA Act, Section 204, enacted in 1991, PICA is set to expire upon the retirement of all outstanding PICA bonds, with an up to one-year wind down period. Therefore, PICA’s role in oversight of the City is expected to end in FY2023. However, recently, legislation has been introduced in the Pennsylvania House of Representatives to extend PICA’s existence until January 2047, and we welcome support in the passage of this legislation.

I. INTRODUCTION

Background

The Pennsylvania Intergovernmental Cooperation Authority (“PICA”) was created in 1991 for the purpose of providing financial assistance to the City of Philadelphia (the “City”) in overcoming a severe financial crisis. At that time, the City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills from vendors, had seen its credit ratings drop below the investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, and was in a mode in which the quality of municipal services was rapidly eroding.

PICA was created through the joint efforts of concerned Philadelphians and state officials who envisioned a structure that would assist the City in putting its revenue collection and spending processes in order. As a result, the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (Act of June 5, 1991, P.L. 9, No. 6) (the “PICA Act”) was enacted.

The PICA Act provides the Authority with certain financial and oversight functions which were designed to address the City’s short-term financing needs, while overseeing a long-term financial planning process that would restore the confidence of investors, residents, and public officials in the ability of the City to maintain financial stability over the long-term. Accordingly, PICA was established for the main purposes of facilitating financial stability, helping to “achieve and maintain access to capital markets,” eliminating deficits, and promoting “sound budgetary practices.”¹

As such, an initial role of PICA was to provide funds necessary to allow the City to avoid insolvency and to continue essential capital investment. The Authority issued four series of bonds from 1992 to 1994, totaling \$1.138 billion. The funds from this debt issuance was used to finance the City’s operating deficit, provide funding for City capital projects, establish a revolving loan fund to finance productivity-enhancing projects for the City, and for other purposes, such as the retirement of high interest debt.

An integral part of the PICA Act required the City to annually prepare and submit a five year financial plan to the PICA Board for evaluation and consideration. Upon review and approval of the plan, PICA had the responsibility of monitoring compliance with the plan. Should the City fail to adhere to the requirements of the PICA Act, PICA has the ability to instruct the Commonwealth Secretary of the Budget to withhold substantial Commonwealth financial assistance and the net proceeds of the PICA Tax.

Another goal of the PICA Act was to ensure that the City is prepared to manage not only the fiscal pressure it was experiencing at the time PICA was established, but also to avert such potential situations in the future and safeguard against their consequences. Thus, the PICA Act granted the Authority the ability to “make recommendations to an assisted

¹ Act of June 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.203(a)-(b).

city concerning its budgetary and fiscal affairs.” To accomplish this goal, PICA and the City entered into an agreement largely based on the provisions of the PICA Act, known as the Intergovernmental Cooperation Agreement (the “ICA”). The ICA, formalized in January 1992, provides PICA with broad access to all data pertaining to the City. Consequently, PICA has consistently emphasized that the City's continuing fiscal rehabilitation is dependent upon its success in addressing both financial and managerial issues.

PICA’s role is significant and provides a framework for the City’s financial success. PICA is impartial and objective in its evaluation of the City’s financial position. PICA is focused on initiatives that will lead to long-term financial stability. Even more significantly, PICA also has the power to directly refinance City debt while using its own, very favorable, and stable credit ratings to do so.

“PICA has played an essential role in ensuring Philadelphia’s financial health....we believe an extension would be an enormous benefit to the City’s long-term fiscal health.”

-Rob Dubow, Finance Director, City of Philadelphia
City Council Committee on Law and Government

Governance

Under the PICA Act, PICA is administered by a governing board consisting of five voting members and two ex-officio nonvoting members. The Governor, the President pro tempore of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives, and the Minority Leader of the House of Representatives each appoint one voting member to the PICA Board. The ex-officio members are the Director of Finance of the City of Philadelphia and the Budget Secretary of the Commonwealth of Pennsylvania. The current Members of the Board are as follows:

Table 1: Current PICA Board Members		
Board Member	Position	Appointing Authority
Kevin Vaughan	Chairperson	Governor of Pennsylvania
Alan Kessler, Esq.	Vice Chair	Minority Leader of the Pennsylvania State Senate
Michael Karp	Secretary/Treasurer	Speaker of the Pennsylvania House of Representatives
Courtney N. Richardson, Esq.	Assistant Secretary/Treasurer	Minority Leader of the Pennsylvania House of Representatives
T. Roderick Henkels	Member	President Pro Tempore of the Pennsylvania State Senate
Gregory Thall	Ex-Officio Member	Secretary of the Budget Commonwealth of Pennsylvania
Rob Dubow	Ex-Officio Member	Director of Finance, City of Philadelphia

Each Board member is committed to the fiscal stability and financial improvement of the City. Throughout these past three decades, the PICA Board has been instrumental in ensuring the City's fiscal stability by actively overseeing and monitoring the City's annual budget, five year plan, and the City's long term goals.

Board members are appointed and serve two-year terms. See Appendix A for a complete list of past PICA Board members and their term of office. The Board appoints an Executive Director to execute the functions of PICA and to manage the day to day operations. See Appendix B for a complete list of past Executive Directors. In accordance with the PICA Act, annually, PICA prepares a report describing its progress with respect to restoring the financial stability of the City.

Sunset Provision

According to the PICA Act, Chapter 2, Section 204, '*Term of Existence of Authority:*'

The Authority shall have continuing existence and succession for a term not exceeding one year after all of its liabilities, including, without limitation, its bonds have been fully paid and discharged. Upon the termination of the existence of the Authority, all of its rights and properties, including funds remaining in the debt service reserve fund, shall be paid to the Commonwealth to the extent the Commonwealth has contributed such rights or property; otherwise, such rights or property shall pass to and be vested in the assisted city.

As of the end of fiscal year 2021, PICA has two outstanding bond issues totaling \$33,955,000, the 2019 Series and 2020 Series Bonds. The 2020 Series Bond matures in June 2022, while the 2019 Series Bond matures in June 2023. Upon payment of the bonds PICA will terminate operations.

Recently, legislation has been introduced in the Pennsylvania House of Representatives to extend PICA's existence until January 2047, and we welcome support in the passage of this legislation.



II. FINANCIAL IMPACT

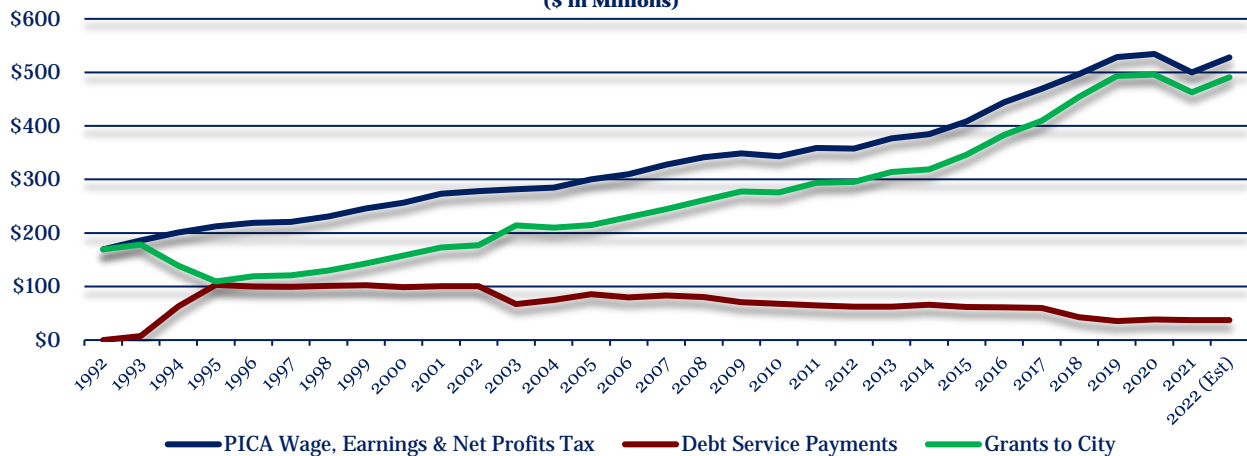
Authorization of PICA Tax

The PICA Act authorized the City to impose a tax for the sole and exclusive purpose of PICA. The “PICA Tax” was enacted by an ordinance adopted by City Council and approved by residents of the City. The PICA Tax is collected by the Department of Revenue of the Commonwealth, utilizing the City Revenue and Law departments (collectively) as its agent, and remitted to the Treasurer of the Commonwealth for disbursement to the Authority’s Trustee. The Authority does not administer the collection of the PICA Tax from taxpayers.

