Pennsylvania Intergovernmental Cooperation Authority

Staff Report
on the
City of Philadelphia's Five Year Financial Plan
June 4, 1992

Board Members of the Pennsylvania Intergovernmental Cooperation Authority

Chairman
Bernard E. Anderson

Vice Chairman
Charles L. Andes

Secretary
Carol Gassert Carroll

Treasurer
John J. Egan, Jr.

Assistant Secretary
Handsel B. Minyard, Esq.

Staff of the Pennsylvania Intergovernmental Cooperation Authority

Executive Director
Ronald G. Henry

Deputy Executive Director
Peter Geleta

Senior Analyst
Robert Dubow

Analyst
Michael W. Foster

Administrative and Support Staff
Lisa A. Whittaker
Kim Richardson

TABLE OF CONTENTS

INTRODUCTION

The fiscal recovery of the City of Philadelphia cannot be accomplished by creating an agency charged with instilling a spirit of cooperation to deal with accumulated fiscal problems and then declaring those problems "solved". Those problems *can*, however, be addressed (and *perhaps* solved) by a cooperative effort drawing its strength from all parts of the community and all levels and branches of government.

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") was created through the efforts of Philadelphians and State officials who envisioned a structure to give Philadelphia enough fiscal breathing room to put its revenue collection and spending processes in order, and to reach a consensus on its priorities, assets and limitations in the decade of the 90's. PICA's approval of a five year financial plan, the execution and delivery of an intergovernmental cooperation agreement and PICA's issuance of deficit reduction and capital project bonds are far from the conclusion of the process. They are only small steps in what will be an often difficult exercise in self-government, ultimately aimed towards restoring Philadelphia's credibility in the financial markets.

PICA has a role of vital importance in both a financial and political sense. There has been an impression that the City's government has spun "out of control", that its officials have not responsibly managed the estimation, collection or disbursement of revenues, and generally have failed to come to grips with the challenges facing Philadelphia. Each person has a personal story of how Philadelphia's government is mismanaged or corrupt.

PICA was created in that atmosphere, and its role is a combination of cooperation, assistance and oversight -- as well as to have a basic skepticism about the ability of Philadelphia to manage its own affairs. It is not a "control board" with the power to hire, fire, enact and repeal taxes or otherwise disenfranchise the people of the City. It can, however, be a catalyst in Philadelphia's re-evaluation of the role and priorities of municipal government, as well as the re-assessment of those of other levels of government.

This report is intended to provide a formal evaluation of the Plan and its potential problems. It also is an effort to lay the foundation for the assessment of revisions to the Plan, and to set both standards and a frame of reference for PICA and public examination of the progress of the Plan and its initiatives.

No effort of the scope and complexity of a five year financial plan for a city of 1.6 million people with a budget in excess of $2 billion is perfect in its inception. While the cooperation between the executive and legislative branches of City government shown in their prompt approval of the Plan and the FY 1993 budget is both unusual and welcome, it is a matter of concern to PICA staff that the degree of substantive public discourse that our political system requires to achieve consensus, and to give all sectors of the community a stake in the results, may have been both too brief and not productive of the broad agreement required for the Plan to succeed.

The idea that the Plan can be fundamentally changed (if needed) when the results of the labor negotiations are known later this year, also is one about which PICA staff has serious reservations. The standards to be applied if and when such a revision occurs will be, if anything, more rigorous than has been the case to date (in light of the additional time the Administration will have had to access information about the workings of Philadelphia's government and to have begun the process of implementation).

It is imperative that Philadelphians and those who live and work nearby recognize that they all have a very real interest in the success or failure of the Plan. That is particularly true of those in the suburbs who believe that they somehow can hide from the problems of the City.

PICA staff is very concerned that the City government has not yet fully recognized that implementation of the initiatives beyond those which may be achieved through collective bargaining requires the active support and cooperation of those who work in the operating departments. While we have no doubt of the commitment of City Council, the Controller and the Mayor to the Plan, the greatest risk to date may be found in the absence of a comprehensive management plan or structure to support an implementation strategy.

This report is divided into several sections, substantially following the organization of the Plan. In addition, we have added references to areas of particular concern on the part of PICA's staff -- primarily those relating to the need for more detailed information on particular items and on the scheduled implementation of initiatives, items which will be the focus of our future evaluations of revisions to the Plan.

Plan Overview

Despite the language of the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"), it is at least in part misleading to view the Plan as a "financial plan". In reality, the "financial" part of the process is not the most critical element. Rather, the Plan is actually a *management* plan with financial effects. In the end, the success of the initiatives in the Plan will depend substantially less upon the financial aspects of the document than the ability of the Administration to manage the Plan and its initiatives in such a way as to achieve the desired effects in the time available.

PICA staff devoted its initial efforts towards development of an understanding of the Plan's underlying methodology, and the assumptions upon which it is based. Thereafter, we worked to determine whether the assumptions were consistently applied, and in so doing were able to flesh out elements of the Plan as originally proposed which required further explanation - and in some cases substantial revision.

Statutory Basis

Sections 209 (a)-(d) of the PICA Act[1] and the Intergovernmental Cooperation Agreement (the "Agreement") are clear as to the requirements for the Plan:

> (b) Elements of plan. -- The financial plan shall include:
>
> (1) Projected revenues and expenditures of the principal operating fund or funds of the city for five fiscal years consisting of the current fiscal year and the next four fiscal years.
>
> (2) Plan components that will:
>
> (i) eliminate any projected deficit for the current fiscal year;
>
> (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized;
>
> (iii) balance the current fiscal year budget and subsequent budgets in the financial plan through sound budgetary practices, including, but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of these steps;
>
> (iv) provide procedures to avoid a fiscal emergency condition in the future; and
>
> (v) enhance the ability of the city to regain access to the short-term and long-term credit markets.
>
> (c) Standards for formulation of plan:
>
> (1) All projections of revenues and expenditures in a financial plan shall be based on reasonable and appropriate assumptions and methods of estimation, all such assumptions and methods to be consistently applied.
>
> (2) All revenue and appropriation estimates shall be on a modified accrual basis in accordance with generally accepted standards. Revenue estimates shall recognize revenues in the accounting period in which they

---

1 P.L. 9, No. 6, approved June 15, 1991 (the "PICA Act")

become both measurable and available. Estimates of city-generated revenues shall be based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models. Estimates of revenues to be received from the state government shall be based on historical patterns, currently available levels, or on levels proposed in a budget by the governor. Estimates of revenues to be received from the federal government shall be based on historical patterns, currently available levels, or on levels proposed in a budget by the president or in a congressional budget resolution. Non-tax revenues shall be based on current or proposed rates, charges or fees, historical patterns and generally recognized econometric models. Appropriation estimates shall include, at a minimum, 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. Any deviations from these standards of estimating revenues and appropriations proposed to be used by a city shall be specifically disclosed and shall be approved by a qualified majority of the board.

(3) all cash flow projections shall be based upon reasonable and appropriate assumptions as to sources and uses of cash, including, but not limited to, reasonable and appropriate assumptions as to the timing of receipt and expenditure thereof and shall provide for operations of the assisted city to be conducted within the resources so projected. All estimates shall take due account of the past and anticipated collection, expenditure and service demand experience of the assisted city and of current and projected economic conditions.

(d) Form of plan. -- Each financial plan shall, consistent with the requirements of an assisted city's home rule charter or optional plan of government:

(1) be in such form and shall contain:

(i) for each of the first two fiscal years covered by the financial plan such information as shall reflect an assisted city's total expenditures by fund and by lump sum amount for each board, commission, department or office of an assisted city; and

(ii) for the remaining three fiscal years of the financial plan such information as shall reflect an assisted city's total expenditures by fund and by lump sum for major object classification;

(2) include projections of all revenues and expenditures for five fiscal years, including, but not limited to, projected capital expenditures and short-term and long-term debt incurrence and cash flow forecasts by fund for the first year of the financial plan;

(3) include a schedule of projected capital commitments of the assisted city and proposed sources of funding for such commitments; and

(4) be accompanied by a statement describing, in reasonable detail, the significant assumptions and methods of estimation used in arriving at the projections contained in such plan.

The PICA Act (at Section 210) and the Agreement also require the following:

Each Financial Plan submitted by the City to the Authority shall be accompanied by the following supporting information:

(a) a schedule of debt service payments due or projected to become due in respect of all indebtedness of the City and all indebtedness of others supported in any manner by the City (by guaranty, lease, service agreement, or otherwise) during each fiscal year of the City until the final scheduled maturity of such indebtedness, such schedule to set forth such debt service payments separately according to the general categories of direct general obligation debt, direct revenue debt, lease obligations, service agreement obligations and guaranty obligations.

(b) a schedule of payments for legally mandated services included in the Financial Plan and due or projected to be due during the fiscal years of the City covered by the Financial Plan;

(c) a statement describing, in reasonable detail, the significant assumptions and methods of estimation used in arriving at the projections contained in the Financial Plan;

(d) the Mayor's proposed operating budget and capital budget for each of the Covered Funds for the next (or in the case of the initial Financial Plan, the current) fiscal year of the City, which budgets shall be consistent with the first year of the Financial Plan and which budgets shall be prepared in accordance with the Home Rule Charter;

(e) a statement by the Mayor that the budgets described in section 4.04(d) hereof:

(i) are consistent with the Financial Plan;

(ii) contain funding adequate for debt service payments, legally mandated services and lease payments securing bonds of other government agencies or of any other entities; and

(iii) are based on reasonable and appropriate assumptions and methods of estimation.

(f) a cash flow forecast for the City's consolidated cash accounting for the first fiscal year of the City covered by the Financial Plan;

(g) an opinion or certification of the City Controller, prepared in accordance with generally accepted auditing standards, with respect to the reasonableness of the assumptions and estimates in the Financial Plan; and

(h) a schedule setting forth the number of authorized employee positions (filled and unfilled) for the first year covered by such Financial Plan for each board, commission, department or office of the City, and an estimate of this information for the later years covered by the Financial Plan. The schedule required under this paragraph (h) shall be accompanied by a report setting forth the City's estimates of wage and benefit levels for various groups of employees, such information to be presented in a manner which will allow the Authority to understand and effectively review the portions of the Financial Plan which reflect the results of the City's labor agreements with its employees, and an analysis of the financial effect on the City and its employees of changes in compensation and benefits, in collective bargaining agreements, and

> in other terms and conditions of employment, which changes may be appropriate in light of the City's current and forecast financial condition. The parties agree to cooperate such that the form of the report required under this paragraph (h), and the subjects covered, are reasonably satisfactory to the Authority.[2]

The Evolution of PICA's Role

The circumstances of PICA's creation, and the demands which were placed upon it immediately thereafter, have helped to fashion the Authority's definition of its role in the effort to restore Philadelphia's credibility in the financial markets.

The Authority was created by the General Assembly of the Commonwealth of Pennsylvania in an atmosphere of perceived City fiscal crisis. Deficits were skyrocketing, vendors of goods and services had not been paid, a hiring freeze had been imposed, persistent fears that the City would run out of cash shook the confidence of the workforce, vendors, residents and investors. The capital program was at a standstill, its funds having been used as a line of credit to navigate through successive cash flow emergencies. The specter of imminent financial collapse impelled the legislature to include an instruction to PICA in the PICA Act to issue its bonds to address the accumulated deficit of the City (at that time estimated to be in excess of $219 million) "on or before June 30, 1991 or as soon as practical thereafter,..."[3]. Legislation creating PICA was signed by Governor Robert P. Casey on June 5, 1991, and the Authority met 16 days later for the first time, in the expectation that it would shortly receive a five year plan, to be followed immediately thereafter by issuance of in excess of a quarter billion dollars in bonds.

The members of the Authority had no choice but to begin from ground zero to acquire specific expertise and develop a work plan necessary to respond promptly to the job before them. Faced with the daunting task of evaluating a Plan whose arrival was expected momentarily, PICA hired an executive director and selected municipal finance professionals for its bond issue. It also retained the services of Coopers & Lybrand, a nationally recognized accounting and consulting firm with broad experience among its partners in the affairs of troubled municipalities. The message sent by the actions of PICA to the bond markets and rating agencies was that the Authority would be something more than a passive funding arm of the City of Philadelphia - that it intended to do the job laid out for it in the PICA Act.

During FY92 and after the creation of PICA, the City issued $156.6 million in short term notes, $110 million in August 1991 (at a 10.7% interest rate) and another $46.6 million in November 1991 ($39.4 million with a 8.5% interest rate and $7.2 million with a 7.75% interest rate), which produced enough cash to see the City through the leanest of its cash flow

---

[2] Agreement - Section 4.04(a)-(h)

[3] The PICA Act - Section 317(a)

months and keep pay checks and basic services moving. Time was bought - enough to permit the City to avoid insolvency while the PICA process got underway - but at a very expensive price.

Taking advantage of the respite, the Authority worked with the City through the remainder of the Summer and early Fall of 1991 as the City attempted to develop a Plan which addressed the most basic concerns of the PICA Act. PICA and its authorizing legislation required that the Plan be based upon reasonable assumptions, reasonably applied, and include only achievable savings from rationally developed and explained initiatives. Some progress was made, but greater success was thought to have been achieved in the negotiation of the Agreement - the document which would define the PICA-City relationship. There was momentary success in reaching a favorable conclusion on the Agreement, but hopes that an agreement would be soon finalized were dashed when, in late September, the document became entangled in the legislative process of a lame-duck City Council.

The sidetracking by Council of the proposed Agreement in the Fall, coupled with the City's subsequent issuance of its November notes, made it clear to members of the Authority that 1991 would not be a year when PICA would either approve a Plan or issue bonds for the benefit of the City. The proceeds of the second series of notes effectively ended the cash crisis for the Goode Administration, and the inability of Council to pass the Agreement, either as proposed or in a form otherwise acceptable to PICA, until after the November election combined to push the Plan development and bond issuance effort into both the new calender year, and the term of a new Mayor.

On January 3, 1992, agreement was reached between the City and PICA on the terms of the Agreement, which were substantially the same as those which had been rejected by City Council the previous year. The ordinance approving the Agreement was signed by Mayor Goode as one of his final official acts, and Mayor Rendell and PICA executed the Agreement on January 8, 1992. The execution and delivery of the Agreement triggered the events which led up to PICA's approval of the Plan and issuance of bonds.

Considerable discussion occurred during the post-election period between PICA and both the transition team for the Rendell Administration and representatives of City Council, and the Authority was able to use the time to advantage. It expanded staff, and by early January had a team in place to deal with the tasks ahead.

Mayor Rendell submitted his five year financial plan to City Council on February 20, 1992, where it was given preliminary approval on March 5, 1992. The Authority received the document on the day of Council approval, and after an in-depth review that resulted in a series of changes, approved a version of the Plan (inclusive of supplemental information and technical modifications) on April 6, 1992. The Mayor submitted the fiscal year 1993 operating budget to City Council on March 19, 1992, while the Plan was pending before PICA, and on April 29, 1992 Council approved operating and capital budgets which in large degree conformed with the Plan approved by the Authority earlier that month.

There were, however, some differences, many of which are noted elsewhere in this report, the most striking of which were amendments to the capital budget and transfer of the funding of the "Productivity Bank" from capital to operating funds. The amendments to the capital budget increased the total amount of proposed PICA-financed capital projects to $177 million. To be financed by PICA, the projects had to meet the PICA Act's requirements of either addressing emergency conditions or reducing budget deficits.

The PICA Board, after considering analyses of City-provided information on the projects prepared by PICA staff, with the aid of the City Controller's Office, Authority Counsel and Bond Counsel, subsequently determined that approximately $120 million of proposed capital projects met the Act's requirements.

The reduction in PICA funded capital projects (from the $177 million assumption used in developing the April 21, 1992 Revised Amended Five Year Financial Plan to $120 million) resulted in a change in the size of the anticipated PICA bond issue from $545 million to an anticipated $475 million in a Plan issued May 18, 1992 (the actual issuance size was $474.6 million). The reduction in bond size and related debt service created the need for further modifications to the Plan, which were made by the City and approved by PICA on May 18, 1992. The only changes from the April 21, 1992 Revised Amended Five Year Financial Plan were the changes in the capital portion, the size of the PICA borrowing and the resulting debt service.

The approval and modification resulted in a cumbersome and fragmented Plan "document". The approved Plan is a combination of a comprehensive Plan dated February 20, 1992, Supplemental Information and Technical Modifications dated April 6, 1992, a Revised Amended Five-Year Financial Plan dated April 21, 1992 and a Revised Amended Five-Year Financial Plan dated May 18, 1992 (reference in this report to the "Plan" will be to the final version unless otherwise noted). This fragmentation adds an unnecessary layer of difficulty to Plan analysis. PICA and its staff understood the time constraints of the initial Plan development process and agreed to the fragmented approach, but expects that in the future, revisions, supplements and modifications will be combined with the original Plan submission to produce a single cohesive and comprehensive cross-referenced document.

Legal Issues and Litigation

On February 20, 1992, the unions representing the City's municipal workers filed two actions, one on behalf of uniformed employees and one on behalf of non-uniformed employees, in the Supreme Court of Pennsylvania, asserting that the PICA Act violated the Pennsylvania Constitution and certain statutes by permitting the Authority to interfere with the City's fiscal, budgetary, collective bargaining and general municipal functions; and that the appointments of four of the five voting members of the Authority's Board violated the Pennsylvania Constitution. The action filed by the non-uniformed employees also asserted that certain provisions of the Agreement conflicted with the Public Employee Relations Act. The action filed by uniformed employees alleged that a portion of the Act violated the Constitution by interfering with the arbitration process for police and firefighters. Both actions asked the Pennsylvania Supreme Court to declare the Act to be unconstitutional, enjoin implementation of certain provisions of the Act and the Agreement, and issue a writ declaring that four of the voting members of the Authority's Board were unlawfully appointed.

After hearing oral arguments and receiving briefs, the Supreme Court issued an order denying the relief sought in both petitions. The unions filed an Application for Reconsideration which the Supreme Court denied on May 29, 1992.

EXECUTIVE SUMMARY

Methodology/Report Date

The Plan sets a course to correct the results of generations of flawed management decisions. The City's condition today is the result of the continued victory of expediency over planning, and of short-term political gain over sound long-term policy. The Plan articulates a commitment to doing things differently, but its success will depend upon transforming that commitment from an ideal into reality.

In reviewing the Plan, PICA has avoided substituting its judgment for that of those elected to set policies for, and the priorities of, the City. The Authority has endeavored to emphasize and give some sense of direction to movements for change within the system, and the Plan is one of many steps that will have to be taken to pull the City out of its present difficulty. There were several areas of particular note in the Plan which this Executive Summary will address.

All numbers cited in this report are from the Plan unless otherwise specified.

This report is prepared as of June 4, 1992 and actions and events occuring subsequent to such date, but prior to report issuance, which may have had a substantive impact or effect on the conclusions contained herein, are not considered or discussed herein. Any such occurences will be discussed in later PICA staff reports.

Contingency Plans

The Plan indicates that if its initiatives are not successfully implemented, the City may have to resort to across-the-board layoffs. While layoffs may reduce expenditures, layoffs of any magnitude would undercut the Plan's underlying assumption that services will not be reduced. Additionally the City's ability to implement layoffs across-the-board is limited in some instances. For example, staffing levels in some departments (such as Human Services) are partially determined by regulations of other levels of government and massive staff reductions in departments such as Revenue could reduce the City's ability to generate revenues. In other cases (such as the Philadelphia Nursing Home) specific staff levels are required to implement initiatives successfully. Not withstanding the degree of difficulty in undertaking layoffs of the scale presented in the Plan, PICA staff believes that a reduction in employment levels is a reasonable alternative to incomplete accomplishment of the Plan's targets.

Revenues

One of the most significant accomplishments of the PICA Plan review process was promoting substantive changes in revenue projections. A perennial problem of Philadelphia budgeting has been overestimation of revenues. The Plan projects total revenue increases growing at an annual compounded rate of only 2.9%.

Overall projected revenues decreased (from the originally submitted Plan to the approved Plan) by $293.3 million, an amount approximating the current portion of FY91 real estate tax revenues. This change resulted from a thorough examination of revenue collection results and estimates by PICA staff, the Controller's Office, the City Finance Department and the City's financial advisors. The Plan's revenue projections were not PICA-imposed, but were agreed to by the City, the Controller's Office and PICA. Such a point is important because the process used in reaching the Plan's revenue projections has helped the City to develop methodologies that can be used in making future projections.

Taxes

The tax which provides the largest source of revenue, the Wage Tax, which is applied at slightly higher rates to residents (4.96%) than to non-residents (4.3125%), is projected to grow at an average annual rate of 2.6%, to a total of $1.06 billion in FY96. That growth rate is below the Plan's assumed inflation rate (3.0% in FY93, 3.5% in FY94 and FY95 and 4.0% in FY96) and indicates that the Plan does not anticipate significant job growth in the City during the Plan period. A portion of the resident Wage Tax has been dedicated to PICA and is called the PICA Tax. The PICA Tax has been pledged to support PICA's bonds, and any amount of the PICA Tax not used for debt service or other PICA uses is returned to the City.

The other major taxes were projected to grow from FY92 to FY96 at the following compounded annual rates: Real Estate at 4.4%, Business Privilege at 2.6% and Sales at 5.3% (the growth rate for the Sales Tax is projected from FY93, the first full year of collections, to FY96).

The projections were made on the basis of historic patterns, assumptions as to economic activity, consultations with outside experts and projections made by the Controller's Office in conjunction with Temple University.

Locally Generated Non-Tax Revenues

Locally generated non-tax revenues are projected to increase from $105.2 million in FY92 to $118.8 million in FY96, (3.0% compounded annually), but half of the increase comes from FY92 to FY93, when non-tax revenues are projected to grow by $6.7 million (to $111.8 million) because interest earnings are expected to grow as a result of increased fund balances produced by the PICA borrowing.

Intergovernmental Revenues

After tax revenues, revenues from other governments are the largest source of revenue for the City. Revenues from other governments are projected to grow at a compound annual rate of 4.4% over the term of the Plan.

Revenues from the Commonwealth are projected to grow from $279.0 million in FY92 to $316.3 million in FY96, (3.2% compounded annually). About 70% of revenues from the

Commonwealth are designated for either the Department of Human Services (DHS) or the Department of Public Health (DPH), and are discussed in greater detail elsewhere in this report.

Of $83.9 million in federal revenues for FY92, $82.3 million (98%) was for either the DHS or for the DPH.

PICA staff has several serious concerns about revenues. Taxes in general, and the Wage Tax in particular, have been estimated using conservative methods. Further economic deterioration leading to an accelerated pace of job loss, however, could produce revenues below even those projected in the Plan. The Sales Tax presents particular problems because the collection of an additional one percent for the City of Philadelphia is new, and until implementation problems are corrected, it will be difficult to project Sales Tax collections accurately .

There are major uncertainties surrounding intergovernmental revenues. Apart from programmatic concerns, the availability of funds from the Commonwealth is dependent in large part on the annual appropriation process.

<u>Revenues provided by other Funds to the General Fund</u>

Revenue from other funds is projected to grow from $11.5 million in FY92 to $13 million in FY96 (3% compounded annually).

<u>Other Funds</u>

The Other Funds section of the Five Year Plan deals with the Water Fund, the Aviation Fund and the Grants Revenue Fund and is not totally in compliance with the PICA Act and the Agreement. The section does not meet the requirement that the Plan provide sufficient information to "explain the estimated or projected impact, if any, of those Supplemental Funds (the Water and Aviation Funds) and Special Funds (any Fund other than the General Fund used to account for the receipt and use of resources restricted for a particular purpose) on the Covered Funds."[4] The Covered Funds are the principal operating funds of the City, including the General Fund, the General Capital Fund, the Grants Revenue Fund and any other Principal Operating Fund of the City which becomes a member of the City's Consolidated Cash Account.