The City has reduced the amount of wage and earnings tax that it levies on City residents by an amount equal to the PICA Tax so that the total tax remains the same. In addition, the PICA Act authorizes PICA to pledge the PICA Tax to secure PICA’s bonds and prohibits the Commonwealth and the City from repealing the PICA Tax or reducing its rate while PICA bonds are outstanding. PICA returns to the City any portion of the tax not required to meet their debt service and operating expenses.

Appendix C lists the PICA Tax collected, Debt Service Payments, and Grants to the City of Philadelphia since 1992.

**Figure 1: PICA Tax Collections, Debt Service Payments
& Grants to the City**
(\$ in Millions)



Additional Sales Tax Percentage

At PICA's inception, the City was authorized to levy a one (1.0%) percent local sales tax to help balance its budget.

One of the most important attributes of PICA was that labor arbitrators must consider the City's financial position in their deliberation, "somehow, someway, that element of PICA has to be preserved..."

-David L. Cohen, Former Chief of Staff to Mayor Rendell
PEW Charitable Trusts, Convening on PICA

Access to Capital Markets

The issuance of bonds to provide the funds necessary to allow the City to avoid insolvency and continue essential capital investment was an important initial role of the Authority. PICA issued four series of bonds from 1992 to 1994 to finance the City's operating deficit-enhancing projects for the City, and for retirement of City debt. In total, PICA has made available \$1.138 billion to directly assist the City, allocated to the following purposes:

Table 2: PICA Bonds Issued to Assist the City of Philadelphia	
Purpose	Amount
Deficit Elimination/Indemnities	\$269,000,000
Productivity Bank	20,000,000
Capital Projects	464,400,000
Retirement of Certain High Interest City Debt	384,300,000
Total	\$1,137,700,000

PICA's statutory authorization to issue "new-money" bonds to finance City operating deficits or capital projects expired on December 31, 1994. Authorization to issue cash flow deficit financing bonds expired on December 31, 1996. PICA's bond issuance powers are currently limited to the refinancing of existing PICA debt to realize net debt service savings.

Since inception, PICA has issued eight series of refunding bonds with the objective of lowering debt service costs. The most recent series of refunding bonds were issued in FY2020. PICA's bonds payable on June 30, 2021, was \$33,955,000.

Improved Credit Ratings for the City

At inception, the City's credit rating was at or below "junk" level, and as such was effectively shut out of the capital markets. It was not until the Spring of 1995 that the City achieved investment grade ratings from the three major rating agencies enabling them to enter the market independently to provide funding for capital projects. Today, through PICA's continued active oversight and monitoring activity, the City's credit rating has improved dramatically which enables the City to borrow money at a lower cost. Recently, the City has been issued an "A" rating from S&P Global Ratings, an "A-" rating from Fitch Ratings, and an "A2" rating from Moody's Investor Services.

In addition, both Fitch Ratings and S&P Global Ratings indicate the positive impact PICA's oversight and monitoring activity provide to the City which in turn strengthens the credit rating.

A recent (September 2021) Fitch Rating credit rating indicated that: "Philadelphia has an extensive statutory and policy-based framework for timely and proactive budget management throughout the economic cycle, revolving around PICA's reporting and certification requirements, which has been in place for many years." It continued, "Close monitoring of fiscal management by PICA reinforce the city's efforts to address the imbalances as they arise." The importance of PICA is also highlighted in their report as, "Without further action PICA will sunset upon debt maturity. However, the city has stated its intention to retain PICA to provide monitoring and oversight."

Reinforcing this sentiment is a recent (September 2021) credit rating from S&P Global Ratings indicating that, "In our view, PICA provides additional oversight that we view as credit positive." It continued, "While PICA was originally expected to terminate in 2023, the City is exploring options for a potential continued role for the authority. The oversight remains a strength, in our view."

At a City Council hearing held by the Committee on Law and Government held to discuss the future of PICA, Rob Dubow, Finance Director, stressed the importance of extending PICA beyond 2024. He stated that "PICA has played an essential role in ensuring Philadelphia's financial health." He noted that in their credit report, Fitch Ratings wrote that, "Long-term forecasting, active fiscal management, and close oversight from a state board provide important support for the City's financial resilience." They added, "Close monitoring of fiscal performance by PICA, the state appointed oversight board, provides further assurance the City would quickly address potential imbalances caused by economic downturns." Rob Dubow closed his remarks at this committee meeting by stating "We believe an extension would be an enormous benefit to the City's long-term fiscal health."

Limitation on Bankruptcy Filing

According to the PICA Act, as long as PICA has outstanding debt, the City cannot file for bankruptcy protection under Chapter 9 of the Federal Code. Bankruptcy filing approval

can only be given by the Governor of Pennsylvania. As such, bankruptcy is not an option for not adhering to the PICA Act, nor is it a managerial tool to eliminate debt or loans.

Compliant Bargaining Agreements and Arbitration Awards

The PICA Act requires that if the City executes a contract or a collective bargaining agreement which is not in compliance with the current approved five year plan, the City must submit a proposed revision to the plan. The revision must demonstrate that revenues sufficient to pay the costs of the contract of collective bargaining agreements or arbitration awards will be available in the affected fiscal years of the plan. In addition, for arbitration awards, the PICA Act stipulates that, “labor arbitrators shall take into consideration” the City’s financial position in their deliberations. Consequently, the City has used this requirement and the five year plan to ensure fair and affordable labor contracts and/or agreements.

At a convening held in January 2020, hosted by The Pew Charitable Trusts, Philadelphia Research and Policy Unit, the future of PICA was discussed by experts and government officials. One of the most important attributes of PICA which was highlighted was the “aspect of the PICA law that can’t be replicated locally is the requirement that labor arbitrators consider the city’s financial position.” David L. Cohen, who served as Chief of Staff under former Mayor Ed Rendell in the 1990’s, emphasized the importance of this provision saying that “somehow, someday, that element of PICA has to be preserved...”²



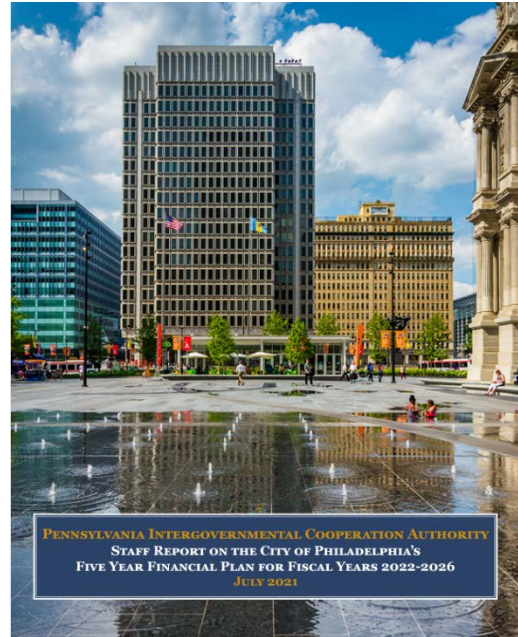
² What’s Next for Fiscal Oversight in Philadelphia, The Pew Charitable Trusts, February 4, 2020.

III. OVERSIGHT FUNCTION

Review and Analysis of the City's Five Year Financial Plan

Annually, the Mayor proposes the City's *Five Year Financial Plan* ("Plan") for a five year period, beginning with the upcoming fiscal year's annual budget. It is usually submitted to City Council for discussion in March of each year. Upon City Council's adoption of the annual budget, the plan is subsequently submitted to PICA for review.

PICA engages in an extensive review of the plan, which involves assessing the reasonability of its assumptions and methods of estimation and ensuring each fiscal year has a projected positive year-end fund balance, pursuant to the requirements in the PICA Act. The objective of the review is to provide an overview of the plan, analyze its projections, identify, and discuss potential risks, evaluate spending and personnel staffing trends, assess indicators of financial health, review the capital program, and provide a recommendation for PICA Board action.



As part of the review process, PICA annually hosts a conference on the City's proposed tax revenue growth rates and economic outlook. This meeting is held at the Federal Reserve Bank of Philadelphia, with local economists and policy makers. More recently and due to the pandemic restrictions, the meeting is held virtually. At this meeting, the City's Budget Director and the City's economic consultants present their proposed growth rates to regional and local economists and academics from local universities, who provide critical input on the proposed tax growth rates and economic outlook.

PICA meets with numerous City departments to discuss their budget, operations, overtime costs, service delivery measures, and their future plans. In addition, a review of all pertinent supporting budget documentation is reviewed and analyzed.

PICA also retains an economist, Mr. Charles Swanson, Ph.D., a professor of Economics at Temple University, to provide consulting review services and to assess the City's tax revenue projections. Along with PICA staff, an analysis of the reasonability of the City's tax revenue projections for each year of the plan is conducted. This analysis involves meeting with City officials and their consultants, reviewing, and understanding the various tax revenue models, and comparing these projections to the City's.

The PICA Act requires that the Authority solicit an opinion or certification from the City Controller prepared in accordance with auditing standards generally accepted in the United States, with respect to the reasonableness of the assumptions and estimates in the

plan. The PICA Act does not, however, require that the Controller's determinations bind the Authority in its evaluation of a proposed plan.

The PICA Board has 30 days from receipt of the plan to consider and vote on the City's plan. After conducting a thorough analysis of the plan, PICA then issues a comprehensive staff report which is submitted to the PICA Board. The report is then evaluated by the PICA Board in preparation for the Board Meeting to consider the plan. At the meeting, the Board questions staff on its findings as well as the City on its revenue, obligation and fund balance projections. Subsequently, the PICA Board discusses and deliberates on whether to approve or reject the plan. The PICA Act stipulates that approval of the plan is contingent upon a "qualified majority" of the Board (four of its five voting members).

This review process has led the City to include higher yearend fund balances and provisions for expiring or expired labor contracts/agreements. In addition, PICA has generally required that conservative criteria be used for projecting revenues and expenditures. Therefore, the PICA review process has led to credible budgets and five year plans over the past three decades.

One of the most significant accomplishments in the PICA five year plan review process was to promote substantive changes in revenue projections. Prior to PICA, a perennial problem of Philadelphia budgeting had been over-estimation of revenues. During the City's Five Year Plan for FY1992-FY1996 (the City's first plan) overall revenue projections decreased substantially from the originally submitted plan to the approved plan as a result of PICA working with the City to develop methodologies that were more realistic in making future projections. These realistic revenue projections continue through to the present day.

Since PICA's inception, thirty plans have been reviewed and analyzed by PICA and approved by the PICA Board. These five year plans are critical in maintaining a positive year end fund balance and fiscal stability.

Review and Analysis of the City's Revised Five Year Financial Plan

Once a plan is approved by the PICA Board, the City is required to stay "in compliance" with the current plan. If the City's finances deviate from an approved plan, specifically, if actual revenues or expenditures vary from those projected in a currently approved plan, it is considered out of compliance, and the PICA Act and ICA provisions pertaining to a "variance" are triggered. In this event, the City must submit to PICA appropriate documentation and, if necessary, a remedial action plan, and supplemental reports until regaining compliance with the current plan.

Collective bargaining agreements and arbitration awards require revisions as well if they are out of compliance with a currently approved plan. Each of these categories trigger their own respective timeframes for submission of proposed revisions and subsequent PICA Board consideration.

Identification and Resolution of a Variance

As provided in Section 210(e) of the PICA Act, legal consequences flow from a determination by the Authority of the existence of a variance. Along with additional reporting responsibilities, the City must develop plan revisions adequate to cure the variance. The remedies that PICA has available to deal with a continuing variance are to direct the withholding of specific Commonwealth funds due to the City and that portion of the PICA Tax – a tax of 1.5 percent levied on the wages, earnings, and net profits of Philadelphia residents – in excess of the amount necessary to pay PICA debt service. Any amounts withheld would be paid over to the City after correction of the variance.

The PICA Act mandates the submission of monthly reports to PICA by the City in the event of a determination by the Authority of the occurrence of a variance. That situation has occurred twice in PICA's history. In November of 1992, the City projected a variance of \$57 million (2.5%) for FY1993, and the Authority agreed with that assessment on December 9, 1992. Thereafter, until May 1993, the City filed required monthly reports. The City was relieved of its obligation to make monthly reports when the Authority approved the City's plan of correction in conjunction with its approval of the City's *Five Year Financial Plan for FY1993-FY1998* in May of 1993.

In February 2009, the City projected a variance of \$47 million, and the Authority agreed with that assessment on February 20, 2009. Thereafter, until September 2009, the City filed required monthly reports. The City was relieved of the requirement to make monthly reports when the PICA Board approved the City's plan of correction in conjunction with its approval of the *Five Year Financial Plan for FY2010-FY2014* in September of 2009.

Evaluating the Quarterly City Managers Report

The PICA Act (Section 209) and the ICA (Section 409(b)) require submission of quarterly reports by the City concerning its compliance with the current plan within 45 days of the end of a fiscal quarter. The City fulfills this requirement through the quarterly submission to PICA and publication of its *Quarterly City Managers Report* ("QCMR"). The QCMR tracks the City's quarterly performance with respect to actual and projected revenues and expenditures and also assesses performance measures for major agencies.



PICA Staff review the QCMR and issue a report detailing the analysis and the City's compliance with the five year plan. PICA's analysis has been designed to focus on and communicate the most important issues raised by the QCMR, such as the financial condition, overtime costs, leave usage, City staffing trends, and departmental performance metrics. The PICA Board utilizes the information in this report to evaluate

the City's financial condition on a quarterly basis, as well as the performance of the City departments.

If a QCMR indicates that the City is unable to project a balanced plan and budget for the current fiscal year, the Board may, by the vote of a qualified majority, declare the occurrence of a "variance," which would require a submission of a revised five year plan.

Analysis of Monthly Tax Revenues and Obligations

The City provides monthly revenues and obligations data to PICA for review. PICA Staff review and analyze this financial data and issue monthly updates on both the tax revenue collections and City spending.

The tax revenue update tracks City revenue performance by comparing actual collections to current projections throughout the year. They also reflect the current state of the economy. The obligations update tracks City encumbrances and expenditures and therefore allows PICA to monitor the City's obligations to ensure compliance with the approved five year plan.

Any significant deviation from projected revenues, obligations, or fund balances, as appropriately deemed as a variance by PICA, will require a revision to the five year plan in accordance with the PICA Act and the ICA. As with the PICA Staff Report on the QCMR, the PICA Board uses these reports to monitor the City's revenues and spending on a monthly basis.

Monitoring Overtime Spending

PICA has been closely monitoring overtime usage across City departments since FY2016, when the PICA Board raised excessive overtime spending as a concern and initiated oversight of this spending. As a result, PICA monitors overtime on a monthly basis and staff issues an annual overtime report and three quarterly overtime spending updates per year.

The PICA Board periodically meets with the Director of Finance and officials from various City departments to discuss their efforts in managing overtime. PICA also made overtime management a primary topic of the departmental meetings that are part of PICA's five year financial plan review process.

In FY2016, PICA published its first *Annual Overtime Report*, a comprehensive look at the year's overtime spending by department with special emphasis on ten key departments consistently responsible for more than 95 percent of the City's overtime costs. The report compares overtime allocations to actual spending, notes the departments with the highest overtime spending increases over the prior year, and has evolved to consider staffing rates when considering whether departments' overtime costs are reasonable and responsible.

Finally, at the outset, these reports attempted to determine the key drivers of overtime spending within individual departments, and offered several recommendations aimed at assisting the City in reducing overtime costs. Since FY2016, PICA has continued to issue *Annual Overtime Reports* along with *Quarterly Overtime Updates*.

Initially, the City made progress in reducing overtime costs, charting reductions in total overtime spending from FY2016 to FY2017 for the first time in several years, and again from FY2018 to FY2019. However, overtime spending spiked in FY2020, exceeding \$200 million for the first time—clearly demonstrating the need for PICA’s continued oversight of overtime spending.

Additionally, the City was requested to submit detailed overtime reduction plans from all City departments on a recurring, annual basis. This process began with the City’s submission of a general overtime review and spending plan, followed by more detailed action plans for City departments. Both submissions were presented to the PICA Board, and PICA staff issued reports reviewing both City submissions in detail.

In response to the City’s submissions, PICA has continued to work with the City to define parameters for City department overtime action plans, including the addition of overtime projections by quarter and the inclusion of specific drivers of overtime spending. With stronger data and better understanding of the challenges faced by City departments, PICA will continue to monitor and report on overtime costs in our stated goal of assisting the City in reducing overtime costs in the long-term.