The Aviation Fund section does not include any listing of revenues and the Water Fund portion of the Plan gives no detail for revenues and expenditures. Without this type of detail, it is impossible to evaluate the potential impact on the General Fund.

---

4 Agreement -- Section 4.03 (b)

Despite the Plan's description of the Aviation Fund as self sustaining, the Airport Director testified before City Council that the Aviation Fund was running deficits and had nearly exhausted its available balance. The Plan projects that the Water Fund will be kept in balance through two rate increases, one of which is over 14%.

PICA staff was able to make an independent assessment of the Water and Aviation Funds from other sources.

There are no detailed projections for any other funds and, except for the Grants Revenue Fund, there are no explanations as to why the funds are excluded from the Plan. PICA staff expects that the "Other Funds" section will improve in Plan revisions and in future versions of the Plan.

Personnel

The largest expenditure reductions projected in the Plan are in the Personnel section. After using the Plan's built-in discounts (75% in each year for personnel initiatives, 60% in FY93 and 80% in FY94, FY95 and FY96 for productivity initiatives), Personnel Section initiatives are projected to save the City $98.6 million in FY93

The largest portion of the savings is projected to come from health benefits reform, which includes regaining control of administration of health benefits plans from the unions, consolidating health benefits into one plan and bidding out that plan. The Plan estimates that this will reduce the cost of benefits to $302 per month per employee from a present per employee cost, in some cases, as high as $562 per month. In addition, the Plan calls for a 10% co-payment of premiums by employees. The City must take a series of difficult steps if it is to achieve these savings, including negotiating with the City's four major municipal employee unions to obtain the right to administer the plans; consolidating the existing benefit plans into one City-administered plan; and awarding a contract to a provider that will enable to the City to reduce costs to a maximum of $302 per employee per month.

A further complication for the City is that present Police and Fire benefits are provided under a contract that is in place until the end of August 1992 and employees not represented by unions have existing plans that extend until the beginning of January 1993. As well, the arbitration provisions of Act 111 complicate the prospects for being able to reach these goals for uniformed employees. The PICA Act requires, however, that the arbitrators consider, in writing, the City's financial ability to pay the cost of an arbitration award and the City's five year Plan. Additionally, the PICA Act provides that an arbitrator's decision can be appealed.

Many other Plan initiatives and assumptions are dependent on the outcome of the collective bargaining process with non-uniformed employees or the arbitration process with uniformed employees. Those include elimination of City-paid legal services, reduction in the number of paid holidays from 14 to 9, reduction in annual paid sick leave allowance from 20 to 10 days, reduction in starting salaries for police and firefighters from $29,750 to $23,750, elimination of longevity payments, and negotiation of a contract that does not include a "no layoff" clause and contains no salary increases (except in case of distribution of a portion of earned City budget surplus).

One initiative that does not require agreement with unions is the imposition of a cap on the use of overtime ($7.3 million expenditure reduction projected in FY93).

The Personnel section also includes an initiative to reform the City's disability system. The Plan contains no dollar savings from this initiative, but does note that the City Controller projects savings of at least $5.7 million a year from reform in this area.

A series of events must fall into place for the personnel initiatives to succeed, including obtaining contracts with the four major unions that include the Plan's personnel initiatives, being able to implement the initiatives in a timely fashion and managing the City's employee complement effectively. It is very possible that these events will not transpire in a manner which allows the City to achieve all of the Plan's savings, thus making the discounts a vital element of the City's ability to meet its Plan targets.

PRINCIPAL DEPARTMENTS

This report primarily focuses on the departments with the largest impact on the Plan. It contains separate sections on the Fire Department, the Department of Human Services, the Police Department, the Department of Public Health, the Department of Public Property, the Streets Department, a section combining the Law and Revenue Departments and a section on other initiatives which discusses the larger initiatives in departments not covered separately.

Fire Department

Fire Department expenditures are projected to grow from $111.1 million in FY91 to $118.4 million in FY96. Salaries, the Department's largest expenditure category, accounted for 89% of the budget in FY91 and are not projected to change from FY93 to FY96. Fire Department salaries are set through the arbitration process and the Department's expenditures will increase beyond Plan projections if arbitration rulings provide for salary increases.

The Plan projects that the Fire Department's initiatives, after discounts, will reduce expenditures by $37.6 million from FY93 through FY96. While all of the Department's initiatives seem reasonable to PICA's staff, some seem less likely than others to be implemented as projected. The initiatives include moving injured employees off the Department's payroll more quickly, reducing annual starting salaries from $29,500 to $23,500, capping overtime and increasing Emergency Medical Service revenues.

Except for the Emergency Medical Service initiative, which the City indicates is based on an existing contract, each of the other initiatives is dependent on the City's success in the arbitration process and on its ability to maintain appropriate staffing levels. In addition, the injured list initiative requires disability system reforms.

Department of Human Services

Human Services expenditures are projected to grow from $181.3 million in FY91 to $355.6 million in FY96, and purchase of services expenditures by the Department are projected to grow from $145.6 million in FY91 to $310 million in FY96. The Department's expenditures are partially offset by revenues received from the State and Federal governments. Even after deducting anticipated revenues from other governments from projected expenditures, the Department's net expenditures are projected to increase from $73 million in FY91 to $142.6 million in FY96. The major portion of the Department's overall expenditure growth is in projected expenditures for its Children and Youth Division. The Plan projects that, after initiatives, expenditures for the Children and Youth Division will grow from $159.8 million in FY92 to $252.3 million in FY96. The Department indicates that Children and Youth Division expenditures are driven primarily by increasing numbers of children in high-cost placements such as institutions and out-of-state facilities.

A major change in the Commonwealth's reimbursement policy for City Children and Youth expenditures is anticipated as the result of legislation which requires the State to phase in, by FY95, 100% funding of the "needs-based budget" amount for expenditures on dependent and delinquent children. The "needs-based budget" is prepared by the City and certified by the Pennsylvania Department of Public Welfare (DPW). The City has a number of on-going disputes with the DPW over the implementation of this legislation.

DHS initiatives are projected to increase revenues and decrease expenditures by a net amount equalling $163 million over the life of the Plan. The Department's major initiatives include adopting a policy of funding mandated programs only to the level of the City portion of the certified needs-based budget, reducing the number of social workers for services provided through private providers from a ratio of 30 to 1 to a ratio of 75 to 1, servicing 5% more of DHS' out-of-home client days in-home, continuing efforts to increase patient eligibility for Title IV-E benefits and pursuing more aggressively the reimbursement opportunities already in place, and expanding Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding.

All the DHS initiatives are attainable, but somewhat speculative. The needs-based budget initiative and the EPSDT initiative rely on successful resolution of disputes with the State. The caseworker ratio initiative apparently is to be reworked by a consultant and the Title IV-E initiative may be based on overly optimistic estimates for FY94 through FY96.

It is unlikely that DHS will achieve the entire $163 million in combined expenditure reductions and revenue increases projected by the DHS initiatives. It is probable, however, that some of the initiatives will be successfully implemented. Because of the difficulty in predicting DHS base expenditures and revenues and the speculative nature of the Department's initiatives, DHS is the City department about which PICA staff has the most concern. PICA staff recognizes that the geometric growth in social services places enormous burdens on an already over-extended system, but staff's basic concern over the DHS portion of the Plan is that insufficient attention has been paid to the need for fundamental changes in the manner in which the Department provides its services, a shared concern among DHS employees addressing the financial consequences of their programs. Whether the Plan's built-in discounts provide enough room for shortfalls is as yet difficult to assess.

Police Department

Base expenditures for the Police Department are projected to grow from $313 million in FY91 to $327.2 million in FY96 (less than 1% compounded annually). The low growth rate results from the Plan's assumption that expenditures for salaries do not increase from FY93 through FY96 (salaries accounted for 93% of the Department's expenditures in FY91). Police salaries are determined through arbitration and an award that provided for an increase in salaries would lead to a reduction in projected Plan savings.

Police Department initiatives are projected to reduce expenditures by $95.4 million over the life of the Plan. The initiatives include lowering entry level annual salaries of police officers from $29,500 to $23,500, capping overtime, getting injured officers off the Departmental payroll quicker, and instituting registration fees for all burglar alarms, and fines for false burglar alarm calls.

Except for the burglar alarm initiative, which will require Council approval, each Police Department initiative is dependent on the City's success in the arbitration process and on its ability to maintain appropriate staffing levels. In addition, the injured list initiative requires disability system reforms.

Department of Public Health

The Department's base expenditures are projected to grow from $203.3 million in FY91 to $235.2 million in FY96 (3% compounded annually), but revenues from the State and Federal governments for the Health Department are projected to grow at a compounded rate of only .62% (from $137 million to $141.3 million) over that period. The disparity in growth rates between projected expenditures and projected revenues leads to projected net expenditures increasing from $66.3 million in FY91 to $93.9 million in FY96 (a 7.2% compounded annual growth rate).

The Department's initiatives are projected to reduce expenditures and increase revenues by $50.8 million over the life of the Plan. The initiatives, if successful, would cut the projected growth rate of net expenditures from FY91 to FY96 by almost half from 7.2% ($66 million to $94 million) to 3.7% ($66 million to $79 million). The initiatives include reducing non-mandated health costs (through delays in hiring, not filling positions and reductions in Mental Health/Mental Retardation services), improving medicaid billings, expanding EPSDT Funding, and increasing reimbursements for the Philadelphia Nursing Home.

It is unlikely that each of the initiatives will be implemented, inasmuch as each initiative depends on prospective actions, some of which are beyond the control of the Department. Those actions include approvals from other levels of government, the favorable resolution of legal disputes, and the hiring of additional personnel. The discounts used in the Plan provide some latitude for mid-course corrections, and the Department has indicated that it will substitute new initiatives for ones that appear unlikely to meet their targets. The most speculative of the initiatives are the ones calling for an increase in the number of patients at the Philadelphia Nursing and for the creation of a new reimbursement category for the nursing home and nursing homes in Bucks and Allegheny counties. PICA staff has continuing reservations about the Department's ability to successfully implement the Philadelphia Nursing Home initiatives.

Department of Public Property

Base expenditures for the Department of Public Property are projected to grow from $185.6 million in FY91 to $207.9 million in FY96 (a compound average annual growth rate of 2.3%). The Department's growth rate is driven by spending for purchases of services, which account for over 80% of the Department's expenditures in each year of the Plan.

Public Property Department initiatives are projected to reduce expenditures and increase revenues by a total of $83.9 million from FY93 through FY96. The initiatives include imposing a per-line fee for 911 telephone services, transferring a portion of court space rental costs to the First Judicial District of Pennsylvania, savings through lease cost reductions, capping the City's contribution to SEPTA, consolidating the City's vehicle fleet, privatizing custodial services, and reducing telephone costs.

The Department's initiatives appear reasonable, although negotiating a collective bargaining agreement without a "no layoff" clause will be required to accomplish some of the management-related initiatives within the time period anticipated in the Plan. The imposition of a 911 fee requires City Council approval and the other initiatives appear to be within the Administration's control.

Streets Department

Streets Department base expenditures are projected to increase from $155.1 million in FY91 to $187.9 million in FY96 (a compounded annual growth rate of 3.9%).

The Plan projects $95.6 million in savings from Streets Department initiatives. The Department's largest initiatives include proposals to cap overtime, implement the City's new waste disposal contracts, eliminate two city transfer stations, charge the Philadelphia Housing Authority, the Philadelphia School District and large non-profit institutions for refuse removal services, change crew sizes on compactors and replace blockmen with mechanical brooms.

The initiatives require, among other things, the timely implementation of the new trash contracts, the negotiation of a collective bargaining agreement without layoff limitations (but with a reduction in annual sick day accrual allowance), effective management of the Department's employee complement and successful negotiations relative to charging for institutional trash removal services. It is likely that not all of the necessary steps will be accomplished in a manner and time frame that will allow the City to receive the entire savings projected for these initiatives. The Plan's built-in discounts, however, provide some cushion in cases were initiatives either fail or are delayed.

Law and Revenue Departments

The Law and Revenue Departments are discussed together because they have several joint initiatives. The projected increased revenue from the initiatives totals $29.4 million for the Law Department and $46.6 million for the Revenue Department.

The Law Department's initiatives include improved tax collection, enhanced enforcement, faster processing of tax (sheriff) sales, and better claims filing and collections in Bankruptcy sales. The Revenue Department's initiatives include improving collections through computerized coordination; redeployment of savings from computerization to increase personnel who are projected to increase collections; transferring assessment, collection, and enforcement functions to the Department from the Board of Revisions of Taxes; and either having legislation passed to implement withholding of Wage taxes from Philadelphia residents working in Pennsylvania suburbs or achieving the same net result through a computer matching program utilizing State provided income tax return information.

Some of the initiatives may be hard to implement as quickly as required to meet the Plan's targets because they require City Charter change, State action or aggressive implementation of new computer systems.

Other Initiatives

The "Other Initiatives" section of this report discusses several departments which each have only one large initiative. The departments and their initiatives are:

o Licenses & Inspections - Revamp Fee Structure. The fees to be increased include license, permit and service fees. This initiative is projected to yield revenue increases of $8.1 million over the life of the Plan. The calculations of these increased revenues appeared reasonable to PICA staff and the only action required for the fee increases to take effect, approval from City Council, has been received.

o Philadelphia Prison System - Overtime Cap. The overtime cap is projected to reduce Prison expenditures by $9.5 million over the life of the Plan. A significant portion of the savings ($840,000 in FY93 and increasing thereafter) is from a shift change that must be negotiated with the union. Another key to the successful implementation of this initiative is the City's maintenance of proper staffing levels.

o Various Departments and Commissions - Budget Caps. The Plan calls for percentage reductions in departmental budgets without specifying how the cuts will be made. PICA staff believes that these cuts, which were included in the FY93 budget, are based on reasonable assumptions as to City managers' abilities to reduce expenditures in their departments.

o Various Departments and Commissions - Budget Caps. The Plan calls for percentage reductions in departmental budgets without specifying how the cuts will be made. PICA staff believes that these cuts, which were included in the FY93 budget, are based on reasonable assumptions as to City managers' abilities to reduce expenditures in their departments.

Management and Productivity

The Plan submitted to PICA on February 20, 1992 contained a section titled "Management and Productivity", which contained no specific savings to be included in the Plan, but provided the framework for analyzing many of the Plan's initiatives. The section described the Rendell Administration's plans to change the management climate of the government of the City of Philadelphia.

The section included some specific initiatives, including several that have already been implemented, and some broad actions designed to improve the way the City is managed including:

- o Creation of a Charter Revision Commission
- o Major changes in the Civil Service regulations, the budget process and the procurement system
- o Contract negotiations with the municipal unions.

PICA is monitoring the progress of these activities. This section also discusses privatization, the Productivity Bank and plans to share budget surpluses or savings from employee ideas with employees.

In addition to providing additional initiatives that the Administration may be able to substitute for Plan initiatives that fall short of their targets, this section is important because it is a framework for achieving the Plan's ultimate goal of efficient government.

Debt

The City sought creation of PICA because of its inability to access credit markets. The City's lack of access to credit markets is just one of several debt-related problems including a high existing debt burden ($2,892 per capita for long-term debt and other long-term obligations) and the constraint of a statutory limit on tax supported debt. The City's long-term obligations include $1 billion of principal on general obligation debt, $79 million of principal on bond anticipation notes, $2.1 billion of principal on revenue debt, and $1.3 billion of principal on other long-term obligations.

There is little information on future borrowings in the Plan. The Debt section projects that PICA will issue $68.2 million in December 1993 and the "Long Term Obligations" appendix of the Plan shows $11.6 million for principal and interest payments in each of FY94, additional PICA borrowing would be necessary in FY94 if the City had regained market access with its own general obligation debt.

The Plan presents the City's amount of debt as a problem, but does not propose solutions. Additionally, aside from PICA borrowings and a statement that the City hopes to return to the capital markets in FY95, the section does not include any significant support for the City's debt issuance plans.

An additional PICA concern is the statutorily-required use of assessed real estate as the basis for the City's debt limit. The City's entire revenues, except for those dedicated to specific uses, would serve as a much better measure of the amount of debt that the City is able to service. While the use of the real estate tax is Constitutionally mandated, the City should develop internal guidelines based on total revenues, minus those dedicated to specific uses, for determining its limit on total long term obligations (many of which fall outside of its debt limit).

PICA Borrowings

One of PICA's functions is to serve as a financing vehicle for the City, but only under specifically described circumstances. Under the PICA Act, the Authority is empowered to issue bonds for deficit reduction and capital projects until December 31, 1994, for cash flow deficits until December 31, 1996 and for refundings of PICA obligations for as long as PICA is in existence. The Plan specifically mentions two PICA borrowings:

- o The recently completed $474.6 million deficit reduction and capital borrowing issue; and

- o A December, 1993 $68 million capital borrowing.

The initial bonds, sold at a true interest cost of 6.56%, were used for FY91, FY92 and FY93 deficit reduction, the establishment of a Productivity Bank, capital projects, funding a debt service reserve fund, capitalized interest, bond discount, bond insurance premium, issuance costs and Authority costs.

The Authority has made no determinations about future borrowings, and has not in any way committed itself to the proposed $68 million issue in the Plan. PICA staff would, however, be reluctant to recommend future deficit borrowings (staff considered FY93 to be a transition year that was an exception to a general rule against deficit borrowing). Future deficit financings would mean that the City had not met the goals set in the Plan and that it had been unable or unwilling to take the alternative steps required by the Plan. It would represent a significant setback in the City's attempts to regain market access.

PICA staff recommendations concerning capital borrowings and refundings will be based on the degree to which the proposed bond issues met the requirements of the PICA Act and the use of the amount of PICA Tax revenue available in the most efficient manner. PICA staff would analyze any request for PICA issuance of short-term notes in terms of the City's actual cash needs, the City's ability to obtain notes on its own at reasonable rates, the City's costs of entering the market versus borrowing from PICA and the impact of borrowing from PICA on the City's eventual ability to regain access to capital markets.

<u>Initiative Monitoring</u>

PICA staff will monitor the progress of each of the initiatives contained in the Plan closely, and will subject those initiatives described in the monitoring section to the closest scrutiny. For the most part, they are items which have a particularly large dollar impact, but others are on the list because staff believes that they offer particularly difficult problems of timely implementation.

The value of the monitoring process is to provide a system which will permit PICA to have early warnings about shortfalls in Plan implementation that could, if left unaddressed, threaten the success of the Plan. It is also important that PICA staff be aware of situations where Plan targets have been exceeded, and thereby be able to assess the true net effect of any shortfall in each year of the Plan.

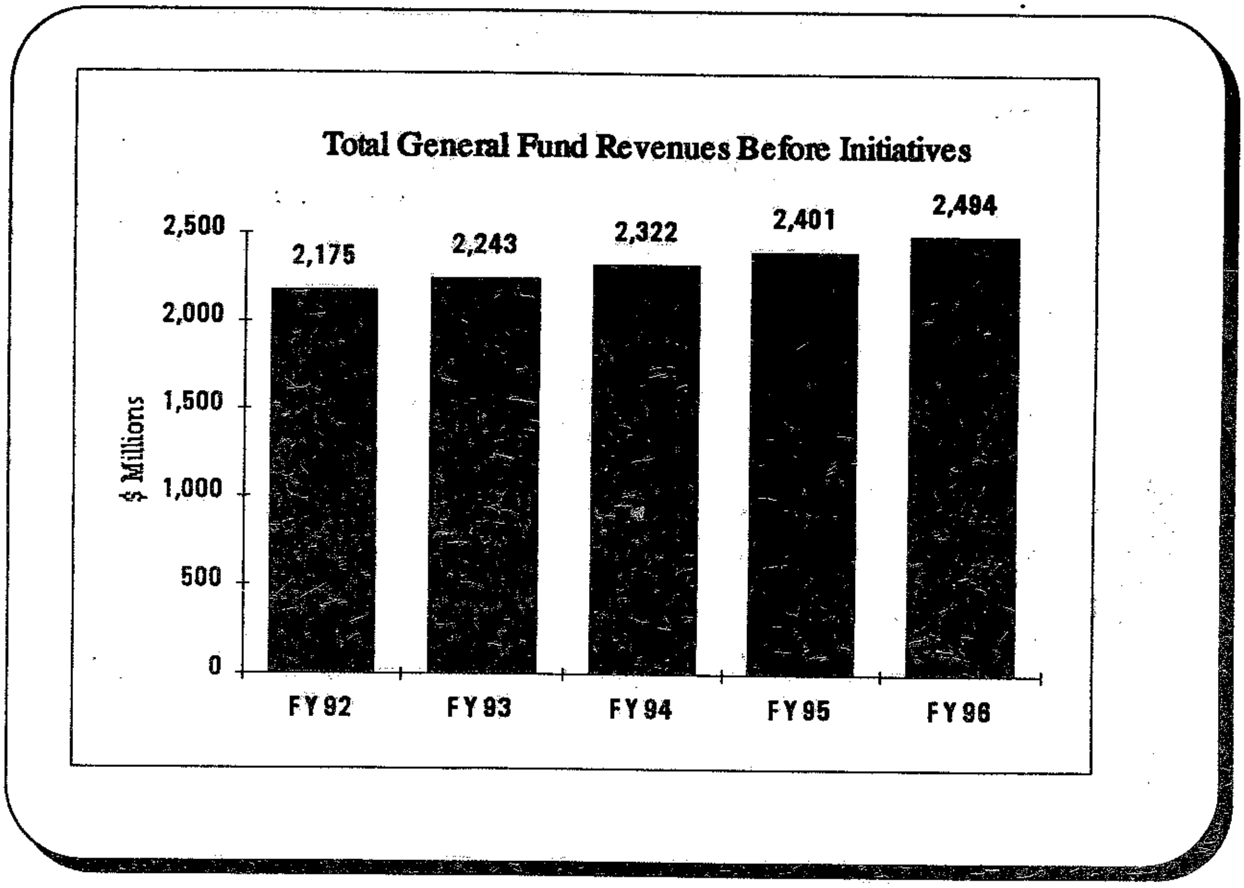
This section also describes PICA staff's preliminary plans for monitoring the initiatives.

DETAILED COMMENTS BY PICA STAFF

GENERAL FUND REVENUES

Base Revenues

After a projected increase of 7.3% from FY91 to FY92, General Fund base revenues are projected to grow by only 2.9% over the remaining years of the Plan (all data discussed in this report has been obtained from the Five Year Plan unless otherwise noted). The projected growth rates are lower than the assumed rates of inflation in each year in the Plan, which are 3.0% in FY93, 3.5% in FY94, 3.5% in FY95 and 4.0% in FY96. The following graph demonstrates the projected year-to-year changes in base revenues.



Total base revenues decreased substantially from the original version of the Plan submitted by the Rendell Administration to the version of the Plan approved by the PICA Board. Overall projected revenues decreased by $293.3 million, an amount approximating the current portion of real estate tax revenues for the entire 1991 fiscal year. The changes resulted from reexaminations of each projected revenue source by PICA, the Controller's Office, the

Administration and the Administration's advisors. While the majority of the changes were revenue decreases, some increases also resulted from the review process.