Approval of PICA Funded Capital Projects

PICA, working with City budget and capital program staff, oversee the expenditure of PICA capital funds to ensure that PICA capital funds are allocated to projects that meet the specific criteria defined by the pertinent regulations.

For instance, pursuant to the PICA Act, to qualify for PICA funding, a project must be either (1) “an emergency capital project which must necessarily be undertaken as a direct result of an order by a court of competent jurisdiction or for the repair or replacement of an existing facility that had been placed in service prior to June 5, 1991 (the effective date of the Act) and was owned or occupied by the City on June 5, 1991 (‘Emergency Capital Projects’);” or (2) “a capital project necessary to achieve savings and balanced budgets under an approved financial plan.”

As of June 30, 2021, approximately \$1,904,683 in PICA funds designated for City capital projects remained to be spent.

Monitored City Bank Account Reconciliation Task Force

The PICA Staff report on the *City’s Five Year Financial Plan for FY2019-FY2023*, noted a risk which was identified during the financial statement opinion audit of the City’s

FY2017 Comprehensive Annual Financial Report (“CAFR”). Specifically, monthly bank reconciliations were not being performed and there was a \$33.3 million discrepancy between the City’s book balance and the bank balance which had the potential to impact the General Fund yearend fund balance.

As part of the City’s corrective action plan to remedy this condition, the City hired an independent public accounting firm to help eliminate the backlog of reconciliations and to identify recommendations for improving the City Treasurer’s bank reconciliation process. In addition, a Reconciliation Task Force was established to provide oversight, accountability, and transparency during the implementation of the City’s corrective action plan. The Task Force ensured the bank reconciliations were proceeding on a timely basis, established, and enhanced controls, and reported on the progress to the public. As part of PICA’s oversight role, PICA’s Executive Director served as a non-voting member of the Task Force.

The discrepancy arising from the bank reconciliations was subsequently resolved. The City Treasurer’s Office also hired a deputy responsible for the bank reconciliation process going forward.

Monitoring of Federal Pandemic Relief Funds

In response to the novel coronavirus COVID-19 global pandemic that gripped the world in late 2019 and early 2020, the Federal government unleashed an onslaught of grants to combat the continued public health emergency and the adverse economic impact of the pandemic.

In 2020 the City received approximately \$276 million from the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). These grant funds were intended to help fund the public health response to the pandemic by reimbursing the City for costs related to the virus.

In 2021, President Joe Biden signed the American Rescue Plan Act (“ARPA”) into law, triggering direct federal relief funds to Cities. Philadelphia was allotted \$1.4 billion in relief funds, deployed in two installments: \$700 million was received in May 2021, and the other \$700 million is expected to be received in May 2022. These once-in-a-generation federal funds represented a critical lifeline that is meant to alleviate some of the adverse economic effects of the global pandemic.

Unlike the CARES Act funds, the federal guidelines for spending the ARPA funds are broad—revolving around restoring spending and revenue replacement lost as a result of the pandemic. The bulk of these funds are projected to be spent under the *City’s Five Year Financial Plan for FY2022 to FY2026*, primarily in FY2022, FY2023, and FY2024.

The ARPA funds represent a rare and historic opportunity for the City. As such, equitable investments into Philadelphia’s recovery should be made and the City must secure every dollar of the allotted federal funds. The PICA Board is committed to ensuring the City

receives the full benefits endowed by the historic ARPA funds. PICA has been and will continue to monitor the receipt and spending of both the CARES Act and ARPA funds.

Property Tax Appeals Monitoring

In response to the challenges faced by the City as a result of real-estate tax appeals stemming from the 2014 Actual Value Initiative (“AVI”), the PICA Board began monitoring the appeals process. PICA realized in early 2016 that the Board of Revision of Taxes (“BRT”) and the Office of Property Assessment (“OPA”) were employing different methods for reporting the number of appeals heard, the number of appeals outstanding, and the number of appeals resolved. PICA worked with the City to coordinate and streamline the collection of data and continues to monitor real estate tax appeal activity.

Authorization of Extraordinary Contracts

According to the ICA, PICA must be notified of any “extraordinary contract” the City enters into which is over \$1 million dollars, in order to ascertain compliance with the plan. For each extraordinary contract, the City must provide in writing a summary of the terms, and a written confirmation from the Director of Finance that the extraordinary contract is consistent with the approved plan.

Upon receipt of an extraordinary contract from the City, PICA reviews it to confirm compliance with the approved plan. The review consists of reviewing the extraordinary requests for impact on the department’s approved target spending plan (if none, the extraordinary request is in compliance with the plan), the appropriate funds or accounts from which payment should be made, amount to be spent and the purpose of the contract.

On average, PICA receives and processes over 170 extraordinary contracts in a fiscal year. PICA will continue to expeditiously process these contracts and ensure compliance to the plan.

Commenting on Pending Legislation

In accordance with its oversight duties, PICA continues to provide comments and fiscal analysis on City legislation that impacts the City’s fiscal situation. Further, PICA fulfills its responsibility to evaluate certain legislation before the General Assembly, in accordance with the PICA Act, which empowers the Authority “to make recommendations to the Governor and the General Assembly regarding legislation or resolutions that affect

Commonwealth aid or mandates to an assisted city or that concern an assisted city’s taxing power or relate to an assisted city’s fiscal stability.”

PICA's Staff report on the *City's Five Year Financial Plan for FY2015 to FY2019* included a section on the proposed sale of the Philadelphia Gas Works and its impact on City finances. The initiative subsequently failed since the issuance of that report.

Another instance was the Pennsylvania Convention Center Expansion Project. As part of the legislation that enabled Commonwealth financing of the expansion, Act 3 of 2004, the Pennsylvania Convention Center Authority (PCCA) is required to submit a proposed financial plan for the expansion project to PICA, and PICA is required to "prepare a detailed analysis on the fiscal impact and financial risks" associated with the expansion. PCCA submitted its Convention Center Expansion Project Business Plan, the required financial plan, to PICA in November 2009. A PICA Report entitled, *The Pennsylvania Convention Center Expansion Project: Financial Impacts for the Commonwealth of Pennsylvania and the City of Philadelphia*, was released in April 2010. This report presented an analysis of the fiscal impact and risks associated with the expansion, as required under Act 3.

In November of 2000, PICA released a report entitled, "Philadelphia's Fiscal Challenge: Finding a Way to Save," which outlined the advantages of establishing a Rainy Day Fund and the best practices associated with the establishment of such a fund. At that time, it is worth noting that the City enjoyed a nearly \$300 million surplus. Partially due in response to this PICA report, legislation for the creation of a Rainy Day Fund was introduced in City Council during the Spring of 2001. After years of attempts to create a Rainy Day Fund, a bill was considered by City Council in 2011. PICA testified on behalf of the proposal on March 24, 2011, and the bill was passed by City Council and signed by the Mayor. The fund was formally created when the legislation was approved by the voters on a ballot question on November 8, 2011. (See discussion on "Establishment of a Reserve Fund").



IV. FOSTERING SOUND BUDGETING & MANAGEMENT PRACTICES

PICA Act Provision

The framers of the PICA Act contemplated that the Authority would be a catalyst for addressing the City's root problems by helping create *processes* that would identify and publicize key problems, create consensus for solutions, and ensure that those solutions are implemented. The PICA Act states that it was the intent of the General Assembly, when it approved the PICA Act, to "foster sound financial planning and budgetary practices that will address the underlying problems which result in such deficits for cities of the first class, which city shall be charged with the responsibility to exercise efficient and accountable fiscal practices, such as increased managerial accountability,..." The legislature intended that the City is prepared to manage not only the fiscal pressure, but also to avert such potential situations in the future.

In order to facilitate the City's "fiscal integrity," PICA was intended, since its inception, to have a wide purview over City financial data, which ultimately extends to PICA's authority to "[conduct] such independent audits, examinations or studies of the City as the Authority deems appropriate." Thus, the PICA Act granted the Authority the ability to "make recommendations to an assisted city concerning its budgetary and fiscal affairs." Consequently, PICA has consistently emphasized that the City's continuing fiscal rehabilitation is dependent upon its success in addressing both financial and managerial issues.

This section briefly summarizes PICA's impact on financial and managerial issues challenging the City. These reports are available to view and download at www.picapa.org.

Ensuring Fiscal Stability

Advocating for Higher Fund Balances

Fund balance levels have long been a challenge for the City. Over the years, PICA has been advocating for the City to increase its General Fund balances (fund balance) to guard against unforeseen circumstances and/or economic downturns. A high fund balance is also recommended by the Government Finance Officers Association (GFOA) which suggests an "unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues" or 17 percent of revenues. Due to the current Board's advocacy, the City recently (FY2017) established an internal target for fund balance which is currently at 6 to 8 percent of expenditures.