<u>Tax Revenues</u>

Tax revenues are the largest component of General Fund revenues and account for 76% of total revenue estimated for each year of the Plan. Four taxes account for a preponderance of projected tax revenues:

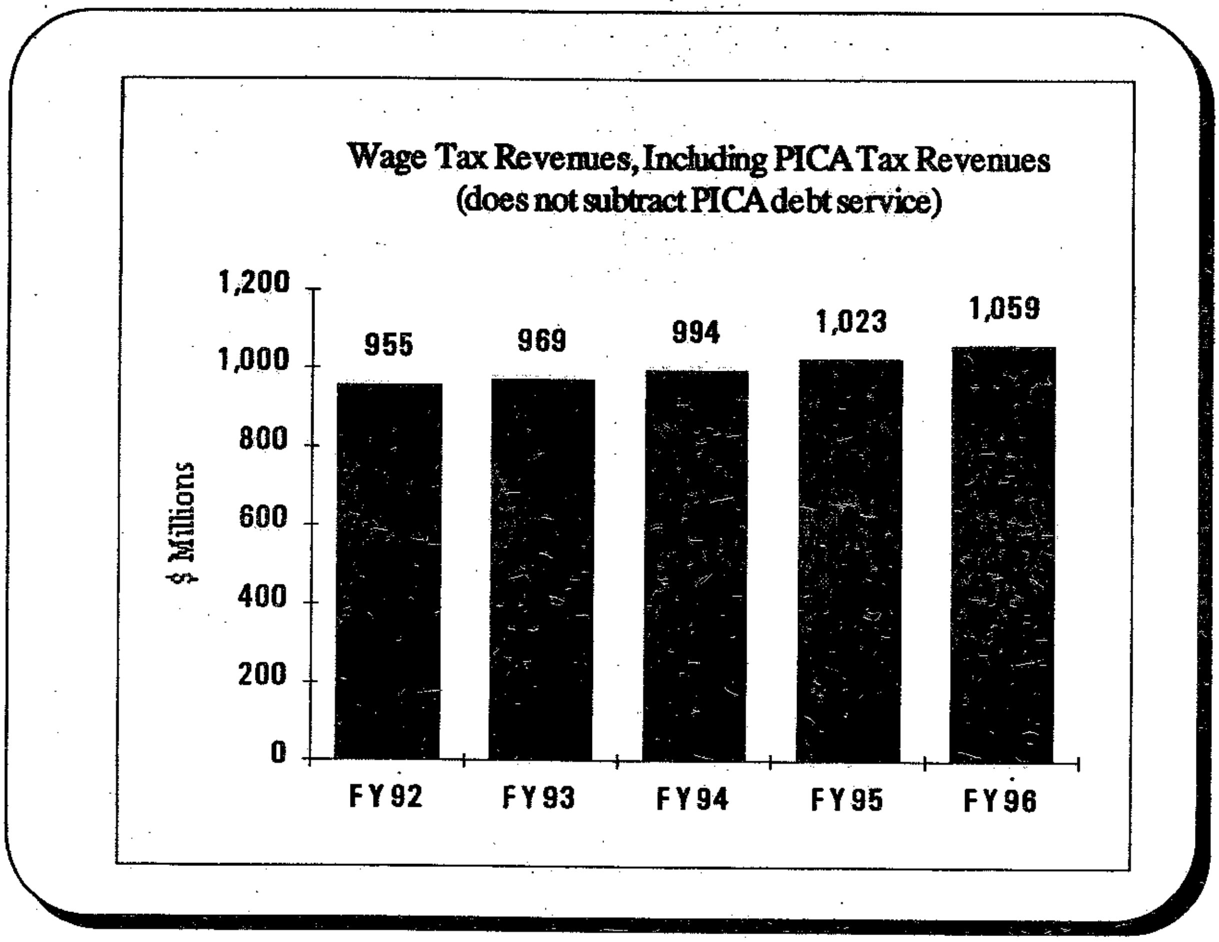
- o Real estate tax, which increases from $319 million in FY92 to $378 million in FY96, an average annual growth rate of 4.3%. Real Estate Tax revenue projections in the Plan reflect the Administration's intention to urge both appropriate annual assessment increases and the prompt return of abated properties to the tax rolls.

- o The wage and earnings tax (including the PICA Tax, but without subtraction of PICA debt service), which grows from $955 million in anticipated FY92 tax revenues to $1.06 billion in projected FY96 revenues, a compound annual increase of 2.6%. Wage Tax revenues are projected to grow more slowly than in the initial Rendell Plan, based on subsequent analysis of historic economic activity and independent assessments of probable future activity. The PICA Tax, which is equal to slightly over 30% of the residential portion of the Wage Tax, is passed back to the City after deductions for debt service on PICA bonds and PICA expenses. It is projected to grow from $178 million in FY92 to $197 million in FY96.

- o The Business Privilege Tax, which grows from $217 million in anticipated FY92 revenues to $240 million in projected FY96 revenues (2.6% a year), a slightly slower growth rate than that projected in the original Plan; and

- o The Sales Tax, which grows from $65 million (equal to about $87 million on an annualized basis) in anticipated FY92 revenues to $105.2 million in projected FY96 revenues, a compounded average annual growth rate of almost 13% (5% from the annualized FY92 amount of $87 million). In its first full year, FY93, the sales tax is projected to yield $90 million. The Sales Tax's projected growth rate now exceeds the rate anticipated in the original Plan, but such growth is computed from a smaller base, thereby resulting in lower overall revenues. The growth rate in Sales Tax revenues from FY93 to FY96 is now projected to be 5.3%. Philadelphia's sales tax revenues come from a 1% add-on to the State's 6% sales tax for transactions in Philadelphia.

The most important tax source for the City of Philadelphia General Fund is the Wage Tax, which provides more than 43% of all revenues. Wage Tax revenue projections increase at rates growing from 1.5% in FY93 to 3.5% in FY96. Revenues from the Wage Tax are driven by two components: changes in employment levels and changes in wages. In each year of the Plan Wage Tax revenues grow more slowly than the Plan's assumed inflation rate, thereby producing smaller "real" revenue amounts from this source. The Plan assumes that wages increase at the rate of inflation, which is assumed to be 3.0% in FY93, 3.5% in FY94, 3.5% in FY95 and 4.0% in FY96. Projected increases in Wage Tax revenues which are lower than the rate of inflation indicate that employment in the Philadelphia area (and particularly in the City of Philadelphia) is projected to decline during the period covered by the Plan. The rate of employment decline is, however, projected to slow in the Plan's later years. This is a reasonable assumption given the continuing sluggishness of the Philadelphia economy. An April 1992 report by the Federal Reserve Bank of Philadelphia on economic activity in the region showed increased economic activity, but no increase in employment. Wage Tax projections for the life of the Plan are depicted in the following graph.



The tax revenue calculations were made on the basis of historic patterns, assumptions as to economic activity, and projections by the Controller's Office made in conjunction with Temple University. The approved Plan assumes no changes in tax rates through FY96. PICA staff analyzed the underlying assumptions and methodology and determined them to be reasonable.

The one tax on which PICA staff has concerns as to projected yield is the Sales Tax. PICA staff, relying on Commonwealth estimates, initially concluded that $60 million was an appropriate estimate of FY92 potential revenues from this new tax source. The City contended that the State's estimate was too low, primarily because of start-up problems which adversely effected initial collection. The City maintained that $65 million was an attainable FY92 number. PICA staff accepted that amount as a reasonable base figure for the current fiscal year. While PICA staff would prefer the lower amount, the projections for subsequent years of the Plan are not dependent upon attaining the larger amount for FY92. The actual collections through April make it appear that even $60 million may be an overly optimistic estimate for FY92, and the performance of this tax will require close scrutiny.

The second largest tax source, the Real Estate Tax, is projected to grow more rapidly than the Wage Tax, increasing from $319 million in FY92 to $378.3 million in FY96, a compounded annual growth rate of 4.4%. This tax is driven by changes in assessed value, a declining number of abatements and abatements returning to the tax rolls. There are two positive factors that primarily account for the projected increase in revenues from this tax:

- o Abatements (assessments) returning total $140 million in FY93, $210.4 million in FY94, $37.8 million in FY95 and $14 million in FY96, reflecting the expiration of concessions granted during the increase in Center City office construction during the 1980s.

- o The City's ability to increase assessments, which produces assessed value increases of 2.5% in FY93, 3.5% in FY94, 3.5% in FY95 and 4% in FY96. The amounts appear to be reasonable.

The Business Privilege Tax, a combination of taxes on gross receipts and profits, is projected to grow 2.55% from FY92 through FY96. This rate of growth, well below the projected rate of inflation, reflects the anticipation of continued slow economic activity in Philadelphia.

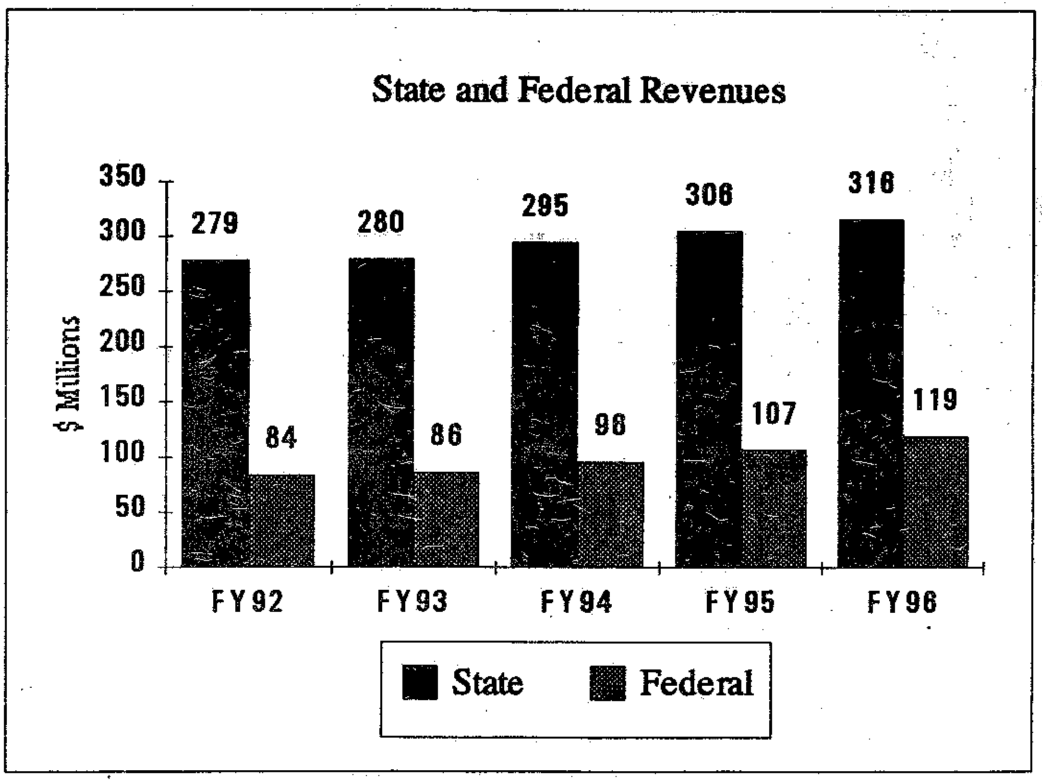
The Sales Tax is the major tax source with the largest projected growth rate, increasing from $90 million in FY93, its first full year, to $105.2 million in FY96, a 5.33% growth rate based on annualized FY92 figures. This projection is based on an analysis done by the Pennsylvania Department of Revenue. As noted above, the Plan's projections vary to some degree from the Commonwealth's projections for FY92 (in which the City estimates $65 million will be collected, $5 million more than the State's projection), but are in conformance with the Commonwealth's projections for future years.

Locally Generated Fees

After being projected to grow 6.3% from FY92 to FY93, locally generated fees are projected to grow by only 1.8% in FY94, 2.1% in FY95 and 2.2% in FY96. The large jump in FY93 is caused by a one-time increase in anticipated interest earnings, because the City projects larger investable cash balances as a result of receipt from PICA of amounts representing payments related to the accumulated deficit through June 30, 1991. The growth assumptions which formed the basis for estimates of locally generated fees appeared reasonable to PICA staff.

Revenues from Other Governments

Revenues from other governments are projected to grow at a compound annual rate of 4.4% over the life of the Plan. The following graph charts the projected growth in State and Federal revenues from FY92 through FY96.



Commonwealth Revenues

Over the life of the Plan, revenue from the State is projected to grow from $278.5 million to $316.3 million, a compounded annual growth rate of 3.2%. Just over $192 million, or about 69% of estimated State revenues, is earmarked for health and human services. The largest portion of State revenues earmarked for the Health Department is for mental health and mental retardation programs (MH/MR), for which the State provides $84.3 million. These revenues are discussed in more detail in the Health Department section of this report. Another $12 million of State funding for the Health Department is designated as being for "county health". While the MH/MR funding from the Commonwealth is projected to remain constant for the life of the Plan, the amount allocated for "county health" revenues, the other large source of Commonwealth funds for the Health Department, is projected to remain constant at $12 million until FY95, when an increase to $12.4 million per year is projected through FY96.

The largest portion of revenues from the State for the DHS is an $88 million reimbursement for Children and Youth Services. After decreasing slightly to $87.6 million in FY93, this revenue is estimated to grow 7% a year, reaching $107.3 million in FY96. The Administration lowered the FY93 projection from its originally submitted Plan after discussions with PICA and the Controller's Office, and as a result of the City's ongoing discussions with the Pennsylvania Department of Public Welfare. This revenue item is discussed in greater detail in the Department of Human Services section of this report.

There are four other significant state sources of revenue:

- o Act 205. This payment for the pension fund is $34.8 million in FY92, growing to $39.9 million in FY96, a 3.5% compounded annual growth rate.

- o Utility tax refund. The utility tax refund is estimated at $27.3 million in FY92 and FY93, growing 3.5% in FY94 and FY95 and 4% in FY96. While the growth rates appear reasonable, there is disagreement between the City and State over the amount of the FY92 reimbursement. The state, basing its estimate on an actual payment in October of 1991, maintains that this refund will be about $1.1 million lower in FY92 than the City's estimate. PICA has accepted the City's position, but is making other inquiries which could produce a somewhat different amount in later analyses.

- o Court cost reimbursements - Court cost reimbursements in the Plan are $10.5 million in FY92 and FY93 and $10 million in each of the last three years of the Plan. The estimates appear reasonable based on the court expenditure estimates in the Plan.

- o Intensive Probation-Adult. This funding comes through the Court of Common Pleas and is estimated to be $4.8 million in FY92, growing to $5.5 million in FY96, a compounded annual growth rate of 3.5%.

Federal Revenues

As with State revenues, most revenues received from the Federal government are for the Health Department or the Department of Human Services. Of $83.9 million in estimated federal revenues for FY92, $82.3 million is for either Health or Human Services.

Most federal Health funding is for MH/MR programs. In each year of the Plan, $20 million of $23.4 million in Health funding is provided for MH/MR. Federal revenues for Health costs are discussed in greater detail in the Health Department section of this report.

All of the Federal funding anticipated to be received for use by the Department of Human Services is for child welfare. From FY92 to FY96, the amount of funding earmarked for child welfare increases from $59.3 million to $94.4 million, an 11.4% compound annual growth rate. Federal funding for the Department of Human Services is discussed in greater detail in this report's Department of Human Services section.

One revenue source, Title IV-E reimbursements, which are federal reimbursements for child welfare expenditures, was reduced by $6.5 million in FY93 and by larger amounts in FY94 through FY96 from amounts shown in the original Rendell Administration-submitted Plan to those shown in the PICA-approved Plan. Title IV-E funding projections were reduced after discussion with PICA and the Controller's office because it was determined that the City's base already included financial results based upon a reimbursement eligibility rate that the initiative was designed to achieve.

Other Intergovernmental Revenues

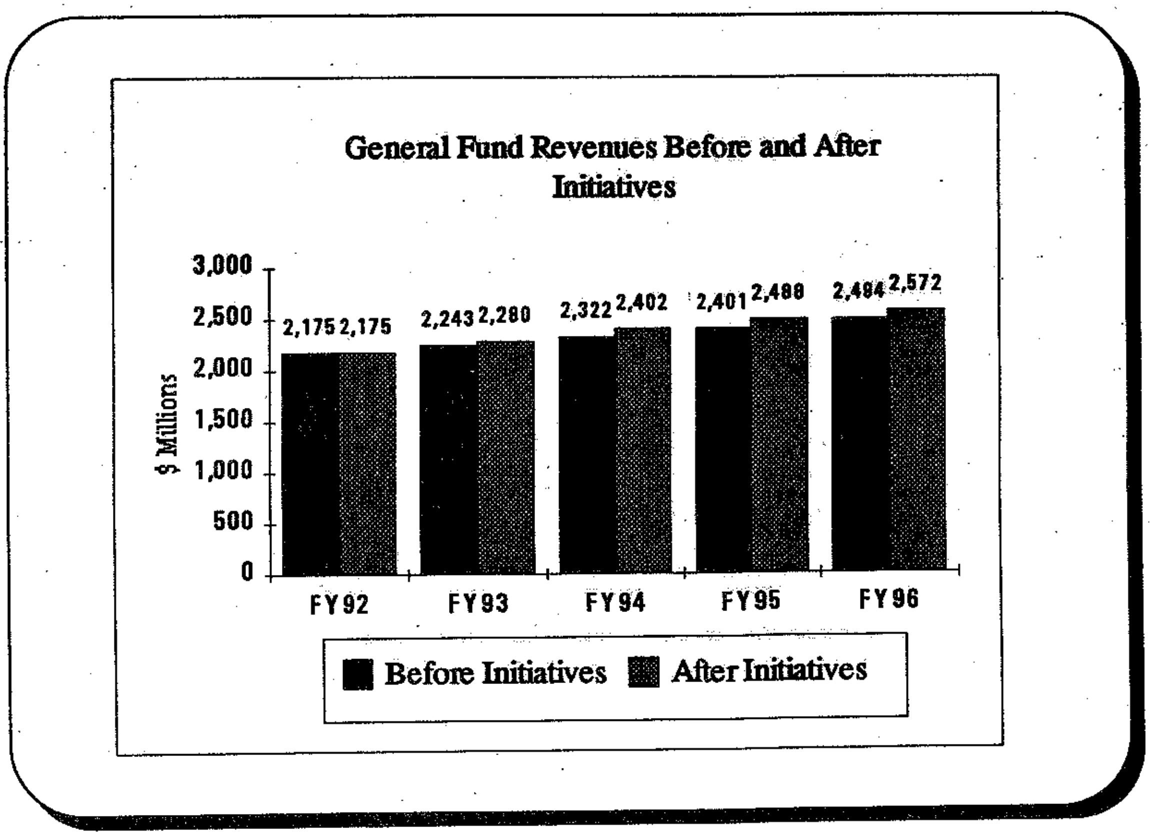
The City also receives an $18 million annual rental payment from Philadelphia Gas Works, which is anticipated to be constant during the life of the Plan; fixed rent from the Southeastern Pennsylvania Transportation Authority (which is tied to debt service payments on bonds for SEPTA-used property and declines from $4.3 million in FY92 to $3.9 million in FY96); and money categorized as "state-federal" for the Health Department. "State-federal" funding is Medicaid outpatient and nursing home funding and it is projected to grow from $13.6 million in FY92 to $15.6 million in FY96, a 3.5% compounded annual growth rate.

Other Funds

Revenues from other funds dropped substantially from the initially submitted Plan to the approved Plan. In the initially submitted Plan, revenues from other funds were $17.3 million in FY92, grew to $20 million in FY96 and provided $93.1 million in total over the life of the Plan. In the approved Plan, revenues from other funds dropped to $11.5 million in FY92, grow to $13 million in FY96 and provide a total of $61.9 million over the life of the Plan. Total life of Plan revenues from other funds thus decreased by $31.2 million (approximately one-third) from Plan submission to Plan approval. In the approved Plan, projected revenues from other funds grow at a compounded annual growth rate of 3.1%, a drop from the 3.7% compounded annual rate contemplated in the initially submitted Rendell Plan. The primary reason for the drop in revenues from other funds was the elimination of payments to the General Fund of certain interest earnings from the Water Fund. There are to be no such payments from the Water Fund over the life of the Plan.

Revenue Initiatives

The following chart shows that while revenue initiatives are projected to add substantial revenues to the City's budget, their impact is relatively small (3.5% of the "before initiatives" amount in the largest year) when compared to the City's total General Fund revenues. The specific initiatives are discussed further in the departmental sections of this report.



Major Areas of Concern

The Wage Tax, the City's largest single source of revenue, is the revenue source that will draw the most scrutiny from PICA as the Plan enters its implementation stage. The projections included in the Plan appear reasonable, as they are based upon expectations of continued slow economic activity. The threat to the Plan's projections of Wage Tax revenues is that economic activity will deteriorate and that jobs will be lost at an accelerated pace. While PICA believes the basis for the Plan's projections is reasonable, growth in Wage Tax revenues at a lower rate than that projected in the Plan is one of the largest threats to its success. By the same token, unexpected vitality in the local economy could produce better than expected Wage Tax results.

The taxes with the most aggressive projected growth rates are the Real Estate and the Sales Taxes. PICA will monitor real estate assessments activity to determine whether increases in assessed value are matching the growth rates projected in the Plan.

As a new tax, the Sales Tax presents many uncertainties. Until there is a full year of collection history and evidence of an enforcement and collection mechanism which accurately deals with the unique nature of the local portion of a State tax, it will be difficult to determine the accuracy of the Sales Tax projections in the Plan. The numbers in the Plan are based, in large part, on projections by the Pennsylvania Department of Revenue. PICA staff was convinced that this was the most reasonable basis for estimation, although it is not in a position to assess the $5 million difference of opinion between City and State officials on the level of FY92 collections.

There are major uncertainties surrounding intergovernmental revenues. Apart from programmatic concerns, the availability of funds from the Commonwealth , not only for FY93, but other Plan years as well, is dependent in large degree upon the annual appropriation process. Because most of the intergovernmental revenues are tied to specific operating departments, those revenues are discussed in greater detail in the departmental sections of this report.

OTHER FUNDS

The Other Funds section of the Five Year Plan is the section of the Plan that provided the least information. In many ways, it is not totally in compliance with the Agreement.

The Agreement requires that for the Supplemental Funds (the Water and Aviation Funds) and Special Funds (any Fund other than the General Fund used to account for the receipt and use of resources restricted for a particular purpose) the Plan will "provide such information as is necessary to explain the estimated or projected impact, if any, of those Supplemental Funds and Special Funds on the Covered Funds."[5] The Covered Funds are the principal operating funds of the City, including the General Fund, the General Capital Fund, the Grants Revenue Fund and any other principal operating fund of the City which becomes a member of the City's Consolidated Cash Account.

Supplemental Funds

Aviation Fund

The Supplemental Funds section of the Plan does not include any listing of revenues for the Aviation Fund, thus making it impossible to analyze whether revenues and expenditures for that fund are in balance. Without the ability to determine whether there is a match between revenues and expenditures, it is impossible to evaluate any potential Aviation Fund impact on the General Fund.

The Plan describes the Airport system as "Self-sustaining." The Aviation Fund description on page 112 of the Plan indicates that airline space rentals and landing fees are calculated to recover Airport system annual costs not otherwise covered by non-airline revenues.

However, in City Council testimony on April 7, 1992, the Director of the Airport indicated that the Aviation Fund will experience a $3.9 million deficit in FY93. The Director said the shortfall will be covered by an existing unrestricted fund balance. He said, however, that going into FY93, the unrestricted fund balance will have been reduced to approximately $5 million. That could mean that, in FY94, the Aviation Fund will require financial support from the General Fund. No such amount has been included in the Plan.

The Director said that airlines cover expenses for the terminals, but that revenue from Parking Authority-run garages covers the operations of the garages, the area other than the terminals and management and administration. In FY92, according to the Mayor's Operating Budget in Brief for Fiscal 1993, revenue from the Parking Authority-run garages is estimated

---

[5] Agreement -- Section 4.03 (b)

to be \$8.3 million, down from \$12.8 million in FY91 and \$3 million below the FY92 budget amount of \$11.8 million. The FY93 budget projects \$9 million in revenue for the Aviation Fund from parking. The Airport Director blamed the decline in revenues from their FY91 levels on a slowdown in economic activity. He noted that garage expenses did not decline on a par with the decline in parking revenues.

The Budget in Brief indicated that the Aviation Fund was in worse condition than the Director indicated. The Budget in Brief shows an estimated FY92 operating deficit for the Aviation Fund of \$10.2 million, reducing the Fund's balance from \$2.5 million at the beginning of FY92 to a *negative* \$7.7 million at the end of FY92. The budget does, however, project a \$7.7 million surplus in Aviation Fund operations for FY93, which would bring the fund's balance back to zero.

PICA staff will continue to monitor the Aviation Fund to determine whether it could have an adverse impact on the Covered Funds. PICA staff also has been following the progress of legislative proposals to convert the Airport into a regional authority.

<u>Water Fund</u>

Concerns about the Water Fund were diminished to some degree by a table included in the Other Covered Funds Section of the Plan submitted on February 20, 1992. The table shows revenues and expenses for the Water Fund for FY92 through FY96, and each year ends with a zero or positive fund balance. The fund balances are predicated on a 14.2% rate increase effective January 1, 1993 and an additional 3.1% increase in FY94. The City Charter requires the Water Department to fix rates, and PICA will monitor the rate setting progress to determine whether the projected rate increases included in the Plan are implemented.

PICA staff remains concerned, however, that the Plan provides no detail for the Department's revenues and expenses. This lack of detail makes it impossible for PICA staff to determine whether the assumptions underlying the growth rates for revenues and expenditures are reasonable.

* * * * *

The Supplemental Funds section also does not include any detailed description of assumptions underlying the calculations of the expenditures. For example, the Plan does not provide estimates of the employee complement to be supported by the Aviation Fund even for FY93. This makes it impossible for PICA to determine whether calculations are reasonable. Without knowing whether personnel related calculations are reasonable, PICA staff is unable to determine whether the Supplemental Funds will negatively impact the Covered Funds.

Covered Funds

Grants Revenue Fund

As a Covered Fund under the Intergovernmental Cooperation Agreement, the Grants Revenue Fund is intended to be accompanied by more detailed information than the Supplemental Funds. The Agreement calls for inclusion of projected revenues and expenditures of the Covered Funds for five fiscal years.

The Plan, however, indicates that, for the Grants Revenue Fund, it is impossible to comply with the Agreement's requirements. The Fund was established to account for revenues received from various federal, State and private grantor agencies and the uses of the funds are restricted to accomplishing the stated objectives of the corresponding grantor agencies. The Plan says the funds are not available for general municipal purposes, and also says that the Fund's revenues vary substantially from year to year and "cannot be predicted with any accuracy."

The Plan indicates that as a result of "the futility of attempting to project revenues" for the Fund, the Plan's five year projections carry forward the FY92 amounts for this Fund. PICA staff does not have major concerns with the Plan's treatment of the Grants Revenue Fund because the Fund only expends money for which specific grants are received. This funding arrangement ensures that the Fund will not run deficits and will not draw on the General Fund. It is nonetheless troubling for a major portion of the City's budget to have such a minimal degree of accountability, particularly given its role in the Consolidated Cash system.

Other Covered Funds

There are other, relatively minor Covered Funds, (i.e. the Community Development Fund) which are not included in the Plan. In future versions of the Plan, PICA staff will require descriptions of financial condition of each Covered Fund.

The Act also calls for detailed descriptions of assumptions supporting the revenue and expenditure projections and total expenditures by fund and by lump sum amount for each board, commission, department or office of the City for the first two years of the Plan and total expenditures by fund and lump sum amount for major object classification for the final three years of the Plan.

While the Covered Funds section of the Plan does not totally meet the Act's requirements, PICA staff recognizes that the Plan creation process is new for the City and that as the City continues to develop revisions to the Plan, the content of those Plans will improve.

Special Funds

The City has a number of funds (in its Special Revenue Funds, Enterprise Funds and Agency Funds Categories) which technically might be required to be addressed in the Plan. While PICA staff is not presently aware of any impact from any such funds on the Covered Funds it expects that Plan revisions will, at a minimum, discuss such Special Funds and, where appropriate, indicate the Administration's belief that no such reportable impact exists.

PERSONNEL

The personnel section of the Plan is the portion of it that projects the greatest savings. The total projected potential savings from the initiatives, before the achievement discounts provided in the Plan, is $131.5 million. After using the Plan's built-in discount of achieving only 75% of potential savings from personnel initiatives, the projected saving from the initiatives in the Personnel section is $98.6 million. The Plan anticipates realizing only 75% of projected savings to be conservative and to provide for problems in implementation. The summary contained in the Plan Personnel section shows, for FY93:

- o $90 million in savings from health benefits reform ($68 million after discount);
- o $5 million from the elimination of the City-paid legal services benefit ($3.8 million after discount);
- o $9 million from a reduction in the use of overtime caused by a reduction in the number of holidays ($6.8 million after discount);
- o $21 million from workforce and salary restructuring ($15.8 million after discount); and
- o $5 million from miscellaneous items ($3.8 million after discount).

Health Benefits Reform

The largest single savings initiative in the Plan is reducing health insurance premiums. The savings projected from this initiative for FY93, after discount, is $68 million, (from $197.1 million to $129 million). The Administration plans to accomplish this savings goal by consolidating the health plans of all City employees and putting the resulting single health plan out for bid. The City represents that it has received a preliminary bid that would reduce the average cost for City employees to $302 per month per employee ($3,624 annually). Payments for City employees currently vary from a composite $404 per month for the City-Administered plan to $562 per month for about a third of the firefighters receiving coverage.[6] The Administration calculated the projected savings by multiplying $3,624 by the number of covered employees to get an amount for FY93 expenditures, and thereafter subtracting that number from the estimate for benefits costs without the restructuring. The projected savings also includes initiation of a 10% employee co-payment of premiums requirement and reductions in dental and prescription benefits costs.

---

[6]Source: Report on Benefits for City of Philadelphia Represented Employees, Office of the Controller, City of Philadelphia with the assistance of the Pennsylvania Economy League, February 1992.

Several barriers exist to effective implementation of the personnel initiatives. To implement these initiatives fully, the City must complete the following actions successfully:

- o Negotiate favorable collective bargaining agreements with non-uniformed employees and obtain a favorable arbitration decision with uniformed employees (the Plan anticipates those favorable outcomes to allow it to consolidate into one plan the plans now administered by each of its unions and the plans now administered by the City, for the most part for its unrepresented employees); impose a premium co-payment requirement and switch all employees to the new coverage plan (which the City anticipates will be a health maintenance organization (HMO));

- o Award a contract to a provider that will enable he City to reduce costs to a maximum of $302 per employee per month for FY93 (the Plan assumes an 8% annual increase after FY93);

- o Consolidate the existing benefit plans and establish a system to administer the new plan in replacement of the existing union-managed plans. This may be the easiest task to accomplish, since the City already has in place a plan for administering benefits for non-unionized employees and unionized employees who opt to use the City-administered plan.

The Administration also has a time constraint in which it must accomplish its health and welfare reforms. The City's calculations show that $91 million in savings would be achieved if the Plan were in place for an entire year for employees not covered by the City-administered plan (the existing health programs for employees covered by the City-administered plan extend until January of 1993). The amount of savings will be reduced each month that implementation of the new health plan is delayed. A factor that will make the timely implementation of this initiative difficult is that the current benefit plans for uniformed employees extend through the end of August. The Administration has a cushion for implementation, however, since only 75% of the anticipated changeover savings are included in the FY93 budget, but the availability of that "cushion" is also dependent upon success in the negotiation and arbitration process with City unions.

<u>Elimination of City-Paid Legal Services</u>

The City makes monthly contributions to a union administered fund for a legal services plan covering each of its represented employees. The Plan estimates FY92 expenditures for the legal services benefit to be $4.7 million, growing to $5 million in FY93. The legal benefit is paid on a per capita basis at a set monthly amount (which varies, by union, from $12 to $20), meaning that an increase of $300,000 (from $4.7 to $5 million) would require some combination of both large increases in the number of employees and in the monthly payment.

Finance Department calculations, however, make it appear that the Plan's $4.7 million for FY92 and $5 million for FY93 overestimate likely legal services expenditures. The Finance Department calculations, done on April 24, 1992 show $1.1 million in group legal services expenditures, after rounding, or slightly more than one quarter of $4.1 million which is consistent with the group legal services number in the Plan (calculated on March 25, 1992 -- after the FY93 budget was submitted to Council). The Plan's numbers are not always consistent, but the numbers on page 105 --$4.1 million in FY92 and $1.1 million in FY93 -- appear more reasonable. The initiative, after discounts, would eliminate the equivalent of 75% of the City's group legal services plan cost.

As with restructuring the health benefits package, the City faces several barriers to the implementation of this initiative. The major actions the City will have to take to implement this initiative are:

- o Negotiate a collective bargaining agreement with non-uniformed employees and obtain an arbitration decision with uniformed employees to eliminate this benefit totally;

- o Elimination of the benefit in a timely manner. Members of the police and fire unions have contracts providing group legal services through the end of August. This reduces the amount the City can save in FY93, and any costs associated with eliminating the group legal services benefit may further offset the savings achievable from the initiative.

<u>Elimination of Flex Cash Payments</u>

The Plan calls for a reduction in flex cash payments totaling $1.3 million in FY93 from their FY92 level. Flex cash payments give employees the option of "buying" a package of benefits from a number of benefit options. The reduction in flex cash payments reflects the City's intent to eliminate this benefit as of January 1, 1993. The Plan indicates that FY92 obligations for the flex cash program were estimated at $1.8 million and that the estimated FY93 cost, on the assumption of program elimination sometime in the first quarter of FY93, would be $500,000. Later calculations by the City Finance Department (as of April 24, 1992) estimate FY93 flex cash payments, if the program were not eliminated, to be $3.6 million. Thus provision of one-half year of such benefits would cost $1.8 million, or $1.3 million more than the amount the Plan projects will be spent in FY93. It appears, however, that while the City will spend more than the Plan anticipates for flex cash, the City will pay less than the Plan anticipates for certain other FY93 benefits. The Finance Department's April 24 calculations showed that the Plan's underestimation of FY93 flex cash payments will likely be substantially offset by Plan overestimates of $500,000 each in unemployment compensation insurance and worker's compensation medical payments and an overestimate of $100,000 in F.I.C.A. taxes. PICA staff believes that correction of the remainder $200,000 cost underestimate is a manageable problem within the $405 million in estimated FY93 general fund benefits expenditures.

The flex cash payments are made only to employees who are not represented under a collective bargaining arrangement. Elimination in such event is easier to achieve than is the case for the elimination of benefits that have been provided through either collective bargaining or arbitration.

Overtime Reduction

Holidays

This initiative would reduce the number of paid holidays from 14 to 9. The Rendell Administration projects that it will provide significant overtime expense reductions in the Prisons, Police, Fire and Streets Departments. Those are departments that regularly work on holidays at an estimated FY92 cost of approximately $21 million in holiday overtime. There is also some holiday overtime in other departments such as the Health Department, the Recreation Department, and the Department of Human Services. The initiative projects a 36% reduction in holiday overtime based directly upon a 36% reduction in holidays. The goal of the initiative is $9.1 million ($6.8 million after the Plan's built-in discount). The City's calculations indicate that each holiday costs the City approximately $1.8 million in holiday overtime. The expenditure reductions are calculated on a department by department basis and the calculations appear to be reasonable to PICA staff.

As with the other personnel initiatives, this initiative requires that the City be successful in its negotiations with non-uniformed represented employees and in arbitration for its uniformed employees. The arbitration process is particularly important for this initiative because the Police and Fire Departments accounted for $15.7 million of holiday overtime in FY92 (71% of the annual total) and, after discount, are projected to provide $5.3 million in savings in FY93. The arbitration process will be different this year because of changes brought about by the PICA Act. Section 2.09 (k) of the PICA Act requires arbitrators to "take into consideration and accord substantial weight to" the Plan and the financial ability of the City to pay the cost of any increase in wages or benefits. The arbitrators are required to give written explanations of how they considered the Plan and the City's ability to pay for any wage or benefit increase. Additionally, any party to the proceeding before the arbitrators may appeal the arbitrators' decision to Common Pleas Court (which can overturn and remand for reconsideration the arbitrators' decision if the Court finds that the arbitrators failed to give substantial weight to the Plan, that the arbitrators' determination about the City's ability to pay is not supported by substantial evidence produced by the parties to the proceedings or that the arbitrators failed to specify in writing the factors they considered in giving substantial weight to the Plan and the City's ability to pay).

Sick Leave

The Plan calls for a reduction in the number of annual sick leave days provided City employees from 20 to 10 days. The reduction in sick leave is intended as a management tool which will assist scheduling, and thereby reduce overtime costs. The Plan originally submitted by the Rendell Administration projected that this initiative would provide savings of $12.6 million in FY93 with the amount growing in FY94, FY95 and FY96. While it is clear that a reduction in sick leave could provide overtime savings, savings through reductions in sick leave conversions to vacation and in the cashing-in of unused sick leave at retirement, it was not possible to quantify those savings effectively within the Plan period. The major stumbling block to quantifying the link between reduced sick leave allowance and reduced overtime was the inability of the City to establish a measurable relationship among sick leave allowance, sick leave usage and overtime.

Overtime cap

The Plan calls for the implementation of overtime caps:

> based on a set percentage of individual department FY92 expenditures on overtime and hold managers responsible for the reductions -- i.e. 80% in FY93, 70% in FY94, and 60% in FY95 and beyond. Three initiatives will permit managers to achieve these overtime caps: (1) provision for appropriate staff complements in departmental budgets sufficient to deliver planned and required service levels on a regular time basis, (2) changes in work rules and (3) a reduction in the number of paid sick days.

The overtime cap initiative is projected to reduce expenditures by $12.2 million in FY93, $17.7 million in FY94; and $24.2 million in FY95 and FY96.

The success of this initiative depends on the City's ability to manage its personnel complement effectively and its success in the arbitration and collective bargaining process. For example, if the City contracts continue to contain "no layoff" clauses, it will continue to be very difficult for the City to ensure that departments have appropriate staff sizes within functional categories. Without appropriate staff sizes within these areas, the departments could continue being forced to use employees on an overtime basis even when other staff resources were underutilized.

This initiative is discussed in greater detail in the sections of this report on particular departments. The key aspect of the initiative, if this City is successful in the arbitration and collective bargaining process, is the City's ability to make the appropriate balance between the cost of adding more employees and the cost of incurring overtime. Insufficient staffing and lack of proper employee complement control can lead to excess overtime expenditures. This is particularly true for departments which require 24 hour coverage, and it should be recognized that the City's managers will be charged with the responsibility to deal with available resources competently, if this feature of the Plan is to be successful.

<u>Disability System Reform</u>

The Plan has four disability system reforms:

- o Amend Civil Service Regulation 32 to limit its abuse by employees. Regulation 32 details the way in which disability-related issues are managed by the City. It allows employees to be on "temporary disability" for up to three years.

- o Reduce injury pay rates below regular pay rates to eliminate disincentives to return to work.

- o Revise the Pension Ordinance to eliminate "double-dipping." Double dipping is the practice of receiving worker's compensation and a pension simultaneously.

- o Realign the pension ordinance with Regulation 32 to mandate rehabilitation and redeployment of partially disabled employees.

For each of these initiatives, the Plan says savings "cannot be quantified, although the City Controller projects savings of at least $5.7 million a year from the disability system reform."

While the Plan does not include any specific savings from these initiatives, the importance of them is demonstrated by their potential interaction with initiatives in the Police and Fire Departments to remove injured employees from departmental payrolls more quickly. If the disability system is not reformed and complement is inadequately controlled, shifting employees from the departments to the disability system could actually <u>increase</u> rather than decrease costs.

<u>Workforce and Salary Restructuring</u>

This initiative has two parts -- reducing police and fire starting salaries from $29,750 to $23,750 per year and the elimination of longevity payments. The reduction in police and fire starting salaries yields $3 million in savings in FY93, increasing to $11.8 million in FY96, and is discussed in the respective departmental sections of this report. The elimination of longevity is estimated to save $18.3 million for all departments.

Longevity is an add-on to salary that employees receive after a certain number of years of City employment. The Plan originally submitted by the Administration, for example, said that an employee in the Fire Department who had worked for the City for 20 years receives an additional $1,800 annual longevity payment in addition to salary. After 25 years, the employee's longevity payment would increase to $2,050. Under this initiative, employees would receive no longevity payments. This initiative, if implemented, would result in a reduction in overall current compensation for employees who previously had received longevity payments.

Elimination of longevity will have to be obtained through the collective bargaining and arbitration processes.

Management and Productivity

The City lists three initiatives under management and productivity:

- o Improve the City's ability to manage its workforce by not renewing the "no layoff" clause now in place for non-uniformed employees, and by amending the early retirement ordinance to give City discretion on its implementation.
- o Implement a merit-based performance evaluation system as a substitute for step increases. Steps coincide with the number of years an employee has worked and employees receive percentage salary increases as they move to new steps.
- o Improve management and productivity on a department by department basis, including work-rule reform as required.

These initiatives do not have dollar savings attached to them, but are key to the City's ability to achieve its other proposed personnel related savings. By eliminating the "no layoff" clause, for example, the City can better control staffing complements, leading to improved ability to control overtime and enhancement of the City's potential to achieve zero growth in departmental class 100 expenditures (personnel - salaries) for most departments for FY94, FY95 and FY96. By amending the early retirement ordinance, which provides incentives for employees to retire, the City can reduce its workforce at a diminished cost

Without the right to layoff employees, the City has to rely on attrition to reduce staff sizes. Controlling complement through attrition is difficult, inefficient and does not represent a sound management approach, because the City may need to replace the employees who leave and employees in positions targeted for elimination may choose not to leave. Reducing the workforce through a hiring freeze would jeopardize the overtime initiative because it could lead to reductions in workforces in departments such as Prisons and Streets that rely on appropriate staff size to reduce overtime, and which historically have had high turnover rates in comparison with other departments. The Administration has indicated that if it is successful in achieving the Plan's initiatives, it will no longer have hiring freezes.

Salaries

One of the Plan's key assumptions is that there will be no increases in salaries and that, in most departments, departmental Class 100 expenditures will be flat after FY93. The achieviblity of these assumptions rests on several factors:

- o Success in collective bargaining and arbitration processes, not only in gaining zero raises for the life of the Plan, but also in obtaining agreements which do not contain "no layoff" clauses.
- o The ability to manage complement size to control salary expenditures.
- o The ability to balance attrition and delays in hiring against presently built-in increases such as position steps and longevity (or the merit-based pay increases the Plan proposes to initiate in lieu of such policies).

The ability to manage staff size will be particularly important in departments such as Public Property and Human Services, which in their sections of the Plan rely on delays in filling positions to meet their FY93 salary targets. Public Property, for example, reduced its FY93 budget for salaries by $2 million as the result of projected delays in filling currently vacant positions. Presumably, most of those positions are to be filled at the beginning of FY94, and the Department might thus achieve less in savings from hiring delays in FY94 (although attrition will provide some opportunities) and would have to find other means of reducing salary expenditures.

There are other departments that may more easily be able to keep actual Class 100 expenditures for FY93 at or below budgeted amounts. For example, the Health Department is budgeted to increase its personnel complement by 122 from its actual March 13, 1992 level. That Department's budget has no provision for savings through delays in hiring. Each of its positions is, therefore, budgeted for a full year. Unless each of the 122 budgeted new positions is filled by July 1 (an improbability), the Department should spend less on those positions than the amount allocated in the FY93 budget, and have adequate Class 100 resources for succeeding fiscal years. This is an area in which the budget and the Plan probably have some built-in savings, but varies among agencies with the manner in which Class 100 expenditures are handled.

Major Concerns

The success or failure of each of the initiatives in the Personnel section, and even of the City's achieving its assumed salary levels for the life of the Plan, is in large degree dependent on the outcome of the arbitration and collective bargaining processes. To the extent the City does not achieve its goals in collective bargaining and arbitration, it will have to find other savings within City government to meet the financial goals of the Plan.

Even *if* the City successfully achieves its goals in arbitration and collective bargaining, it may encounter initiative implementation problems. For example, to achieve the projected discounted savings from its health benefits reform, the City must have its new system in place fairly quickly. The new health plan would have to be in place in time to achieve 75% of targeted savings in FY93, which begins on July 1, 1992. The City does not anticipate having the replacement programs in place until September, thereby requiring near-complete implementation by the end of that month in order to attain the financial targets.

The City will have to manage its workforce effectively to achieve its overtime savings initiatives and to maintain most departmental class 100 expenditures at their FY93 levels for the life of the Plan. Some departments will have difficulty in keeping expenditures for salaries in FY94 through FY96 at the same level as FY93. Those departments are projecting reliance on leaving positions unfilled to meet their salary expenditure targets. Those departments will be at their full complement by the end of FY93, making it impossible for them to rely on the same number of unfilled positions in FY94 through FY96.

PRINCIPAL OPERATING DEPARTMENTS

The Plan offers separate sections on each of the City's principal operating departments and a section combining other operating departments. This report limits separate sections to departments with initiatives that have major impacts on the City's budget and adds a section titled "Other Initiatives" which combines several departments which have only one major initiative each. This report has separate sections on the following departments:

- Fire
- Human Services
- Law and Revenue (combined)
- Police
- Public Health
- Public Property
- Streets

In addition to having separate sections on each of the above departments which have separate sections in this report, the Plan had separate sections on the following departments:

- Commerce
- Fairmount Park Commission
- Licenses and Inspections (in the "Other Initiatives" section of the this report)
- Office of Services to the Homeless and Adults
- Prisons (in the "Other Initiatives" section of this report)
- Records
- Recreation
- First Judicial District of Pennsylvania

Discounts

In each of departments, the Plan listed projected savings from initiatives at 100%, but discounted those savings by varying amounts to provide achievement targets and some degree of protection against incomplete or late implementation. The Plan includes only the achievement targets in determining whether its initiatives are sufficient to produce balanced budgets.

The discounts reduce *all* personnel initiatives to 75% of their projected savings. *All* revenue and productivity initiatives are reduced to 60% of their projected benefit in FY93 and 80% of their projected benefit in FY94 through FY96. Unless otherwise noted, this report refers to target savings (the discounted amount).

The discounts were an essential part of the Plan's effort to produce realistic forecasts of balanced budgets. As this report demonstrates, many of the initiatives are somewhat speculative in nature and others have a high likelihood of facing delays in implementation. Counting 100% of the savings or additional revenues from these initiatives would have produced unrealistic goals that would have made unbalanced budgets and related Plan variances more likely. The discounts are an example of the Plan's avoidance of overly optimistic projections, and the City is to be complimented on its approach.