Since the City's yearend fund balances have generally not met the GFOA guideline, nor the City's own internal target, PICA has repeatedly identified low fund balances projected in the City's five year financial plan as a significant risk in PICA's Staff report.³ It should be noted however, that in the years prior to the onset of the global pandemic, the City was

³ PICA, Fund Balance and Reserve Fund Comparison, September 2021

experiencing higher fund balances than projected and were meeting or exceeding their internal target of 6 to 8 percent of general fund expenditures. See Appendix D – General Fund Yearend Fund Balances.

Unlike other cities, Philadelphia’s status as a city-county, means that expensive services such as Human Services, the Prison System, Public Health, and Courts—services usually funded at the county level—are the City’s responsibility. This status combined with the City’s high poverty rate and need for associated social services has kept annual obligations in the realm of \$5 billion for several years, therefore, impacting the yearend fund balance.

With higher fund balances, the City would be able to address many of its greatest financial challenges, including the underfunded pension system, outdated infrastructure, and high tax rates. PICA will continue to promote higher fund balances and reserves for the City.

Establishment of A Reserve Fund

Philadelphia’s Fiscal Challenge: Finding a Way to Save – November 2000

Almost since its inception, the PICA Board strongly advocated for the City to establish a “rainy day fund,” or a reserve fund in which to store surplus or additional revenues—gained during periods of economic strength—to be drawn upon during periods of economic downturn, or other such emergency situations which might arise. Examples would include severe recessions (through at least two of which PICA has helped guide the City) that might cause a sharp decrease in the City’s tax revenues; disastrous weather events that might require increased overtime in essential departments; or, most recently, a global pandemic requiring immediate spending increases while tax revenues experienced concurrent historic declines. Such a reserve would be intended to help the City avoid budget cuts, reductions in services or programming, tax increases, or other such painful decisions in any of the aforementioned events.

PICA introduced its advocacy for a reserve fund with the report entitled, *Philadelphia’s Fiscal Challenge: Finding a Way to Save*, issued in November 2000. The report evaluates best practices used by other government entities for establishing and maintaining emergency reserve or budget stabilization funds.

Subsequent to the release of this report, the PICA Board continued to advocate and recommend the establishment of a rainy day fund in several staff reports on the City’s five year financial plans. PICA stressed the need of a rainy day fund by noting that rating agencies use the existence and structure of a rainy day fund in deciding cities’ bond ratings, and that by establishing a reserve fund, the City would be able to reduce its borrowing costs.

As a result, City Council passed an ordinance establishing a Budget Stabilization Reserve (“BSR”) fund, adopted in April 2011, which required a change to the Home-Rule Charter. Subsequent to the establishment of the BSR, PICA continuously recommended that contributions to the BSR be made in the annual budget process. However, PICA’s efforts were still not complete since a contribution was not made to the BSR. The BSR formula

mandates a contribution only when the *projected* General Fund balance for the coming year exceeds three percent of the *projected* appropriations for that fiscal year.

The City made its first ever contribution to the BSR of \$34.3 million in FY2020, a full decade after the establishment of the BSR. However, due to the onset of the COVID-19 global pandemic and the adverse economic impact it had on City finances, the City immediately used the BSR fund in the succeeding year to fill the budget gap created by lost revenues. Therefore, at present, the City's BSR is once again unfunded, with the next projected contribution to take place in FY2025.

PICA will continue to promote for regular deposits to the BSR and advocate the importance of maintaining a healthy reserve balance.

Evaluating Employee Pensions & Benefits

Improving the Health of the City of Philadelphia's Pension System

Philadelphia's pension system presents a significant risk to the City's long-term financial stability and to the ability of the City to maintain competitive service levels and tax rates. Like many other local pension systems around the United States, Philadelphia's is severely underfunded on an actuarial basis. This underfunding raises concerns about the sustainability of the program for future employees, as well as the potential for continued increases in costs.

Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability – January 2015

The PICA Board authorized a comprehensive evaluation of the risks posed by the pension system and potential solutions. An independent consultant, Boomershine Consulting Group, LLC, was engaged to conduct an actuarial review of the pension system, identify financial risks to the City related to the pension system, and recommend possible strategies to mitigate risk. The resulting report, *Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability*, issued in January 2015, provided a more in-depth analysis of the pension system. The report repeated some of the same recommendations as reported in the 2005 pension report (discussed below), and also recommended the elimination of the DROP Program (See discussion on "Analysis of DROP Program Costs").

An Ounce of Prevention: Managing the Ballooning Liability of Philadelphia's Pension Fund – December 2005

PICA raised the issue in December of 2005 with *An Ounce of Prevention: Managing the Ballooning Liability of Philadelphia's Pension Fund*. This report analyzed the pension challenges facing the City at the time, how the City's pension fund compared to those in other cities, and what options the City had for managing those challenges. The report also made several recommendations:

- Modifying the benefits package that it offers new employees;
- Paying more than the minimum municipal obligation when possible;
- Not improving the benefits included in the pension package without doing a full analysis of the long-term financial impact of any proposed changes;
- Reducing the pension fund's assumed earnings rate; and
- Increasing employee contributions to the System.

Due to PICA's advocacy and work on the underfunded pension system, the City is currently committed to fully funding the pension system by 2033 and has implemented PICA's recommendations as follows:

- The City increased employee contributions to the pension system in 2016.
- Since 2016, the City has offered a hybrid-stacked pension plan combining elements of traditional defined benefit plans and 401(k)-style defined contribution plans.
- The Board of Pensions has, and continues to, lower the pension fund's assumed rate of investment return.
- Since FY2018, the City has committed additional funding to the pension system above the MMO in the form of its Revenue Recognition Policy (RRP), which adds sales tax revenue and increased member contributions to the Minimum Municipal Obligation ("MMO").

Analysis of DROP Program Costs

As Philadelphia's Deferred Retirement Option Program ("DROP") is a unique and controversial retirement benefit, it drew the attention of PICA almost since it was introduced in 1999. The DROP Program allows City employees to defer their retirement for up to four years, while they accumulate their accrued pension benefits in a tax-deferred interest-bearing account, which these City employees collect, with interest, when they stop working. The benefit of the DROP Program is the retention of older, more experienced employees and the avoidance of mass turnover of management and executive employees. As DROP was initially presented to be revenue-neutral, PICA's interest in the program has been its true cost to the City and its taxpayers.

Update on the City of Philadelphia's DROP Program – December 2017

In September 2010, the City released a report prepared by The Center for Retirement Research at Boston College and it determined that the DROP Program cost the City approximately \$258 million from 1999 to 2010. As a result of this study, legislation was adopted in 2011 reducing the interest rate the tax-deferred interest-bearing account earns from 4.5% to the lesser of the 1-year Treasury rate or one-half the pension board's interest rate (which has been less than half of a percent in recent years). In addition, the minimum DROP retirement entry age was increased by two years for non-union employees.

The PICA Board commissioned a follow up study, entitled *Update on the City of Philadelphia's DROP Program*, which was issued in December 2017. The purpose of the report was to evaluate the effect of the recommendations implemented since the release of the initial study as well as the overall costs of the DROP Program since inception.

The study found DROP cost the City at minimum \$236.9 million when using the lowest discount rate, and at maximum \$252.6 million at the highest discount rate. Additionally, the study found that 2012 legislation reducing the portion of DROP costs related to the interest rate credited on the DROP account could affect the total cost of the program. Further, the study found that the DROP Program increased the retirement age by 1.7 years on average across all City employees, while uniformed Police and Fire Department employees experienced an increase in retirement age of 4.8 years and 5.9 years, respectively. This favorable increase was a result of implementing the recommendations from the first study.

PICA believes that additional reform measures must be considered to lessen future costs and to ensure the health of the pension system. PICA will continue to conduct research, consult with experts, and publish reports with recommendations to improve the fiscal sustainability of the pension system.

Monitoring of Employee Health Benefits Program

Health/Medical Benefits: Burning a Hole in the Budget – October 2006

Then, as now, two costs were rapidly devouring the City's budget: pensions and health benefits costs. With growth in those areas accelerating, they consumed more and more of the resources that could be used for essential services or to attack the many long-term issues facing the City.