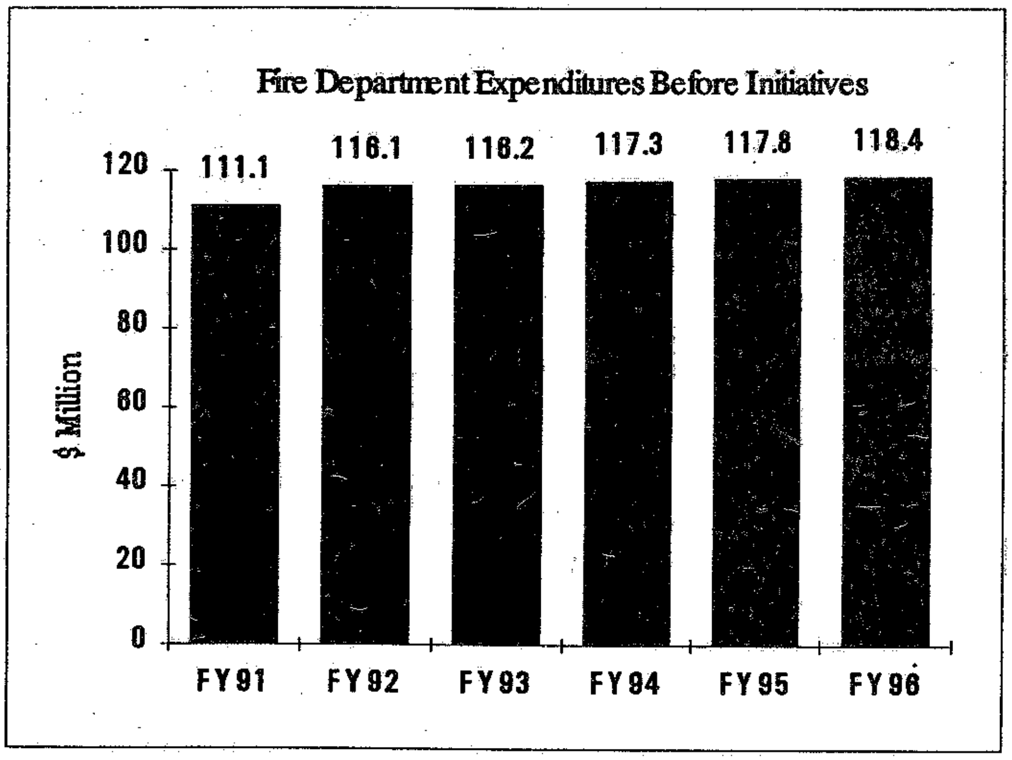
Contingency Plans

The Plan's primary contingency for failure to meet its savings and revenue targets is to impose mass layoffs. In each department, the City lists the number of layoffs that would be necessary for each $50 million of failed initiatives. There are several difficulties with the imposition of mass layoffs. The primary problem is that layoffs of any significant number of employees will diminish service levels, which the Plan seeks to avoid. Additionally, basing the number of layoffs in each department solely on budget share ignores the reality that some departments have revenue producing or mandated positions. The City is unlikely to cut positions which would result in increased layoffs in other departments, the introduction of other initiatives or the City's failure to comply with the Plan. Notwithstanding the degree of difficulty in undertaking layoffs of the scale presented in the Plan, PICA staff believes that a reduction in employment levels is a reasonable alternative to incomplete accomplishment of the Plan's targets.

FIRE DEPARTMENT

Base Obligations

Fire Department base expenditures are projected to grow moderately over the life of Plan, as shown in the following graph. Base expenditures increase from $111.1 million in FY91 to $118.4 in FY96, an average annual growth rate slightly in excess of 1% and an overall growth rate of less than 7% over the life of the Plan. This projected growth rate is relatively low because salaries, which are projected to remain unchanged over the life of the Plan, accounted for 89% of this Department's budget in FY91. The achievement of zero growth in salaries in this Department is dependent on the results of arbitrations; therefore the Department's expenditures will increase if the decisions provide for salary increases, and staffing reductions are not implemented to deal with the resultant imbalance.



All of the other spending classes for this Department show moderate growth.

Expenditure Initiatives

From FY92 through FY96 the Fire Department is projecting $37.6 million in expenditure savings after discounts. After discount savings in FY93 are projected to be $5.5 million, increasing to $12.0 million in FY96.

Better management of the Fire Department's temporary injured list is a major initiative. The City projects an after discount savings of $600,000 for FY93 growing to $2.5 million in FY96. The total projected savings from this initiative after discount, over the life of the Plan, is projected to be $7.2 million.

In order for this initiative to be realized the City will have to both reform its disability system and remove injured employees more quickly from the departmental payroll. At the same time these injured employees must not be replaced by the Fire Department, except within the total anticipated for the overall Class 100 component of the Plan.

PICA will monitor the City's attempt to reform its disability system while reviewing staffing reports to ascertain the status of the Department's personnel complement.

The City projects savings after discounts of $600,000 in FY93 growing to $2.6 million for FY96 by decreasing Fire Department starting salaries. The Plan calls for a $6,000 decrease in annual starting salaries, which is projected to generate $6.5 million in initiative savings after discounts over the life of the Plan. As is the case with the Police Department, these salary adjustments will have to be won in arbitration. If the City wins lower starting salaries in arbitration, PICA will monitor initiative performance by reviewing Fire personnel inventories to determine whether the number of persons being replaced is in line with the numbers projected in the Plan.

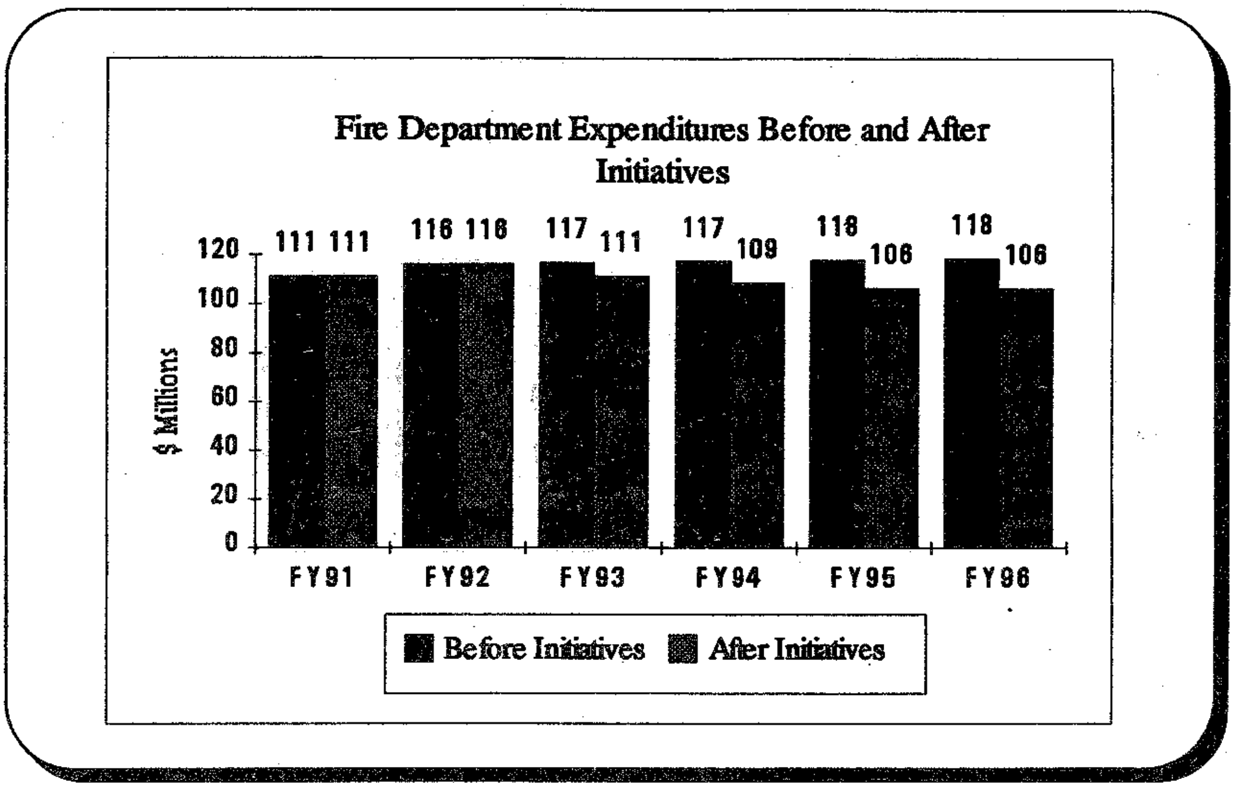
Another Fire Department productivity initiative is the overtime cap. The Fire Department is projecting an after discount savings of $600,000 in FY93 growing to $3.1 million in FY96. If, during the arbitration process, the City is successful in its attempt to reduce the Fire Department's annual sick leave allowance from 20 to 10 days, and staffing levels are aggressively managed, this initiative may be readily realized. It should be noted, however, that a recent study by the Controller's Office showed that average sick leave use in the Fire Department was 5.4 days per year, 4.6 days below the annual accrual allowance anticipated in the Plan.[7] The total after discount savings from this initiative is projected at $8.8 million over the life of the Plan, and PICA will monitor usage to determine whether any reduction produces a coincidental reduction in use of sick leave.

---

[7]Source: Report on Benefits for City of Philadelphia Represented Employees, Office of the Controller, City of Philadelphia with the Pennsylvania Economy League, February 1992

Change in Expenditure Growth Caused By Initiatives

As the chart below illustrates, if all of the expenditure initiatives set forth in the Plan are met, Fire Department expenditures will be $4.8 million lower in FY96 than they were in FY91.



Revenue Initiative

The Fire Department also has a revenue initiative to "improve the collection rate for Emergency Medical Services third-party billing and obtain proper certification to enable Blue Cross to reimburse the City directly". This revenue initiative is projected to generate $1.6 million after discount in FY93 and $2.3 million after discount in FY96. The total after discount savings over the life of the Plan is projected at $8.2 million, and the City has represented to PICA that operation of the direct reimbursement system has already begun. PICA will review the progress of contract negotiations, EMS rate increases and other activities necessary to full achievement of this initiative.

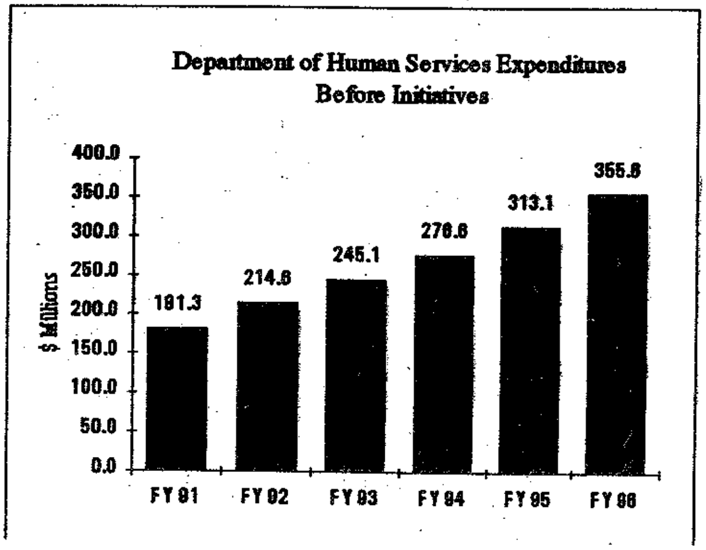
Major Areas of Concern

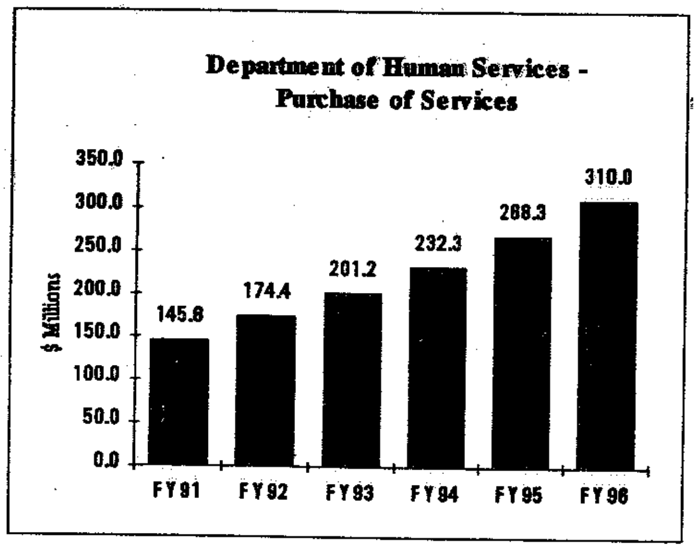
The personnel initiatives, dependent as they are on the unpredictable process of arbitration, cause PICA staff the most concern. If the City is successful in the arbitration process the projected Fire Department savings appear reasonable.

DEPARTMENT OF HUMAN SERVICES

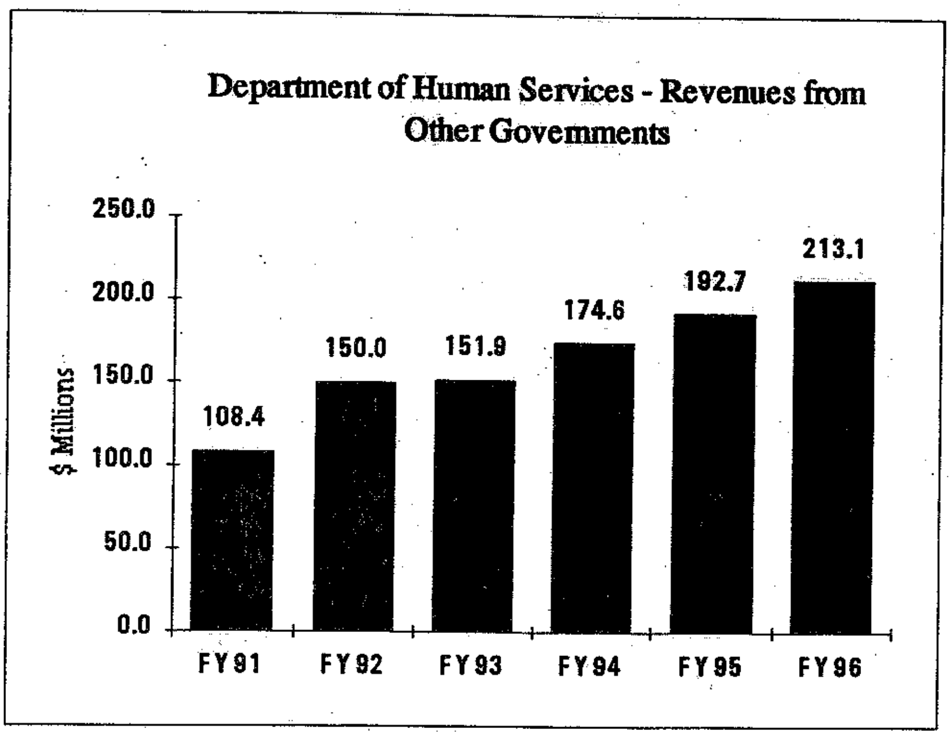
Base Obligations and Reimbursements

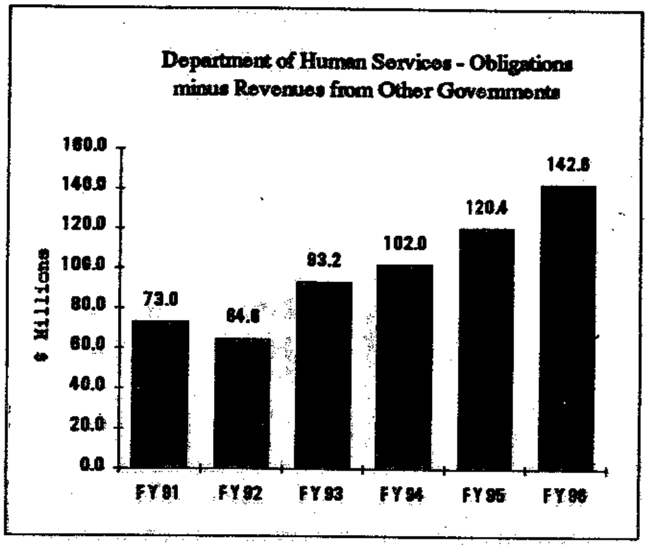
As the first graph below illustrates, base expenditures for the Department of Human Services (DHS) are projected by the Plan to almost double from FY91 to FY96. Even more dramatic is the anticipated growth of expenditures for purchase of services, which more than double. That anticipated growth is depicted in the second graph.





The real measure of DHS' impact on the City's financial operations, however, is its net cost to the City after deducting intergovernmental revenues related to DHS' operations (DHS also is projected to generate about $3.5 million in fees in FY93, but because these fees are a relatively minor revenue source, they fees are not separately listed in the Plan's projections for FY94-FY96 and are not netted out of costs in this analysis). DHS' two main intergovernmental revenue sources are Act 148 reimbursements from the State and Title IV-E reimbursements from the Federal Government. Both IV-E and Act 148 reimburse the City for percentages of actual costs. The Plan projects that Act 148 reimbursements will grow from $88 million in FY92 to $115.4 million in FY96 and that Title IV-E reimbursements will grow from $55 million in FY92 to $89.5 million in FY96. The following graphs depict how even though revenues from other governments grow dramatically from FY93 to FY96, the City's net cost from FY92 to FY96 will more than double.





In accordance with a 1990 agreement,(and Act 30 which was subsequently enacted by the legislature) intended to settle disputes with Philadelphia, other counties and various advocacy groups which contended it was underfunding Children and Youth Programs, the State, in FY92, as part of a multi-year reimbursement process, provided reimbursements to the counties to settle the claims. The State has begun making those payments, and also has agreed to adopt a "needs based budget" process that, after a phase-in period, would fund counties' certified needs based budgets at 100% of the State's match (which averages about 75% of service expenditures). Under a needs based budget process, counties submit what they consider to be their needs based budget, listing their expenditure by type of service provided, and the Pennsylvania Department of Public Welfare (DPW) certifies the amount it believes is appropriate.

A February 29, 1992 DPW proposed rulemaking described the State's contemplated procedures to evaluate proposed expenditures. Its provisions include:

- o Staff salary and benefit increases in unusual circumstances can go as high as 10%, but cannot exceed 5% unless staff turnover or staff vacancy rates are high or staff salaries are low when compared to the salaries paid by counties of equal class or size.

- o The increase in the needs based budget for currently provided purchased services for institutional placement, community based placement and in-home and intake major categories may not exceed the increase in the projected consumer price index for wage earners.

- o Requests for new services must show that the new service will result in cost savings, reduced rates of cost increase, will be less expensive or more effective than the current service available, and that six months is allowed for funding and hiring new staff.

- o Administrative costs may increase up to 3% a year.

- o The county's budget must project Federal Title IV-E revenues and other program income.

The City maintains that DPW's proposed rules violate the intent of the needs based budget process by capping expenditures allowable for reimbursement at DPW-determined growth rates.

The City currently is involved in a number of disputes with DPW over funding for children and youth expenditures. DHS' original needs based budget was submitted as $327.8 million, but DPW certified a need of $273.5 million. In City Council testimony, representatives of DHS indicated that its portion of the City's FY93 budget, which is the base for the Five Year Plan, was based on the amount certified by DPW.

Disputes with DPW, all of which relate directly to the amount of Commonwealth funding received by DPW, include DPW assertions that:

- o DHS can and will achieve more Title IV-E reimbursements (which are used as an offset of State funding). The City has included an increase in Title IV-E reimbursements as an initiative in the Plan, but maintains that DPW's projections for Title IV-E reimbursements are overly optimistic. DPW's estimate for Title IV-E reimbursement for FY93 is $75 million, while the Plan projects $63.8 million including $6.5 million from the initiative.

- o DHS does not move children through the system quickly enough and has too many children in institutions (the most restrictive and costly type of service). One of the Plan's initiatives is shifting 5% of children who are served out-of-home to in-home service. The State reimburses at a higher rate for in-home service since one of the State's policy goals is to increase the number of children treated in-home.

- o The City places too many of the children it services out-of-state, which dramatically increases placement costs. The City has included an initiative in the Plan to shift 5% of children serviced out-of-state to service in-state.

Children and Youth

The major portion of the Department's overall expenditure growth is in projected expenditures for its Children and Youth Division. A March 25, 1992 DHS analysis projected that, after initiatives, expenditures for its Children and Youth Division would grow from $159.8 million in FY92 to $264.2 million in FY96, an increase of $104.4 million (the FY96 number, however, was later decreased to $252.3 million because of an adjustment to the needs based budget initiative discussed below). The increase from FY92 to FY96 in the Plan is $92.5 million, or about 60%. Department-wide expenditures, after initiatives, increase from $181 million to $319 million, an increase of $138 million (76%). The Children and Youth Division's increase thus represents about two-thirds of the Department's total projected expenditure increase. Children and Youth expenditures, after initiatives, actually decrease as a percentage of DHS' overall budget because DHS' initiatives are focused primarily on reducing Children and Youth expenditures, and on increasing reimbursements from other governments for Children and Youth expenditures.

Children and Youth expenditures are driven primarily by a projection of increasing numbers of children in high cost placements such as institutions and out-of-state facilities. The number of children who will receive service is difficult to predict because the City must make evaluations of children each time it receives a request or is advised by the court that a child needs service. When a child requires service the City can either provide the services itself or purchase the service from a provider. In either case, the average required ratio of cases (each case is a family, not a single child, and without regard to the involvement of the child with another provider) to City caseworkers is 30 to 1.

The difficulty in making projections of Children and Youth costs is evidenced by the progression of obligations estimates for this purpose since December 1991. A December 13, 1991 report by the Goode administration projected FY93 obligations for the Department of Human Services of $274.5 million, while the Rendell Plan, submitted on February 20, 1992, projected obligations of $245.1 million. The December report projected a growth rate for Children and Youth in the area of purchased services of well over 20%. The February 1992 Plan scaled the growth rate down to 16% per year for purchase of services, which is the fastest growing portion of Children and Youth obligations. An additional indication of the difficulty in making accurate projections for this program is the recurring need for large transfer ordinances in each fiscal year to provide DHS with sufficient appropriations power to complete funding for that fiscal year's services. In FY92, the transfer ordinance provided DHS with an additional $17 million (an 8.6% addition to budgeted amounts).

Initiatives

Productivity Initiatives

All of DHS' initiatives appear reasonable, but the likelihood of successful implementation varies markedly.

The DHS initiative with the largest dollar impact is entitled "needs based budget." The Plan projects that this initiative will reduce expenditures by $6.6 million in FY93 after discount, and $58.6 million over the life of the Plan after discounts. The projected reduction in expenditures to be achieved through this initiative grows in the later years of the Plan (as the gap widens between what the City is projected to spend and what it expects the State to fund). By FY96, the initiative is projected to reduce expenditures by $28 million, after discount, a reduction which is $12 million greater than contemplated in earlier versions of the Plan.

The needs based budget initiative stated in the Plan is to:

> Adopt a policy of funding mandated programs only to the level of the City ratio of the needs-based budget actually certified by the State Department of Public Welfare consistent with the Stipulation of Settlement and Act 30. The City will not fund any mandated program to a level in excess of the need properly certified by the State.

The FY93 revenue assumptions for Act 148 reimbursements, (which are the funds tied to this initiative), changed measurably over the period from when the Administration first provided detailed information to PICA on intergovernmental revenues to the submission of the Revised Amended Plan. In a March 13, 1992 table of intergovernmental revenues, the FY93 reimbursement for Children and Youth was projected to be $94.2 million. The Plan as approved projects the FY93 reimbursement for Children and Youth at $87.6. DHS has taken a more conservative approach in estimating its Children and Youth reimbursements based on its disputes with DPW. The $6.6 million difference between the $94.2 million March 13 estimate and the $87.6 million in the Plan as approved is equal to the FY93 reduction in expenditures projected to be achieved through the needs based budget initiative . A March 25, 1992 analysis by the Controller's Office showed that, if the FY93 reimbursement from the State is equal to the amount projected by the City as of March 13, 1992, the State will have fully met its funding obligations for the year. Thus, the reduction in revenues from the level assumed in the March 13 table would create what the City considers to be a $6.6 million overmatch.

It is likely that implementation of this initiative will lead to litigation between the City and the State. The initiative indicates that, if the City determines that the State is not funding what the City considers to be the State's portion of a needs based budget, the City will then attempt to force the State to assume funding responsibilities. At that point, the City has indicated, the City will not accept non-emergency cases and will bill the State for emergency cases. DHS has represented that it is developing a process for determining how cases will be classified as emergencies.

The City maintains that Act 30, which was effective as of July 1, 1991, changes the rules of funding responsibility and makes the State responsible for funding all mandated expenditures up to its required match. A summary provided by the City on April 1, 1992 indicates that Section 709.3 of Act 30 provides that if the State's appropriation does not equate to an equivalent needs-based budget, counties are eligible to receive up to 100 percent of their needs-based level at a later time. Court decisions and previous legislation require counties to pay children and youth costs regardless of the counties' ability to pay.[8] In order for this initiative to succeed, the City will have to be successful in its argument that Act 30 supercedes previous rulings and laws in accordance with the City's interpretation.

State officials have indicated that they disagree with the City's interpretation of Act 30 and they have indicated that the City would be responsible for any mandated expenses not funded by other levels of government. In terms of City costs, the worst case scenario could be a City refusal to provide funding followed by a State takeover of the DHS functions. If the State handled the functions, it possibly could bill the City for both the costs of the program and its costs of administering the program. The administrative costs would be an addition to costs normally incurred by the City. Further, the State would have the ability to recoup its expenses by an offset of money from State grants otherwise due the City.

The State's stance on this initiative, and its ability to intercept (offset) any grant source from the State to the City, make the chances of successful implementation of this initiative speculative. Accordingly, in PICA's monitoring of this initiative:

o We will determine whether the needs-based budget certified by DPW agrees with the certification amount projected in the Plan.

o We will determine whether the FY93 State budget provides adequate funding for 90% of the State's share of the needs-based budget (Act 30 provides for a phasing in of the State's commitment to fund 100% of the certified needs based budget by FY95.)

o We will attempt to track the City's expenditures to determine whether its actual expenditures are on track with budgeted expenditures.

o We will determine whether the City is meeting its initiative to attain 71% eligibility for IV-E reimbursement. The level of IV-E reimbursement is critical to the needs-based budget initiative because

---

[8]A Guide to Judicial Decisions Affecting Dependent Children: A Pennsylvania Judicial Desk Book Second Edition, Pages 75 to 77, December 1990, Samuel B. Magdovitz et al, Published by the Juvenile Law Center, Philadelphia and Supplement, December 1991, Pages 4 and 5.

IV-E reimbursements are offset against Act 148 Children and Youth reimbursements.

o It is possible that this initiative will lead to litigation, not only between the City and the State, but also between various advocacy groups and the City and/or State. We will monitor the status of any such litigation.

A second DHS initiative about which PICA staff has concern is "Regulation 3130.32", a DPW regulation setting caseworker-to-client family ratios. The initiative calls for increasing the ratio of cases to social workers to 75 to 1 from 30 to 1 for cases handled by providers. This initiative is projected to reduce the City's complement of social workers - thereby reducing expenditures by $1.7 million in FY93 after discount and $8.6 million over the life of the Plan after discounts. DHS' theory for increasing this ratio is that a case being handled by a provider requires less DHS social worker time than a case being handled directly by DHS.

PICA staff had the following three major concerns about the City's ability to successfully implement this initiative.

o In a City Council hearing, DHS representatives were unable to explain their rationale for selecting a ratio of 75 to 1 as opposed to any other figure between 30 to 1 and 75 to 1.

o At the same Council hearings, representatives of DHS were asked whether it might make more sense to keep caseworker ratios low in order that cases could be pushed more quickly through the system. The DHS representatives indicated that they had never thought of the initiative in that way and that they would reconsider the initiative. In addition, they indicated that the 75 to 1 ratio was subject to change and that the case ratio concept was still being developed.

o The State may not approve a 75 to 1 ratio, but may agree to some change in the ratio. Any decrease in the ratio from that proposed by the City will reduce the savings projected from this initiative.

After analyzing the initiative further, DHS has indicated it intends to hire a consultant to study further the City's ratio of social workers to cases (for cases handled by providers) and to make recommendations to the City. The study is expected to be completed late this summer. It is possible that the study will produce recommendations that vary from the DHS initiative and that DHS will not be able to implement promptly the initiative at least until the Fall. The study may, therefore, lead to savings lower than those projected in the Plan, and fall short even of the discounted amounts.

The third major productivity initiative is to "Treat 5% of '92 Out-of-Home Children In-Home". The initiative is projected to reduce net expenditures by $2.1 million in FY93 after discount and by $11.1 million over the life of the Plan after discounts. The pre-discount savings from this initiative grow at 4% a year, although the increase in savings after discount from FY93 to FY94 is larger because the FY94 discount is smaller than the FY93 discount.

The initiative says:

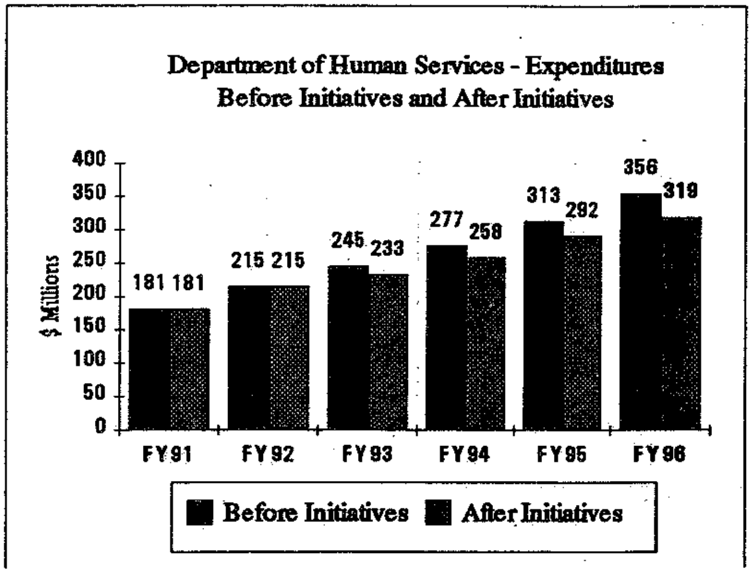
> To the greatest extent possible, strive to provide in-home services to reduce expensive placements out-of-home. In FY92, the average per-diem cost for services out-of-home is $44, while the average in-home per diem is $18. DHS believes it can service 5% more of its out-of-home client days in-home.

An April 2, 1992 memo from the City Department of Finance indicates that this initiative will be accomplished by the transfer of 372 children from foster family care to in-home services placement. DHS is developing a plan for reviewing cases for return to the home and, according to the April 2 memo, the plan will be ready for implementation by July 1, 1992. It is the difference between the rates for foster care and in home services that creates this initiative's savings. The rates mentioned in the April 2 memo were slightly different from those shown for the initiative. Foster family care average cost per diem was $39.37 for December 1991, according to the memo, and the services to children in their own homes average cost per diem was $13.59 for December 1991.

PICA's concern about this initiative is that it reiterates a longstanding goal of DHS and, therefore, will necessitate an improved effort to achieve previously unattainable goals. The immediacy of the deadline set in the Finance Department will provide a basis for evaluation of the probability of success within the time period provided.

Impact on Expenditures of Obligation Initiatives

As the graph on the following page shows, if DHS successfully implements all of its initiatives, the growth of DHS expenditures, while slowed, will still be substantial. Even if all of the initiatives are successfully implemented, DHS obligations are projected to grow $138 million, or 76%, from FY91 to FY96, a compounded average annual growth rate of 12%.



Revenue Initiatives

DHS also has several major revenue initiatives. The revenue initiative with the largest dollar impact is improving Title IV-E reimbursements. The initiative is projected to increase revenues by $6.5 million in FY93 after discount and by $38.5 million over the life of the Plan after discounts.

The initiative is to:

- continue efforts to increase patient eligibility for Title IV-E and to pursue more aggressively the reimbursement opportunities already in place. Title IV-E reimbursements require no State matching funds and are, therefore, easier to attain.

This initiative as first proposed required that the City increase its Title IV-E eligibility rate from 51% to 71%, but an analysis of the Plan's projections showed that the base assumptions already were based on 71% eligibility. As a result of that analysis, DHS reduced its FY93 revenue estimate by $6.5 million, returning the assumed rate to 51% so that bringing the rate up to 71% would meet the initiative's goals.

The goal of 71% eligibility seems readily achievable for FY93, but revenue in later years of the Plan appears to have been reduced (from original projections at the 71% eligibility) by less than the amount being projected as recoverable through the initiative. Thus, the initiative will be more difficult to achieve in FY94-FY96. While the revenue loss from reduction of the original estimates of Title IV-E reimbursement is increasing at the assumed rate of Title IV-E revenue growth (16% a year), revenue from the initiative is projected to grow by over 47% from FY93 to FY94 (because target savings in FY94 will be multiplied by different discounting factors - .8 rather than the .6 used in FY93). The lost revenue differential in FY94 is $7.5 million, but the initiative is projected to yield $9.6 million. In the later years of the Plan, the numbers slowly converge inasmuch as the initiative grows at under 11% a year while revenues are projected to grow at 16% a year. While the initiative grows to $10.6 million in FY95 and $11.8 million in FY96, the revenue loss grows to $8.7 million in FY95 and $10.1 million in FY96. The gap between the initiative's targets and the revenues lost is $2.1 million in FY94, $1.9 million in FY95 and $1.7 million in FY96.

The second largest DHS revenue initiative is "Expanded Early & Periodic Screening, Diagnosis, and Treatment (EPSDT) Funding." This initiative is projected to produce $5.4 million in FY93 after discount and $27 million over the life of the Plan after discounts.

The initiative is to:

> Take an active role in maintaining pressure on the Commonwealth to expand availability of EPSDT federal funding, which requires a Commonwealth match. The Commonwealth, under pressure from various advocacy groups, is proposing to expand the availability of EPSDT screening by significantly increasing payments to providers for health screening and allowing partialized screens by different providers. Make every effort to manage the screening, paperwork, and follow-through necessary to get as many medically needy children as possible certified for federal medical assistance under the EPSDT program.

The City's ability to implement this initiative depends, in part, on the favorable outcome of litigation. An advocacy group has filed suit against the State attempting to speed the State's EPSDT progress. PICA staff has talked to State officials, advocates and City officials and believes it is reasonable to project that once a system is in place, the City will receive an additional $9 million annually. The only year about which PICA staff has concern is FY93. Litigation, under the best of circumstances, is difficult to predict, and if the suit is not resolved in the first quarter of FY93, the City may have trouble meeting its FY93 targets. PICA staff will monitor the progress of the legal action.

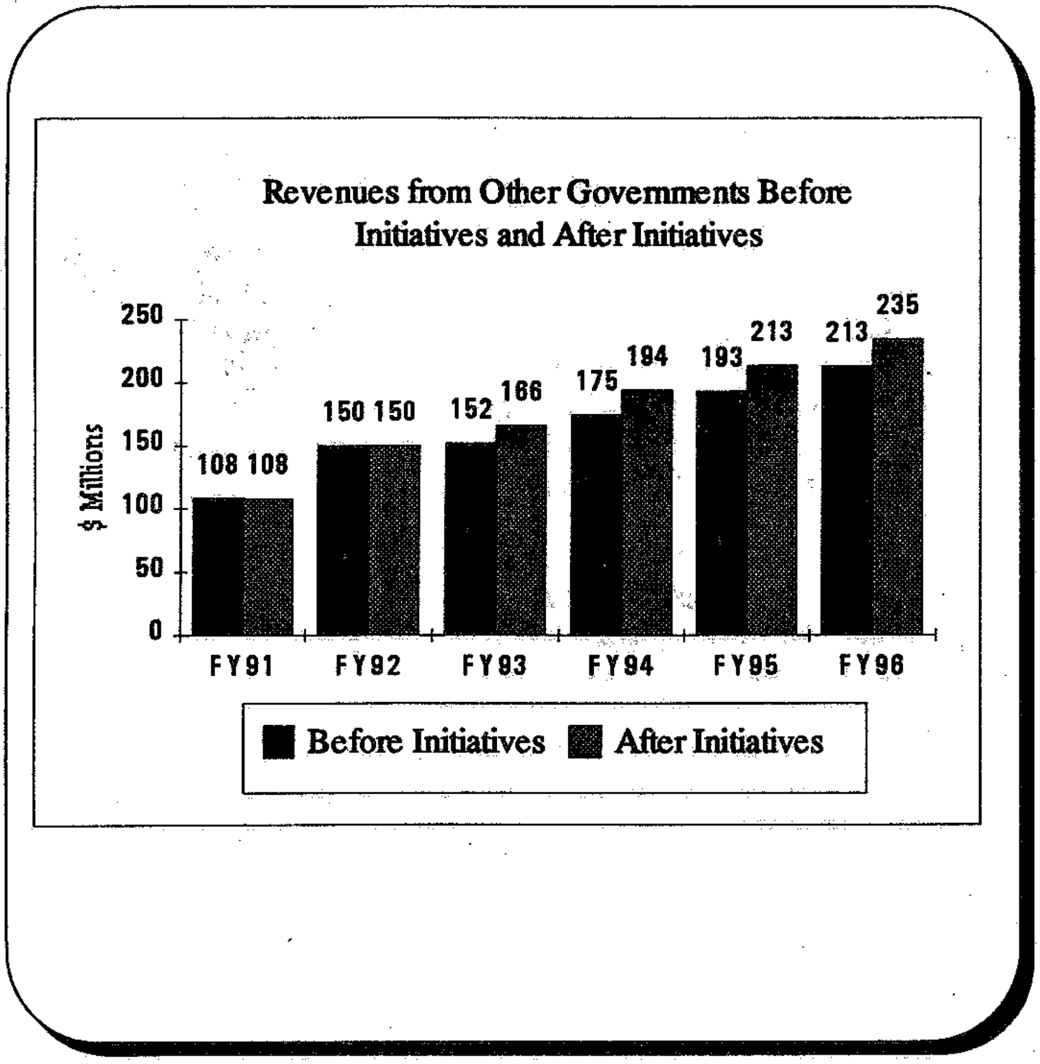
DHS has two other revenue initiatives -- one to recover prior years' underfunding by the State and one to increase grants revenues.

The initiative relative to recovery of prior years' overmatch has a target of $1.1 million in FY93 after discount and $5.4 million over the life of the Plan after discounts. The State has agreed to pay to the City $1.8 million per year through FY96 to compensate for prior years' underfunding. Thus, this initiative probably underestimates the amount of revenues the City will actually receive from this source, and provides some degree of insulation against the possibility of missing other goals.

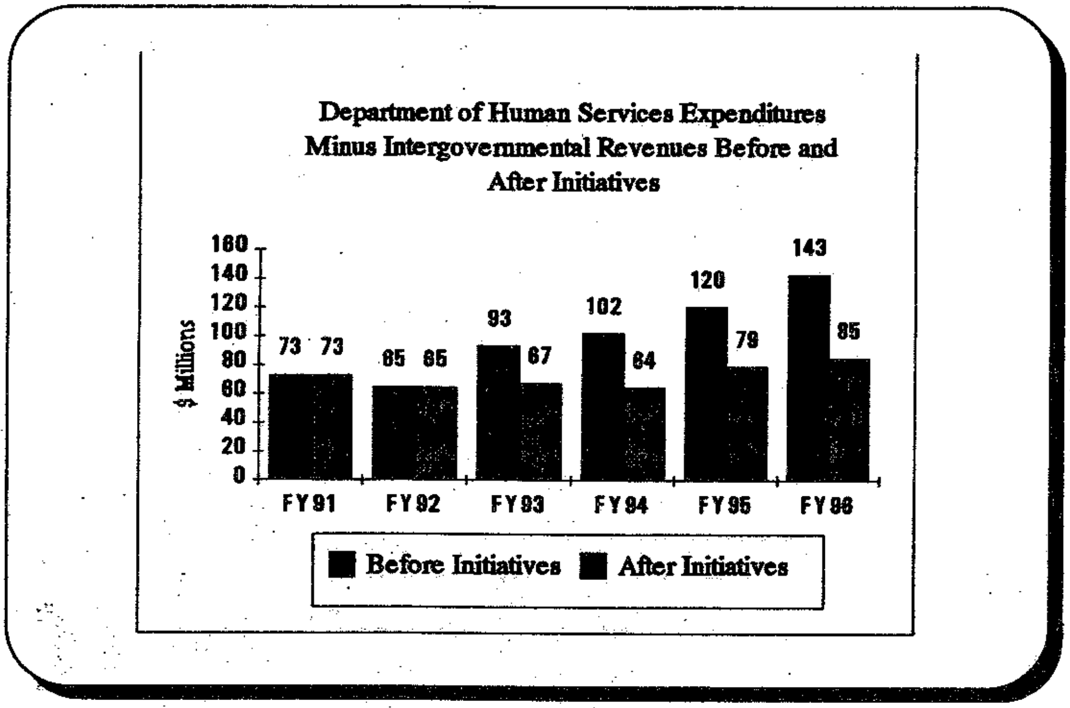
The "increasing grants" initiative projects revenues of $900,000 in FY93 and $4.5 million over the life of the Plan. Similar to the initiative related to increasing the number of children receiving services in home, this initiative also calls upon DHS to achieve a heretofore elusive longstanding goal, and thus will require DHS to demonstrate an improvement in performance to a level not previously achieved by the Department.

Impact of Initiatives on Revenues from Other Governments

The following graph shows that the achievement of revenue initiatives contained in the Plan will lead to substantial increases in intergovernmental revenues.



Impact of Initiatives on DHS Expenditures Minus Intergovernmental Revenues



The previous graph depicts the full projected (net) impact of DHS' initiatives. It shows that net expenditures (expenditures minus intergovernmental revenues) grow much more slowly after the initiatives. Before the initiatives, net expenditures almost double from FY91 to FY96 and more than double from FY92 to FY96. After the initiatives, net expenditures grow 16% from FY91 to FY96 and 31% from FY92 to FY96. FY96 net expenditures are projected to fall by over 40% (from $143 million to $85 million after discount) if all the initiatives are implemented successfully.

Major Areas of Concern

DHS is the City department about which PICA staff has the most concern. Obligations have been exceedingly difficult to project for even a single fiscal year, so a five year projection must be considered highly speculative at best. The growth rates in the Plan appear to be reasonable, but it would not have been unreasonable to project that these expenditures would be either higher or lower. PICA will carefully monitor DHS expenditures against Plan standards.

Base revenues for DHS also are difficult to predict against Plan standards. The City's ability to make reasonable arguments for a number of base revenue scenarios provides an example of that difficulty. DHS' ongoing disagreements with DPW could easily have made lower revenue estimates reasonable. Conversely, the State's commitment to increase funding of needs based budgets up to 100% of the State's share could have made higher revenue projections also appear reasonable. While the Plan's estimates on the whole fall within the middle range, the amount of assurance that should be taken from that is slight.

The DHS initiatives also concern PICA staff. The needs based budget initiative assumption could result in litigation or conceivably in the State taking over DHS functions, billing the City and withholding grants. In either case, the initiative could provide the City with far less than has been projected in the Plan.

The initiative for changing the ratio of caseworkers to cases for purchased services appears likely to be further changed and/or delayed. In its current form it undoubtedly will meet resistance from both the State and the City's unions. DHS' commissioner has already indicated that the idea needs more work and the Department has indicated that it will hire a consultant to make recommendations about appropriate ratios. If the ratio of social workers to cases is lowered from the number proposed, the projected savings from this initiative also would be lower.

Shifting more children to in-home service from more costly foster care is presented as an achievable current initiative, but has also been portrayed as the Department's longstanding goal. DHS will have to demonstrate that it is now successfully able to carry out a practice it could not previously implement effectively.

The two large revenue initiatives appear reasonable, although the anticipated results of the initiative to improve Title IV-E reimbursements may be overstated in FY94 through FY96 and the anticipated results of the initiative to expand EPSDT funding, which rely on the outcome of litigation, may be overstated in FY93.

It is unlikely that the Department will achieve the entire $163 million in projected expenditure reductions and revenue increases projected by the DHS initiatives. It is probable, however, that some of the initiatives will be successfully implemented and will thus help the City address the imbalance between its DHS expenditures and the revenues it receives to cover those expenditures. PICA staff envisions the need for an ongoing monitoring effort on changing DHS initiatives and strategies (to achieve Plan results) over the life of the Plan. The Plan's use of discounting of initiative benefits will enable DHS to come closer to achieving the net expenditure reductions projected in the Plan.

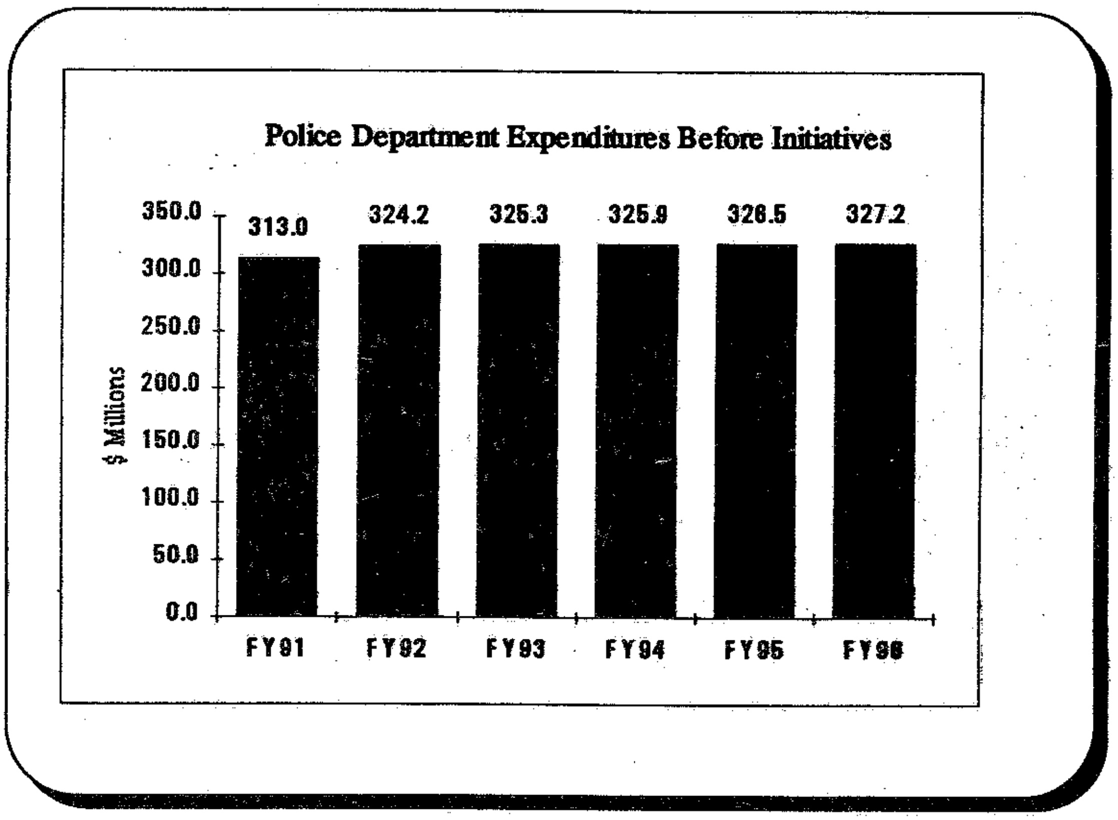
It is unrealistic to think of DHS' expenditure problems as purely "financial". PICA staff recognizes that the geometric growth in social services places enormous burdens on an already over-extended system. PICA's evaluation of the DHS portion of the Plan attempts to foster more efficient operation of the Department's programs, thereby better preparing DHS to cope with a recognized overwhelming task.

PICA staff's basic concern over the DHS portion of the Plan is that insufficient attention has been paid to the need for fundamental changes in the manner in which the Department provides its services. Increased accountability together with appropriate movement of persons through the system are as yet unaddressed goals.

POLICE DEPARTMENT

Base Obligations

In the Five Year Plan the Police Department's base expenditures are projected to have minimal growth, as shown in the following graph. Total overall growth from FY91 to FY96 is 4.3%, or a total of $14.2 million (an average annual growth rate of less than 1%). The projected growth rate is low inasmuch as salaries (which accounted for 93% of Police Department expenditures in FY91), are projected to remain unchanged over the life of the Plan. Plan achievement is thus subject to the results of arbitration rulings. If such rulings provide for salary increases and no reduction in force is implemented, the Department's expenditures necessarily will increase.