The report, which focused on health benefits, highlighted the rapid increase in the City's health benefits costs, examined costs in other cities, described actions other governments have taken in similar situations, and made recommendations for controlling the City's costs. Among those recommendations were:

- Develop and implement a plan for joint labor and management control of employee health care funds.
- Institute health management and wellness programs and tie those programs to incentives for participation.
- Enhance vendor management to ensure that the City is getting the best possible pricing.
- Make changes to health insurance plans if these other recommendations do not lead to reductions in the growth of health benefits costs.

Ultimately, the report recommended that the City and its unions adopt a multi-stage approach to reduce costs without affecting the benefits that plan participants receive.

Since the release of this report, the City has implemented all of the above recommendations, which has helped to lessen the employee health benefit burden.

Monitoring the Criminal Justice System

In 2016, PICA initiated the monitoring of a \$3.5 million grant received from the MacArthur Foundation's Safety and Justice Challenge. The purpose of the grant was to reduce the Prison population by 34 percent.

As such, the City implemented 32 out of the 39 reform initiatives. Some of the successes include the following:

- Reduced Prison population from 8,301 to 4,685, or 43 percent by August 2021.
- Closed one of its prison facilities (the House of Corrections);
- Reinvested those funds in programs to maintain a lower prison population.
- Received additional safety and Justice Challenge grants totaling \$9.9 million.

City Budget Behind Bars: Increasing Prison Population Drives Rapidly Escalating Costs – March 2007

In March 2007, PICA issued a report on the City's Prison System entitled, *City Budget Behind Bars: Increasing Prison Population Drives Rapidly Escalating Costs*. The report found that the rapid increase in the Philadelphia's Prisons population was part of a nationwide criminal justice system problem that led to overcrowding in facilities across the nation. Like other state and county governments, Philadelphia had not been able to implement a plan that has been effective in stopping or even slowing the growth in the Prisons population, even as incarceration costs doubled in the decade leading up to the report.

This report documented the growth in Prisons costs over the decade prior to the report, looked at the components of that growth, examined correctional systems in other jurisdictions and discussed what steps those jurisdictions were taking to contain their population's growth and costs. Finally, the report recommended steps to control the growth in its Prisons population. The recommendations focused on alternatives to incarceration, readying inmates for life after incarceration and improving the efficiency of the Criminal Justice System.

The Crime of Inefficiency: The Cost of Policing Philadelphia – March 2004

In March 2004, PICA released the report entitled, *The Crime of Inefficiency: The Cost of Policing Philadelphia*. This data-driven report compared Philadelphia Police Department (“PPD”) staffing with police departments in ten peer cities and introduced overtime as a potential inefficiency—noting that [with New York excluded] “Of the remaining nine cities, Philadelphia easily has the highest overtime expenditures, nearly 60 percent higher than average.” This report also considered high PPD overtime costs as a function of staffing for the first time, finding that, with a higher-than-average number of police officers per resident, staffing levels were not a reasonable explanation for Philadelphia’s higher-than-average PPD overtime costs. The report cited poor management and lack of oversight; illogical personnel rules; and overtime and other inefficiencies as the underlying drivers of high PPD spending and made several recommendations for alleviating them.

Evaluation of Facilities Management

Assessment of City Facilities – October 2007

The PICA Board engaged an architectural firm and an engineering firm to assess the physical conditions of many City facilities in order to provide a working tool that allowed City officials to prioritize and allocate capital funding. The report assessed nearly 100 facilities, including:

- Public Health: all district health centers.
- Police: all police districts.
- Fire: all fire station and Fire Department headquarters.
- Prisons: all facilities, including administrative offices.
- City Hall.

The report provided an overview of the conditions of each of these facilities, as well as suggested maintenance and repairs, and the estimated associated costs. It also prioritized each of the proposed repairs and provided a recommended timeline for completing the work. In addition to the report, PICA provided the City with a database of all the findings to help the City better manage its maintenance and repairs at these facilities.

Reversing the Trend of Doing Too Little with Too Much: Maintaining the City’s Infrastructure While Reducing Its Dangerously High Debt Load – January 2006

The City’s facilities were deteriorating due to the lack of capital investments and deferred maintenance issues over a decade. As a result, in January 2006, PICA issued a report entitled, *Reversing the Trend of Doing Too Little with Too Much: Maintaining the City’s Infrastructure While Reducing Its Dangerously High Debt Load*. This report examined

the threat posed to the City by its shrinking infrastructure investment and increasing long-term obligations, such as debt service, long-term leases, and rising pension payments. It also identified a variety of methods used by other cities to determine appropriate levels of debt.

The report included several recommendations for restoring appropriate capital investment for City facilities, such as monitoring and reporting on future obligations. In addition, the report included several long-term financial recommendations. These included funding more capital spending on a pay-as-you-go basis; reducing the total number of facilities for which the City was responsible for maintaining; and retiring some of the City's outstanding bonds—all of which were implemented in the following years.

Tax Policy Analysis

The PICA Board has been a proponent for tax reform in Philadelphia, as tax revenue has remained at the forefront of the PICA Board's annual consideration of the City's five year plans. Over the years PICA has issued several reports on the benefits of economic development and refining the tax structure. By making certain adjustments to tax policy, the City could spur economic development and potentially create jobs for citizens.

In a series of policy papers published around the year 2000, PICA identified the revenue stress created by relying too much on the wage tax, noted the difficulty in balancing five year plans on such a volatile revenue source, and made recommendations as to how the City might stimulate the local economy by adjusting certain tax policies.

Good Policy Demands Better Measurement: Philadelphia's Economic Development Program – March 2000

The report entitled, *Good Policy Demands Better Measurement: Philadelphia's Economic Development Program*, was issued in March 2000. The report evaluated the City's Economic Stimulus Program, a \$4.3 billion public investment over 6 years. It found a lack of performance measurements and established expectations for spending and questioned the effectiveness of the program. It also questioned the validity of the job creation and retention data and the transparency of the quarterly reports published by the City. Finally, the report recommended that the City prepare a more focused approach to spending economic stimulus funds, including stronger performance measures and accountability.



Specifically, this report identified several metrics by which to measure the effectiveness of possible tax reductions, characterizing such reductions as dollars invested toward economic development goals. The paper proposed that the City set benchmarks and evaluate the impact of such investments on job creation and retention, tenets of the

City's economic stimulus program. It also noted early City efforts towards performance management through the Quarterly City Managers Report (QCMR).

This report illustrates PICA's efforts around the use of data and the importance of performance management in evaluating potentially transformative programs, such as changes to tax policy.

Philadelphia Must Reduce Its Need for Tax Revenues - issued January 2000

In January 2000, PICA issued a report entitled, *Philadelphia Must Reduce Its Need for Tax Revenues*. The report offered a critical assessment of several City spending policies and offered a roadmap for reforming tax policy with an eye toward equitable economic development.

More specifically, the report warned that the City needed to reduce tax-supported spending to achieve the considerable tax reductions that, combined, would result in meaningful tax policy reform. Furthermore, PICA implored the City—through smart tax policy—to foster economic development, work to expand the tax base, and more generally, to seize the economic opportunity offered by the historic economic expansion taking place in the late 1990s.

Other reports PICA issued on Tax Policy include:

- Revenue Stress in the City of Philadelphia – November 1996
This report took an in-depth look at the City's revenues to gauge the ongoing decline in City revenues, map out the City's tax base, and quantify Philadelphia's economic stress.
- Continuing Economic Decline: A Foreboding Future for Philadelphia – October 1996
This report showed that Philadelphia was experiencing a decline in the number of jobs, number of residents employed, and decline in population. This economic decline impeded the City's ability to raise revenue while at the same time creating greater need for social welfare and other services.

Efficient Delivery of Services and Performance

Advocating for More Efficient Government Services

Oversight of City departments' performance and ensuring the efficient delivery of City services has always been an important part of PICA's work. At the time of PICA's creation, the City was suffering from a bloated government structure and a serious erosion in the quality of municipal services. Therefore, the PICA Act gave PICA certain advisory and review powers and mandated that the City has the "...responsibility to exercise efficient and accountable fiscal practices" including managerial accountability and the consolidation or elimination of inefficient City programs.

The PICA Board has often exercised its oversight and advisory role through the commissioning of reports and studies on a specific management or performance-related issue. These reports and studies—which the City frequently did not have the resources to commission—generally offer deep analysis of the issue and provide recommendations for increasing efficiency and/or improving service delivery.

Review of the City of Philadelphia Police Court Overtime – September 2019

PICA's analysis of City overtime spending revealed several consistent drivers of high Police overtime costs—a main driver being Police Court overtime. Police Court overtime relates to officers testifying in court as witnesses encompassing several criminal justice departments and offices including, Office of the District Attorney, the First Judicial District of Pennsylvania, and the Defender Association of Philadelphia. The PICA Board engaged an auditing and consulting firm, Baker Tilly Virchow Krause, LLP, to identify the primary causes that contribute to excessive Police-Court overtime, and to identify potential opportunities for overtime savings.

Subsequently, in September 2019, PICA released the report entitled, *Review of the City of Philadelphia Police Court Overtime*. The report made several recommendations aimed at streamlining the Police Court overtime process, including leveraging of technology, increasing oversight and controls, and eliminating avoidable overtime. The report identified over \$7 million in annual savings that could be achieved should the criminal justice departments and offices involved work together toward implementation of the consultants' recommendations.

An Efficiency and Effectiveness Study of the Philadelphia Fire Department – January 2012

PICA's focus on public safety also included assessing the Philadelphia Fire Department ("PFD") operations, prior to which was never assessed on a full-scale performance and operational basis.

After consultations with the Administration, City Council, and representatives of the International Association of Firefighters ("IAFF") Local 22, the PICA Board initiated a study of the Philadelphia Fire Department ("PFD") in order to identify opportunities to increase the operational efficiency of the PFD. The PICA Board retained the services of Berkshire Advisors, Inc., general management consultants, to assist in this comprehensive study. The study assessed all PFD services and resources, the organizational structure, communications, human relations, budgeting, and personnel.

In January 2012, PICA issued a report entitled, *An Efficiency and Effectiveness Study of the Philadelphia Fire Department*. The report included recommendations to take aggressive action by changing the organizational structure, restructuring roles and responsibilities, developing needed management systems, potentially closing, and

moving certain fire stations, making strategic investments in training, and developing and implementing detailed plans for making more effective use of resources.

Upon issuance of the report, PICA met intermittently with PFD to review action taken as a result of the study, and the PFD implemented various initiatives shortly thereafter.

Improving City Department Performance Measures

In 2015, the PICA Board began advocating for a budgeting format that would increase efficiency and improve performance Citywide. In December of that year, PICA held its annual Fall Conference, *Budgeting Practices for Local Governments* at the Federal Reserve Bank of Philadelphia. The conference featured presentations by Philadelphia's and Baltimore's budget directors, and a presentation on Program-Based Budgeting—an outcomes-based budgeting format—provided by Pew Charitable Trusts, Philadelphia Research Initiative Unit.

PICA recommended the City overhaul its budget into a program based budgeting format, specifically, divide the City budget into programs with benchmarks and performance targets. This would allow City officials to fund or increase funding to programs with positive results or decrease funding to programs with sub-par results. By implementing program based budgeting, City officials could promote efficient delivery of government services and make data-driven decisions informed by performance metrics. Beginning with the City's Five Year Plan for Fiscal Years 2018 to 2022, the City began to transition departments' budgets to the program based budgeting format; with the issuance of the FY2021 to FY2025 Plan, all departments have transferred to the program based budgeting format.

City of Philadelphia Performance: Measurement, Reporting, and Accountability – February 2016

While the City publishes performance figures for several departments in its five year financial and strategic plans, Quarterly City Managers Reports, budget documents, and other strategic plans, there was no agency or entity reporting on performance outcomes in a public-facing document. As such, in February 2016, PICA issued a report entitled *City of Philadelphia Performance: Measurement, Reporting, and Accountability*. The report detailed the City's performance reporting structure and made several recommendations for improving performance metrics and reporting. Since the issuance of the report, several City departments have overhauled or introduced new performance metrics or published strategic plans with clearly stated missions.



PICA continues to report on the City's performance metrics in its report on the City's Quarterly City Manager's Report, and reviews and analyzes the metrics, and also conducts high level meetings with department heads regarding their performance during the five year plan review process.

Staff Report on the City of Philadelphia's Quarterly City Managers Report – Quarterly

PICA also recognizes the importance of reporting the City's performance data to the public on a regular basis. It is for this reason that *PICA's Staff Report on the City of Philadelphia's Quarterly City Managers Report* ("QCMR") features an expanded section on City department performance. Redesigned in 2019, the report details several fiscal years of performance data for key departments in concise and easy-to-read tables. It includes facts and figures that correlate with the data in a way that helps citizens connect the data to their everyday lives. As PICA publishes this report on a quarterly basis shortly after the release of the QCMR, readers can keep up with trends in City department performance in near real-time.

In sum, there are several ways in which PICA has impacted City department performance and the efficient delivery of services over the years. From simply reporting performance data to the public, to commissioning important efficiency studies, to including it in our five year plan review process, to making budget recommendations—PICA has and will continue to advocate for improved performance and take seriously its oversight role as it relates to the efficient delivery of City services.

Hosting Fall Conferences

In FY2015, PICA began hosting an annual fall conference, where subject matter experts present and discuss important current topics of interest for the City of Philadelphia. The purpose of the annual event is to gather government officials, experts in the field, policy-makers, and academics to discuss strategies, ideas, and best-practices for modern city governments in addressing fiscal challenges. These conferences have been hailed as very informative and timely by attendees and City officials.

The inaugural event held in December 2014, was entitled "*Enhancing Revenue Recovery: Strategies & Ideas*." It focused on enhancing the City's revenue collections. Other conference topics included:

- "*Program Based Budgeting*," held in December 2015. The City began implementing Program-Based Budgeting, which assesses the performance of individual programs within City departments as a means of determining annual appropriations. All City departments now adhere to this budgeting methodology.
- "*Philadelphia's Infrastructure: The Road to the Future*," held in December 2016. A panel of experts in the fields of transportation,

technology, and utility infrastructure presented on the state of Philadelphia's infrastructure systems, proposed funding sources, and best practices for future infrastructure improvements.

- *"The Path to Affordable Housing for All Philadelphians,"* held in October 2017. A panel of experts in the fields of city planning, real estate market research, and affordable housing development presented on the state of Philadelphia's affordable housing stock, plans for developing an appropriate level of affordable housing and preservation of the affordable housing already available in the City. In November 2021, an ordinance was voted on by the electorate that mandated a required annual operating contribution to the City's Housing Trust Fund.
- *"Data-Driven Solutions for 21st Century City Governments,"* held in October 2018. The topic reflected the importance of the use of data analytics to solve big cities' most pressing issues.
- *"Assessing a 21st Century Threat: Cybersecurity in Modern Government,"* held in October 2019. The topic was promulgated by several cyber security attacks on public agencies, including the City of Philadelphia's Court System.
- *"The Impact of the COVID-19 Pandemic on State and Local Governments,"* held in November 2020. This conference discussed the adverse economic and fiscal effects of the COVID-19 pandemic on state and city budgets.
- *"What Do the American Rescue and Infrastructure Plans Mean for Cities?,"* held in October 2021. This conference examined the impact the federal government pandemic related funds had on cities and how the City of Philadelphia was preparing to oversee and monitor these grants.

V. CONCLUSION

As this report illustrates, PICA has been an integral part of the City's fiscal recovery and stability for the past three decades. Under the PICA Board's leadership and strong oversight, PICA has and continues to have an enormous positive impact on the City's financial condition by fostering sound budgeting and management practices.

Recent legislation has been introduced in the Pennsylvania House of Representatives to extend PICA's existence until January 2047, and we welcome support in the passage of this legislation.