Class 300 spending (Purchase of Materials and Supplies) is the only class in which a substantial increase in spending is projected. This growth is depicted as the result of a lack of adequate spending for materials and supplies in previous fiscal years. Class 300 expenditures grow from $7.8 million in FY92 to $9.5 million in FY96, a difference of $1.6 million or 22%. The projected compounded annual growth rate is 5%.

Class 200 (Purchases of Services) spending decreases from FY92 to FY93 then rises a total of 5% from FY94 to FY96.

__Initiatives__

Over the life of the Plan the Police Department is projected to reduce expenditures by $95.4 million through initiatives. Savings are projected to be $16 million in FY93, growing to $28.5 million in FY96.

A major Police Department initiative is the overtime cap. The Police Department is projecting the largest overtime reduction savings of all the City's Departments, from a projected savings of $3.9 million in FY93, after discount, to $8.5 million after discount in FY96. The total five year projected savings is $27.4 million after discount. Overtime is often a product of a high rate of sick leave and inefficient staffing (officers being held over to fill unanticipated vacancies in the next shift). If staffing levels are better maintained and the City is successful in reducing the sick leave allowance from 20 to 10 days the overtime cap initiative may be more easily realized. It should be noted, however, that a recent Controller's Office study showed that police use an average of 8.5 days of sick leave per year which is 1.5 days less than the proposed accrual allowance[9]. To make the Police Department's staffing more efficient changes in both work and vacation rules may be required; and the administration is advocating significant changes in both areas. As is the case with the Fire Department, an assessment will be required to determine whether any reduction in sick leave allowance produces an equivalent reduction in usage.

Getting injured employees off the departmental payroll quicker is another major Department initiative. The Plan indicates this initiative "will reduce overall payroll cost and result in quicker replacement of lost manpower." The City projects $2.2 million in savings in FY93, after discount, growing to $5.8 million after discount in FY96. The total projected savings after discount from this initiative over the life of the plan is $19.4 million.

This initiative will only produce its projected savings under the Plan if the injured Police Officers more quickly removed from the departmental payroll are not replaced, and the City concurrently implements reform of its disability system. The City has represented that while total staffing levels may decline as a result of the departure of some officers, the effective level of the Department's police presence will not be reduced.

To monitor the implementation of this initiative PICA has requested reports listing the number of injured police officers being removed from the Departmental payroll and will also review City personnel inventories to determine whether such removed officers are being replaced. PICA will also monitor the City's attempt to reform its disability system.

---

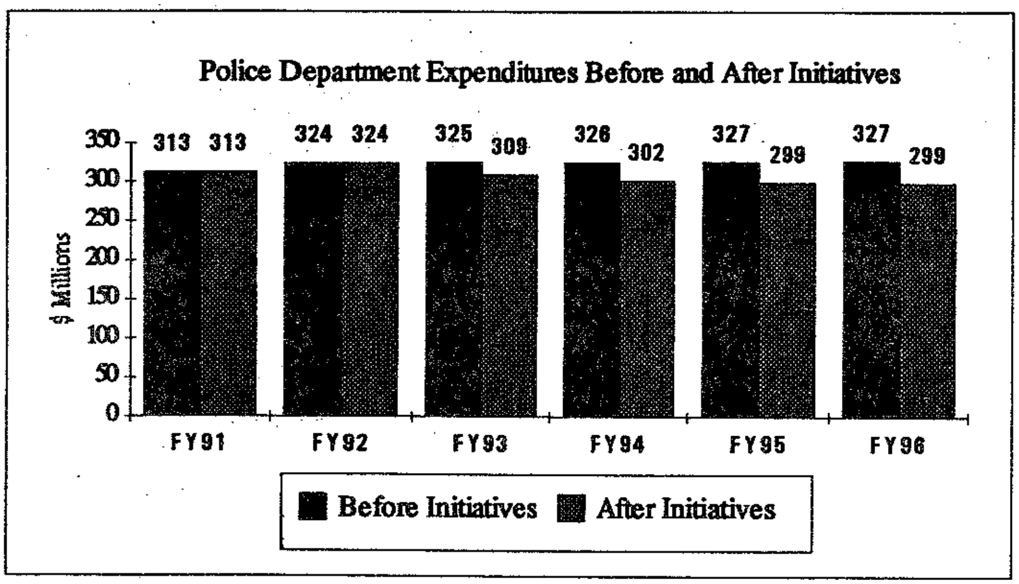
[9]Source: Report on Benefits for the City of Philadelphia Represented Employees, Office of the Controller, City of Philadelphia with the assistance of the Pennsylvania Economy League, February 1992

The Plan also contemplates lowering entry level salaries of Police Officers. The City projects that lowering starting salaries by $6,000 annually will produce a savings of $1.3 million in FY93 growing to $5.4 million in FY96. The total Police Department savings from this initiative over the life of the plan is projected at $13.5 million. These salary adjustments will have to be won in arbitration. The Plan anticipates hiring new officers at the lower annual salary rates to replace those officers who leave the force, and therefore the amount realized by this initiative will be directly dependent upon the complement levels of the Department.

If the City wins lower starting salaries in arbitration, PICA will monitor initiative performance by reviewing Police personnel inventories to ascertain that the number of officers being replaced is in line with the numbers projected in the Plan.

Impact of Initiatives on Expenditures

As the chart below illustrates, if all of the expenditure initiatives set forth in the Five Year Plan are met, the Police Department will spend $14 million less in FY96 than it did in FY91.



Revenue Initiative

As a revenue initiative the Department plans to institute registration fees for all burglar alarms, and fines for false burglar alarms. This initiative is projected to generate an annual revenue gain of $1.6 million, after discount, starting in FY94. It should be noted however, that this initiative has been held for further review by City Council. The projected impact of the initiative should not be diminished by a short delay into FY93 by Council.

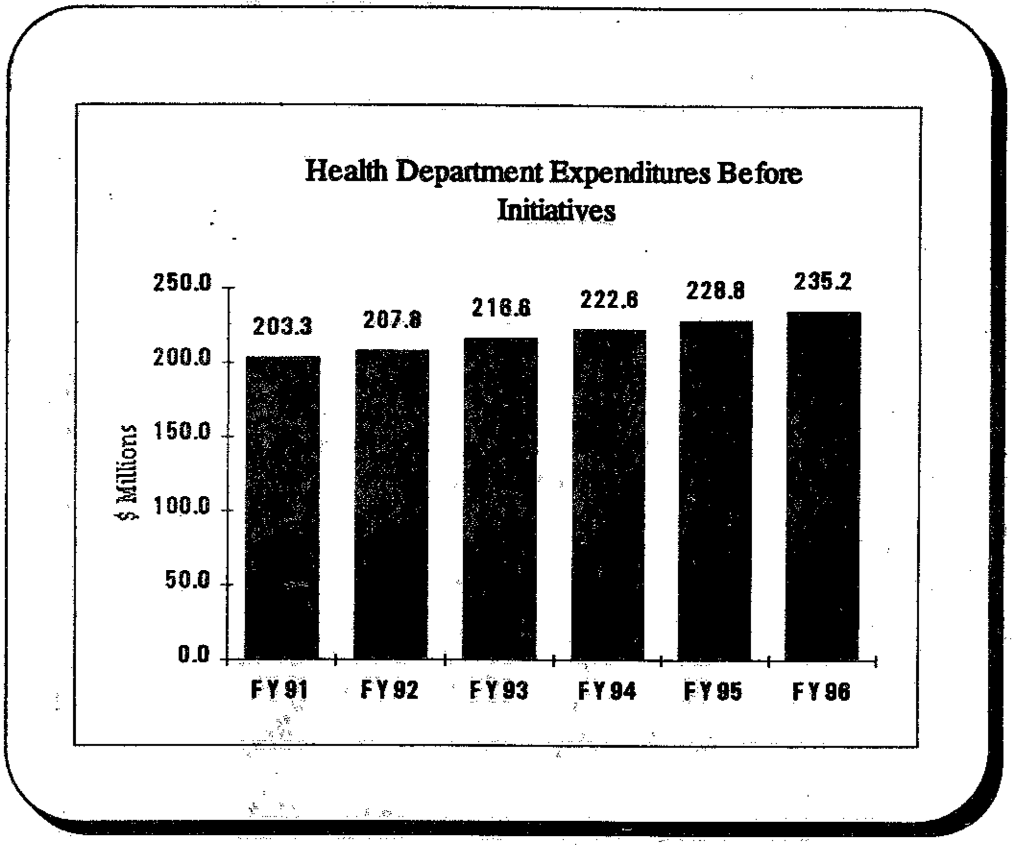
Major Area of Concern

PICA staff has a concern as to whether City Council will approve registration fees for burglar alarms and fines for false alarms. PICA staff will continue to monitor the progress of this initiative to see if implementation is accomplished by FY94.

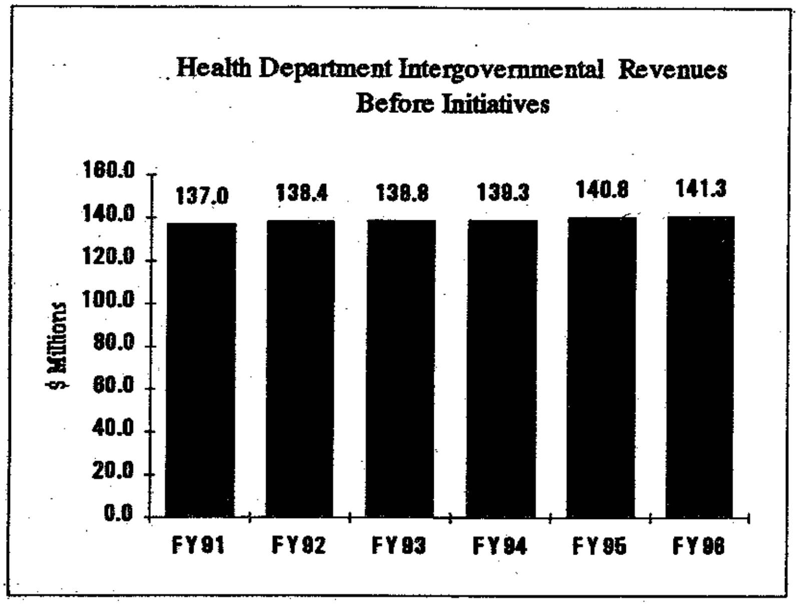
DEPARTMENT OF PUBLIC HEALTH

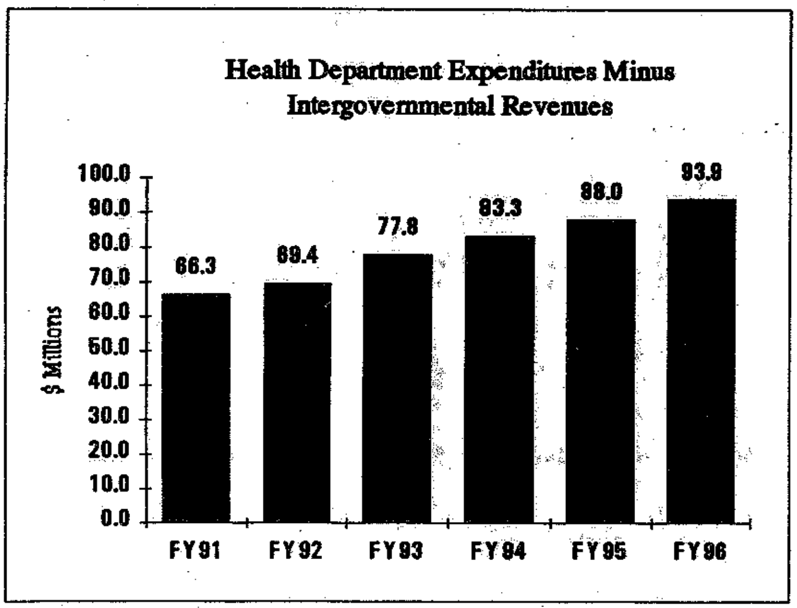
BASE OBLIGATIONS AND REVENUES

The true measure of the Department of Public Health's (DPH) impact on the Plan is the Department's expenditures net of the intergovernmental revenue provided to defray such expenditures. The Department also generates about $2 million annually in fees, but these are not projected separately beyond FY93 in the Plan, which groups fee revenues from various minor sources. Looking only at base obligations masks a potential problem in the projected difference between growth rates for base obligations and base revenues. As the graph below shows, base obligations are projected to grow moderately, increasing from $203 million in FY91 to $235 million in FY96, an average annual rate of 3%. The average annual growth rate of 3% is below the Plan's assumed rate of inflation.



The next graph, on the top of the next page, shows projected departmental intergovernmental revenues, and illustrates the major financial problem facing the department. The Plan projects very little growth in intergovernmental revenues designated for the Health Department. Those revenues grow only $4.3 million over the life of the Plan, an average annual rate of under 1%. From FY91 to FY96, Health Department expenditures grow $27.6 million _faster_ than do intergovernmental revenues designated for the Health Department.





The previous graph, Health Department Expenditures Minus Intergovernmental Revenues, shows the impact on the Five Year Plan of the different growth rates for Health Department expenditures and revenues. Expenditures minus intergovernmental revenues grow from $66.3 million in FY91 to $93.9 million in FY96, an average annual growth rate of 7.2%, well over twice the growth rate for expenditures alone.

Expenditure Initiatives

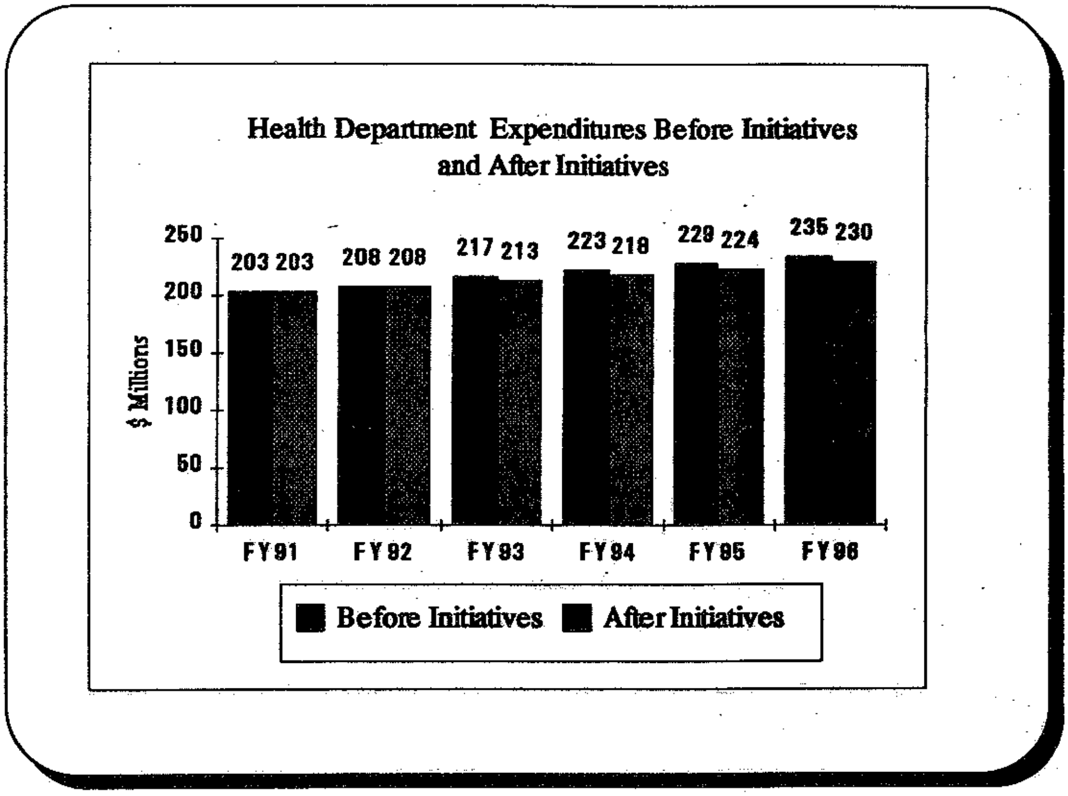
The Department has one major productivity initiative - lowering non-mandated health care costs. This initiative is projected to reduce expenditures by $2.1 million in FY93 and $11.3 million over the life of the Plan. The Plan's description of the initiative is:

> The cost to the City for non-mandated health services will be reduced. Efforts will be undertaken to establish and strengthen partnerships with local hospitals, academic medical centers, and the hospital community generally, in an attempt to assist uninsured patients with finding programs for which they are eligible. This will result in less demand at local health centers from the uninsured population -- although no patients will be denied medical attention. In addition, DPH expects to be able to lower the cost to the City of non-mandated health services through productivity reforms and revenue enhancements.

This initiative has been changed. Barry Savitz, a Deputy Health Commissioner, has advised PICA the cuts needed to attain $3.5 million in savings have already been made and that such cuts included not filling positions, delays in hiring and reductions in Mental Health/Mental Retardation services. PICA found that these cuts have a reasonable chance of attaining the projected expenditure reductions. The initiative also appeared to be attainable because, after discounts, it amounts to a reduction in expenditures of only 1% from the Plan's projections of FY93 expenditures before initiatives. In each year of the Plan the cost reductions from this initiative are below 1.4% of projected pre-initiative expenditures.

Impact of Initiatives on Expenditures

As the graph on the following page shows, initiatives are projected to have only a minor impact on Health Department expenditures. The initiatives reduce expenditures by no more than $5 million in any year.



Revenue Initiatives

The Department's initiatives focus primarily on increasing revenues, which is a logical response to an otherwise slow growth scenario.

The largest dollar impact Health Department initiative is called "improve medicaid billing and eligibility." It combines ensuring that district health center patients, who receive a variety of health services from the City-run centers, are enrolled for every entitlement program for which they are eligible, together with increasing reimbursements for the District Health Centers by obtaining Federally Qualified Health Center status. The Plan projects additional revenue from this initiative of $2.4 million after discount in FY93 and $10.3 million split evenly over FY94-FY96 for a total of $12.7 million.

Both portions of this initiative appeared reasonable to PICA staff, but both require additional follow up actions for ultimate success.

An April 2, 1992 memo from Commissioner Ross projects that ensuring that patients are enrolled in appropriate programs will generate $1.3 million in FY93 and $5.8 million spread equally over FY94-FY96 for a total of $7.1 million. The key determinant of success for this initiative will be the outcome of litigation against the state over a program called "outstationing." Outstationing entails putting workers in health centers to ensure that patients are enrolled in appropriate federal programs. The Department projects that outstationing will lead to new reimbursements at a rate of $35 per visit for about 90,000 visits per year. Consultation with advocates and City officials causes PICA staff to feel that this initiative is reasonable, but that delays in settlement of the litigation may reduce projected FY93 benefits. The Plan, however, using its built-in discount, includes only 60% of the revenues realizable from this initiative in FY93 and the Health Department included only a partial phase in of this initiative, thereby bringing the achievement level required to meet Plan goals below the 60% amount. Net revenues from this initiative may be reduced, however, because the Health Department has indicated that there is a possibility that the State may require the City to pay up to 50% of salaries for each of eight employees required to implement outstationing. The maximum cost for the City, (half salary for eight employees at $50,000 with an estimate of benefits equal to about 40% of salary) would be approximately $280,000.

The second half of the initiative is to obtain Federally Qualified Health Center Status for district health centers. This status would allow an increase in the visit fee from $23 per patient to $45 per patient. The Department has obtained three levels of federal approval required to achieve this status, but still needs one more level of approval. If the necessary approvals are received the new reimbursement process would call for the City to be reimbursed 57% by the State and 43% by the Federal government. The April 2, 1992 memo by Commissioner Ross projects initiative results of $1.1 million in FY93 and $1.5 million in each of FY94, FY95 and FY96 for total additional revenues of $5.6 million. The Health Department has indicated that it will know by the end of June 1992 whether it will obtain Federally Qualified Health Center status.

The second largest Health Department revenue initiative is an expansion of EPSDT funding This initiative is projected to produce $2.1 million in FY93 after discount and $13.3 million over the life of the Plan after discounts.

The initiative is to:

> Obtain Medicaid reimbursement for children's health services, including mental health/mental retardation, medical care, immunization, lead paint screening and hazard investigation, and similar activities that are reimbursable under the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT). Congress mandated significant expansion to this program effective July 1, 1991. Since the State has failed to fund fully this required expansion of Medicaid, litigation has been initiated, and the State has recently been showing considerably more flexibility on EPSDT eligibility and reimbursements.

This initiative relies on the same Congressional mandate as the EPSDT initiative discussed in the section of this report dealing with DHS. The two EPSDT initiatives total $40 million over the life of the Plan. The City's ability to implement the EPSDT initiatives depends, in part, on the favorable outcome of the litigation initiated against the State. PICA staff has talked to State officials, advocates and City officials and believes it is reasonable to project that once a system is in place, the Health Department will receive the amounts projected by this initiative. The only year about which PICA staff has concern is FY93. If the lawsuit is not favorably resolved in the first quarter of FY93, the City may have trouble meeting its FY93 targets. PICA staff will monitor the progress of the litigation.

The Department's other major initiative is a three-part initiative to increase revenues generated by the Philadelphia Nursing Home (PNH).

Part one of the initiative to increase PNH reimbursements is:

> Improve the Medicaid reimbursement-to-cost ratio for the Philadelphia Nursing Home. The preferred strategy is implementation of a full-cost reimbursement for all county public nursing homes. Because significant cost differentials exist between the county public nursing homes in Philadelphia, Allegheny, and Bucks Counties as compared to the balance of the state, an alternative strategy is the establishment of a more favorable reimbursement category. The State Department of Public Welfare had previously created a new more generous reimbursement category for certain hospitals.

The initiative is projected to increase revenues by $480,000 in FY93 and $5.6 million over the life of the Plan. PICA staff and the Controller's Office had substantial concerns about this initiative, which led to the assumed revenues from the initiative for FY93 being dropped from $960,000 in the February 20, 1992 Plan to the current $480,000 level. The initiative is still very speculative, however, because it requires approval from the State, and the City has yet to formally contact the State to discuss it. Even with active state assistance the time required to implement this initiative would threaten the FY93 amounts projected in the Plan.

The second part of the PNH initiative is to:

> Improve billing for PNH specialty services, such as physical therapy.

This is the smallest part of the PNH initiative, accounting for $300,000 after discount in FY93 and $1.5 million over the life of the Plan. It is based on increased Medicaid funding, and also requires improved performance from the Department. The Department has yet to demonstrate the ability to implement this initiative.