Appendix A – PICA BOARD MEMBERS

APPENDIX A: PICA Board Members			
Board Member	Position	Year Appointed	Year Service Ended
<i>Past Board Members</i>			
Bernard E. Anderson	Chair	1991	1993
Carol Gassert Carroll	Secretary/Treasurer; Chair	1991	1997
Charles L. Andes	Vice Chair	1991	1995
John J. Egan, Jr.	Treasurer; Assistant Treasurer/Secretary	1991	1993
Judith E. Harris, Esq.	Assistant Treasurer/Secretary	1991	1991
Handsel B. Minyard	Assistant Treasurer/Secretary	1992	1993
Charisse R. Lillie, Esq.	Vice Chair	1993	1998
G. Fred DiBona	Assistant Treasurer/Secretary	1993	1997
Hiliary H. Holloway	Chair	1993	1995
Stephen A. Van Dyck	Chair	1995	1999
Edward J. DiDonato	Secretary	1995	1999
Nicholas DeBenedictis	Assistant Treasurer/Secretary	1995	1995
Arnold Hoffman	Assistant Treasurer/Secretary	1997	2000
Lauri A. Kavulich, Esq.	Treasurer; Chair	1997	2007
William J. Leonard, Esq.	Vice Chair	1998	2011
Stephanie A. Middleton, Esq.	Member	2000	2003
Gregg Melinson	Secretary/Treasurer	2000	2006
Kenneth I. Trujillo, Esq.	Member	2003	2005
James Eisenhower, Esq.	Member; Chair	2005	2011
Varsovia Fernandez	Secretary/Treasurer	2006	2009
Robert Archie, Esq.	Member	2007	2009
Joseph A. DiAngelo	Assistant Secretary/Treasurer	2009	2014
Wadud Ahmad, Esq.	Member	2009	2011
Sam Katz	Chair	2011	2014
Gregory Rost	Secretary/Treasurer	2011	2016
Samuel G. Hopkins	Member	2011	2013
Rhonda Hill Wilson, Esq.	Secretary/Treasurer	2013	2015
Lawrence G. Tabas, Esq.	Chair	2014	2015
Suzanne Biemiller	Chair	2015	2016
Joseph McColgan	Secretary/Treasurer	2015	2017
Tina Byles Williams	Member	2017	2021
James F. Cawley	Assistant Treasurer/Secretary	2017	2021
<i>Current Board Members</i>			
Michael Karp	Secretary/Treasurer	2000	
Alan Kessler, Esq.	Vice Chair	2015	
Kevin Vaughan	Chair	2016	
Courtney N. Richardson, Esq.	Assistant Treasurer/Secretary	2021	
Roderick Henkels	Member	2021	

Appendix B – PICA EXECUTIVE DIRECTORS

APPENDIX B: PICA Executive Directors	
Executive Director	Term
Ronald J. Henry, Esq.	1991 to 1994
Joseph C. Vignola, Esq.	1995 to 2005
Rob Dubow	2005 to 2008
Uri Monson	2008 to 2012
Frances Burns	2012 to 2013
Harvey M. Rice, Esq.	2014 to Present

Appendix C – PICA TAX, DEBT SERVICE PAYMENTS & GRANTS TO THE CITY

APPENDIX C: PICA Tax, Debt Service Payments & Grants to the City (\$ in Millions)			
Fiscal Year	PICA Wage, Earnings & Net Profits Tax	Debt Service Payments	Grants to the City
1992	\$169.5	\$-	\$169.5
1993	\$185.9	\$7.5	\$178.5
1994	\$201.3	\$62.7	\$138.6
1995	\$212.6	\$103.1	\$109.5
1996	\$218.8	\$99.8	\$119.0
1997	\$220.8	\$99.6	\$121.2
1998	\$231.2	\$101.5	\$129.7
1999	\$245.8	\$102.6	\$143.2
2000	\$256.6	\$98.7	\$157.9
2001	\$273.6	\$100.6	\$173.0
2002	\$278.0	\$100.9	\$177.1
2003	\$281.5	\$67.1	\$214.3
2004	\$285.0	\$74.9	\$210.1
2005	\$300.2	\$85.4	\$214.8
2006	\$309.9	\$79.8	\$230.0
2007	\$327.9	\$83.1	\$244.8
2008	\$341.8	\$80.6	\$261.2
2009	\$348.5	\$70.8	\$277.7
2010	\$343.3	\$67.5	\$275.8
2011	\$358.7	\$64.9	\$293.8
2012	\$357.5	\$62.3	\$295.2
2013	\$376.5	\$62.5	\$314.0
2014	\$384.5	\$65.8	\$318.7
2015	\$408.5	\$62.0	\$346.5
2016	\$444.5	\$61.1	\$383.4
2017	\$469.2	\$59.7	\$409.5
2018	\$497.0	\$42.8	\$454.2
2019	\$528.7	\$35.2	\$493.6
2020	\$534.4	\$38.4	\$495.9
2021	\$499.9	\$37.2	\$462.7
2022 (Estimated)	\$527.9	\$37.1	\$490.8
Source: Mayor's Operating Budget in Brief – As approved by City Council			

Appendix D – GENERAL FUND YEAREND FUND BALANCES

APPENDIX D: General Fund Yearend Fund Balances (\$ in Millions)			
Fiscal Year	Fund Balance	Total Obligations	Percent of Obligations
1986	\$4.7	\$1,661.3	0.3%
1987	\$12.4	\$1,734.0	0.7%
1988	(\$32.1)	\$1,894.4	-1.7%
1989	(\$75.2)	\$2,010.9	-3.7%
1990	(\$72.7)	\$2,008.9	-3.6%
1991	(\$153.5)	\$2,126.6	-7.2%
1992	(\$71.4)	\$2,255.6	-3.2%
1993	\$3.0	\$2,280.4	0.1%
1994	\$15.4	\$2,346.0	0.7%
1995	\$80.5	\$2,267.2	3.6%
1996	\$118.5	\$2,371.0	5.0%
1997	\$128.8	\$2,463.9	5.2%
1998	\$169.2	\$2,479.6	6.8%
1999	\$205.7	\$2,616.6	7.9%
2000	\$295.1	\$2,711.2	10.9%
2001	\$230.0	\$2,881.5	8.0%
2002	\$139.0	\$2,981.1	4.7%
2003	\$91.3	\$3,153.2	2.9%
2004	(\$46.8)	\$3,248.2	-1.4%
2005	\$96.2	\$3,386.3	2.8%
2006	\$254.5	\$3,426.0	7.4%
2007	\$297.9	\$3,736.7	8.0%
2008	\$119.5	\$3,919.9	3.0%
2009	(\$137.2)	\$3,915.3	-3.5%
2010	(\$114.0)	\$3,653.7	-3.1%
2011	\$-	\$3,785.3	0.0%
2012	\$146.8	\$3,484.9	4.2%
2013	\$256.9	\$3,613.3	7.1%
2014	\$202.1	\$3,886.6	5.2%
2015	\$151.5	\$3,831.5	4.0%
2016	\$148.3	\$4,015.8	3.7%
2017	\$189.2	\$4,139.7	4.6%
2018	\$368.8	\$4,402.9	8.4%
2019	\$438.7	\$4,772.4	9.2%
2020	\$290.7	\$5,036.5	5.8%
2021 (est.)	\$298.5	\$4,717.8	6.3%
Source: Mayor's Budget in Brief and City's Comprehensive Annual Financial Report			

Appendix E – PICA REPORTS CITED

Current Recurring Reports ¹	
Annual	
Staff Report on City of Philadelphia's Five Year Financial Plan	
Staff Report on City of Philadelphia's Revised Five Year Financial Plan (when required)	
PICA Annual Report	
Quarterly	
Staff Report on City of Philadelphia's Quarterly City Managers Report	
Annual Overtime Report + Quarterly Updates	
Monthly	
Monthly City Tax Revenue Updates	
Monthly City Obligations Updates	

Reports Cited ¹	
Year	Title
2021	Fund Balance and Reserve Fund Comparison
2019	Review of the City of Philadelphia's Police Court Overtime
2017	Update on City of Philadelphia's DROP Program
2016	City of Philadelphia Performance: Measurement, Reporting, and Accountability
2015	Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability
2012	An Efficiency and Effectiveness Study of the Philadelphia Fire Department
2010	The Impact of a DROP Program on the Age of Retirement and Employer Pension Costs
2007	Assessment of City Facilities: Summary of Report Findings and Analysis
2007	City Budget Behind Bars: Increasing Prison Population Drives Rapidly Escalating Costs
2006	Health/Medical Benefits: Burning a Hole in the Budget
2006	Reversing the Trend of Doing Too Little with Too Much: Maintaining the City's Infrastructure While Reducing Its Dangerously High Debt Load
2005	An Ounce of Prevention: Managing the Ballooning Liability of Philadelphia's Pension Fund
2004	The Crime of Inefficiency: The Cost of Policing Philadelphia
2000	Philadelphia's Fiscal Challenge: Finding A Way To Save
2000	Good Policy Demands Better Measurement: Philadelphia's Economic Development Program
2000	Philadelphia Must Reduce its Need for Tax Revenues
1996	Revenue Stress in the City of Philadelphia
1996	Continuing Economic Decline: A Foreboding Future for Philadelphia

¹ These reports are available to read and download on the PICA website: www.picapa.org

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY
1500 Walnut Street, Suite 1600, Philadelphia, PA 19102
(215) 561-9160 • www.picapa.org



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