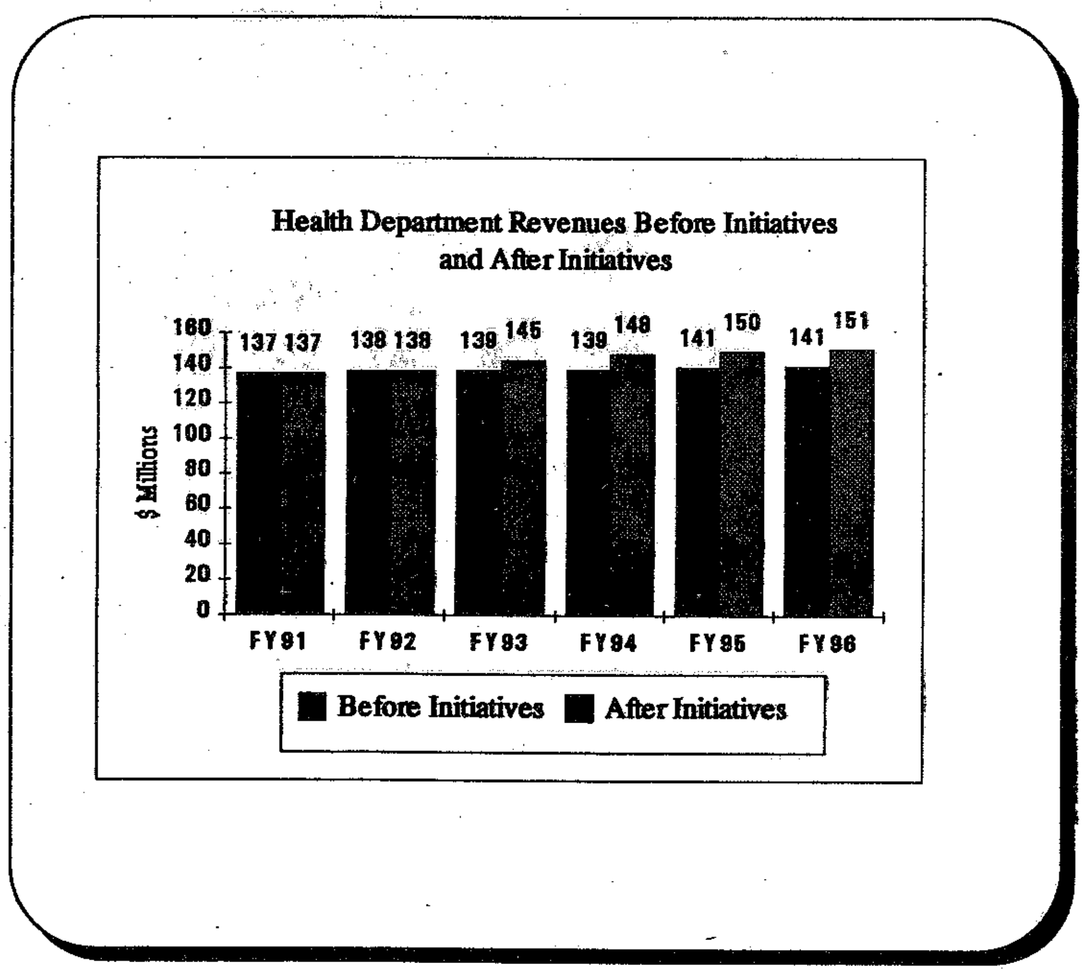
The final part of the PNH initiative is to:

> Increase occupancy at the Philadelphia Nursing Home to full capacity over two-year period. The Philadelphia Nursing Home has 500 beds, of which only 349 are currently occupied. Because of fixed costs associated with operating the facility net revenues are directly proportional to increased occupancy.

This initiative is projected to produce $500,000 after discount in extra revenues in FY93, growing to $1.4 million in FY96, after discounts, for a total of $3.5 million. To fully accomplish this goal, the Health Department indicated it would have to begin the recruiting and hiring of additional registered nurses, licensed practical nurses and institutional care aids by April 15. The additional necessary nursing positions were not added to the Department's budget, but Deputy Commissioner Savitz, on April 14, 1992 indicated that the Department had begun the recruiting process. PNH requires more than one nurse for each patient, thus this initiative will require the hiring of more than 150 nurses in two fiscal years. PICA will monitor PNH's progress in hiring nurses, and in making related changes.

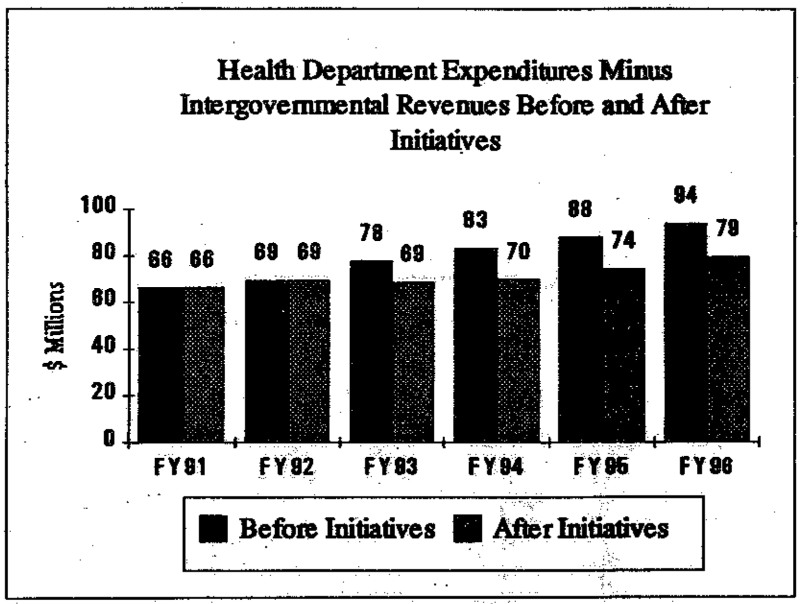
<u>Impact of Initiatives on Revenues</u>

The following graph shows how, even if successful, the revenue initiatives would only modestly increase revenues in the Department.



Impact of Initiatives on Net Expenditures

The following graph shows how, if successful, the Health Department's initiatives would reduce the Department's net expenditures. While the initiatives do not have a large impact on either total Health expenditures or total Health revenues, their combined impact is material in relation to net expenditures.



Major Areas of Concern

Successful implementation of each of the Department's revenue initiatives depends on future events, some of which are beyond the control of the Department. It is reasonable to expect that these actions will be taken and the initiatives will be implemented, but there is no certainty as to when they will be fully effective.

The most speculative of the initiatives is the creation of a new reimbursement category for the Philadelphia Nursing Home, in combination with facilities in Allegheny and Bucks counties. This initiative requires State approval for the creation of a new reimbursement category that would lead to extra costs for the State. The initiative was included in the Plan even though it had not yet been discussed with the State. While the initiative's FY93 value was cut in half in response to PICA and Controller's Office concerns, it is still extremely speculative.

The portion of the PNH initiative which calls for filling PNH to capacity is also of concern. The initiative requires the hiring of over 150 additional nurses in two years. The required number of additional nurses are not included in the Department's FY93 budget and PNH previously has had substantial difficulty in employing nurses. The need to pay newly hired staff (probably at higher than current salaries) could place a considerable burden on the already strained resources of the Department.

The EPSDT and medicaid billing and eligibility initiatives are both tied to the resolution of on-going litigation. It appears likely to PICA staff that the Department will eventually garner amounts approximately equal to those included in the Plan. PICA staff does have some concern, however, as to whether the litigation will be resolved and systems will be in place early enough in FY93 for the Department to meet its targets for the year.

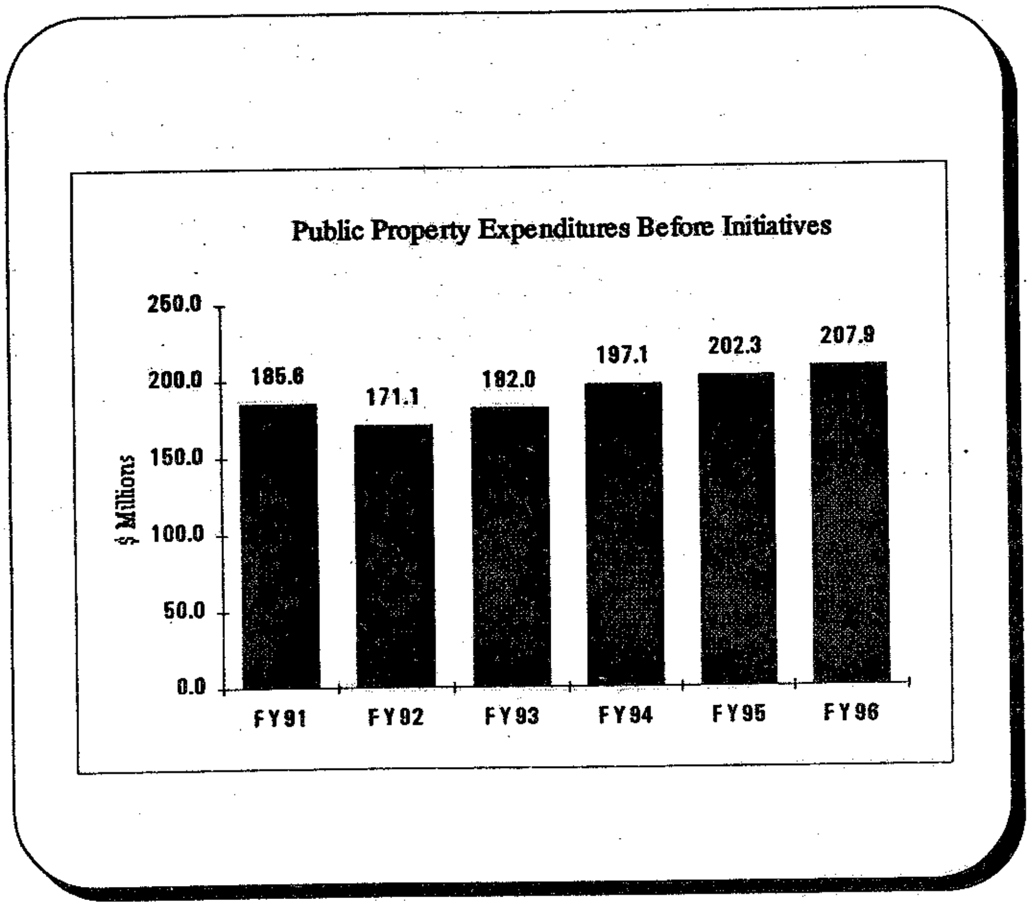
Obtaining Federally Qualified Health Center status is also a speculative initiative. The Department still needs one level of federal approval to achieve this status. The decisions on that level should, according to the Department, be determined by the end of June 1992.

It appears unlikely that the Health Department will achieve all of its initiatives, but it should attain some of them, thus reducing net expenditures. While the percentage discounts used in the Plan provide some latitude for mid-course corrections, there is only a limited capacity to make wholesale changes in operations and still attain Plan objectives. Any failed initiatives will require revised submissions to PICA for further evaluation.

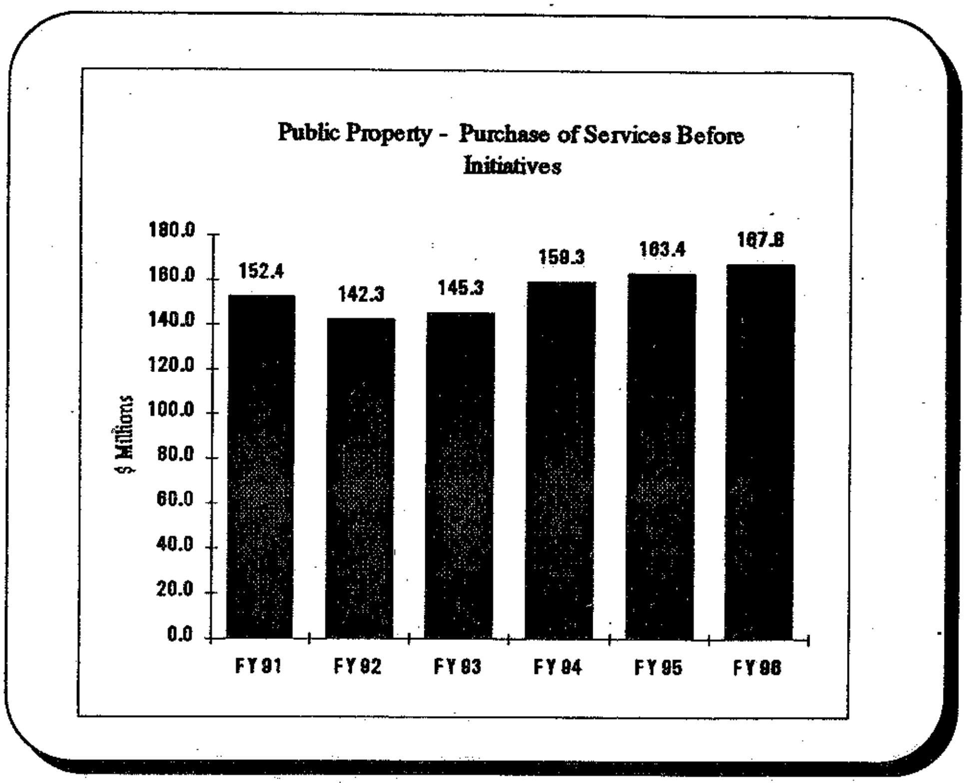
PUBLIC PROPERTY

Base Expenditures

As the first graph shows, expenditures for the Department of Public Property are projected to grow relatively slowly in the Five Year Plan, increasing from $185.6 million in FY91 to $207.9 million in FY96, for a compounded average growth rate of 2.3%. The Department's expenditures are primarily for purchase of services, which account for over 80% of the Department's total in each year of the Plan ($32.4 Million of FY93 purchases of services expenditures are for real estate lease rentals).



The next graph shows that Public Property purchased services are also projected to grow slowly over the life of the Plan, increasing from $152.4 million in FY91 to $167.8 million in FY96, a compounded average annual growth rate of 1.9%, or somewhat slower than general departmental costs.



In FY91, the last fiscal year for which actual financial results are available, Public Property's purchase of services amounted to $152.4 million, including almost $145 million for major City-wide purchases. The supporting detail for the FY93 Budget shows that those items included:

Item	FY91 Amount ($ Millions)
SEPTA Operating Subsidy	$ 50.6
SEPTA Lease Bond Payment	3.5
Real Estate Lease Rentals	31.8
Telephone Services	10.2
Lease-Purchase of Vehicles	24.3
Electrical Services	18.7
Gas Services	4.0
Steam Services	1.7
Total	$ 144.8

The projected growth rate in Plan expenditures (FY92 to FY96) is larger than the growth rate for FY91 to FY96 because purchase of services were estimated to decrease from $152.4 million in FY91 to $142.3 million in FY92 (including a decrease of over $5 million in the City's contribution to SEPTA). From FY92 to FY96, the growth rate for purchase of services is projected to be 3.4%. Projected total departmental expenditures growth from FY92 to FY96 is 3.3%.

Expenditure Initiatives

The Department's largest initiatives target reductions in the cost of purchased services.

The initiative titled "FJDP Courts" represents a transfer of a portion of court space rental costs to the First Judicial District of Pennsylvania. Except for $1 million each in FY95 and FY96, all of the costs that would have been recognized in the Department of Public Property's budget are reflected in the FJDP section of the Plan (the FJDP projects a $1 million reduction in the cost of leases for each of the years FY95 and FY96).

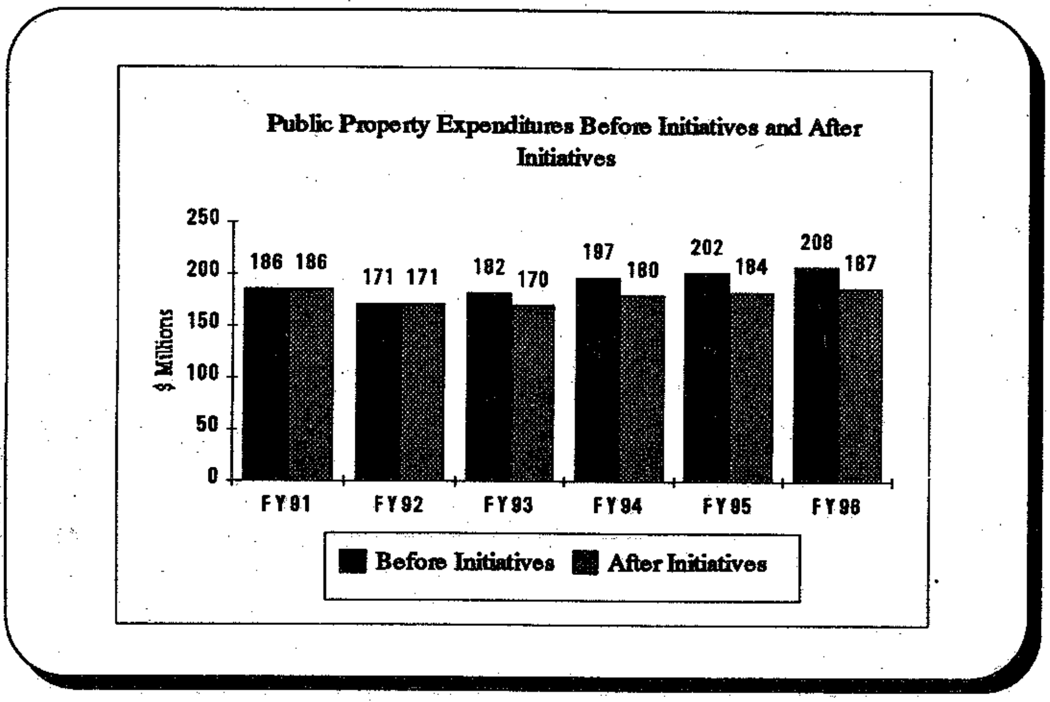
An initiative entitled "lease savings", is projected to save, after discounts, $600,000 in FY93, $3.2 million in FY94, $3.3 in FY95 and $3.4 million in FY96, for a total four year reduction in expenditures of $10.5 million. The Plan describes this expenditure decrease as emanating from a 10% reduction in leased office space cost. A March 25, 1992 memorandum from the Public Property Commissioner indicates that the savings will come from reductions of cost per square foot and overall footage of a number of City leases. These savings appear reasonable, given the scheduled expiration of some leases and a current relatively soft rental real estate market.

The largest general Public Property initiative relates to capping the City's contribution to SEPTA. After discounts, this initiative is projected to save $2.3 million in FY93, $4.3 million in FY94, $5.7 million in FY95 and $7.2 million in FY96. The total projected Plan savings from the initiative, after discounts, is $19.5 million. SEPTA officials testified before City Council on April 15, 1992, and indicated that the Plan's contributions for SEPTA, after the initiatives, were sufficient to meet SEPTA's needs. Problems could arise, however, if SEPTA's State revenue contribution increased, thus requiring extra City matching contributions, although an increase in State funding does not appear to be imminent. The reductions in expenditures are discounted in each year of the Plan; however it is likely that the City will achieve the entire savings thus resulting in City expenditure reductions in this area beyond those calculated in the Plan. As discussed in the "Major Areas of Concern" section for this Department, PICA staff is concerned that the City has calculated its savings off a number approximately $1.1 million higher than its actual FY92 expenditure base. FY93 savings for the SEPTA initiative could thus be overestimated by as much as $700,000.

The Department also has numerous smaller initiatives including consolidating the City's vehicle fleet, privatizing custodial services and reducing telephone costs. PICA's major concern with this group of smaller initiatives was the inclusion of funding for custodial services positions in the Department's FY93 budget, despite the Plan's listing of $440,000 in FY93 savings to be achieved from privatizing those services. The inconsistency in approach may be indicative of a Departmental lack of attention to the means by which the initiatives may be achieved.

Impact of Initiatives on Expenditures

The following graph depicts the reduction in Public Property expenditures projected to result from personnel and productivity initiatives.



Revenue Initiative

The Public Property Department has one revenue initiative: imposing a per-line fee for 911 telephone services. The Administration submitted legislation to City Council requesting the imposition of such a fee, but Council has deferred action to a later date. This initiative is projected to produce, after discounts, $3 million in FY93, $4.2 million in FY94, $4.4 million in FY95 and $4.6 million in FY96, for a total of $16.2 million.

Before this initiative can be implemented, it must receive approval from both Council and the Pennsylvania Department of Community Affairs. The fee involved is designed to recover investment, operations and improvement costs for the City's existing 911 system. The City costs appear to be more than sufficient to justify the $1 per month charge it is seeking to impose. The City also presented reasonable calculations justifying its ability to collect more than $5 million annually from this charge.

PICA staff's major concern about this initiative is whether the City will obtain the required approvals from Council (as to both the policy and the actual fee) and the Pennsylvania Department of Community Affairs. The Plan's built-in 40% discount provides some leeway if the charge is not in place by the beginning of FY93.

Major Areas of Concern

PICA staff has several major concerns about Public Property Initiatives.

The 911 telephone line charge initiative causes PICA staff the most concern. City Council's postponement of action on the initiative is not viewed as a favorable occurrence and raises significant questions about whether this fee will be imposed by July 1, 1992. Also, even if Council and the Pennsylvania Department of Community Affairs both give their approval to the project, that approval may come too late for the Department to achieve even 60% of a full year's benefits from this initiative.

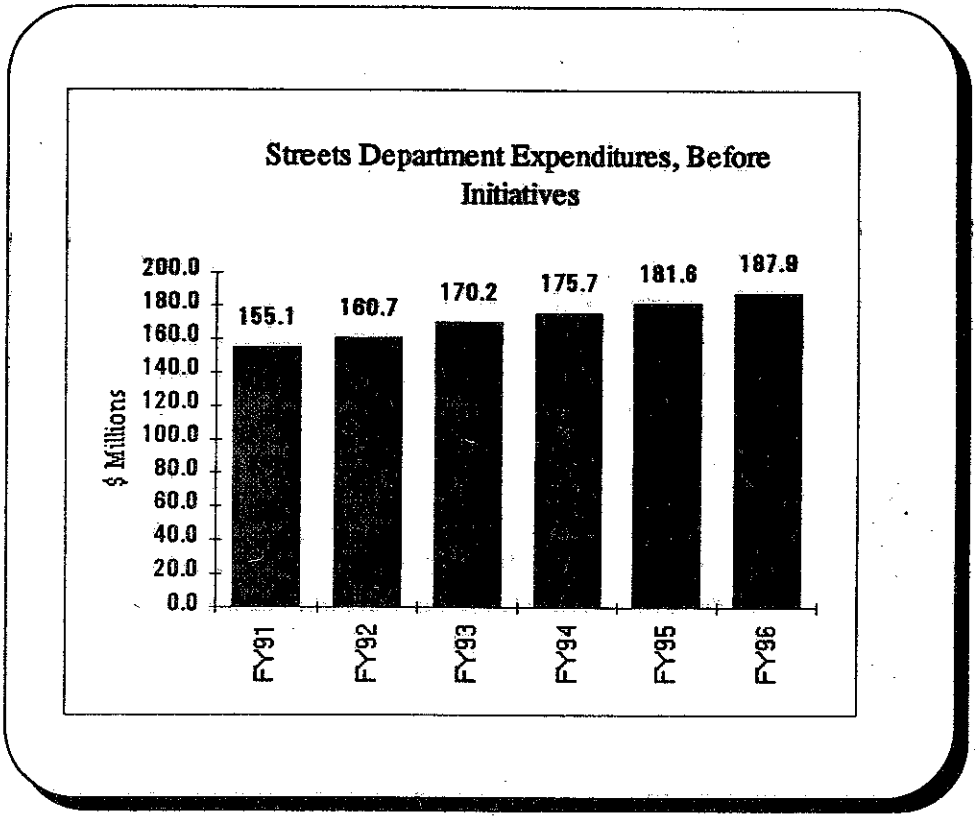
The SEPTA contribution cap is reasonable and achievable given current State funding levels. If State funding increases, the amount of City matching money necessary for SEPTA to receive additional funding may also increase. PICA staff concern is that the projected baseline SEPTA contributions may be overstated, given the Plan's assumptions of 6% growth over the life of the Plan in the City's annual contribution to SEPTA. The FY93 budget shows an FY92 contribution of $45 million and an FY93 contribution of $46.6 million (page 44-14 of the Supporting Detail for the Mayor's Operating Budget for FY93). The Plan's after-discount savings for FY93 are projected to be $2.3 million, indicating that the base expenditure amount for the SEPTA contribution would be $48.9 million if the after savings amount is $46.6 million. An increase from the FY92 level of $45 million to $48.9 million constitutes an 8.7% increase, 2.7% higher than the Plan's stated assumption of 6% for the growth rate of the City's SEPTA contribution (Page 8 of the Methodology section of the Plan as submitted on February 20, 1992). At 6% growth over FY92's level of $45 million, the FY93 contribution would be $47.7 million producing after-discount savings of $1.1 million rather than the $1.8 million included in the Plan.

The City's inclusion of custodial services employees in its FY93 Budget also causes PICA staff some concern. The inclusion of these workers seems to contradict the initiative's goal of privatizing custodial services. If, however, the Administration negotiates a collective bargaining agreement without restrictions on layoffs, it may then be able to eliminate its custodial services staff totally. If the City negotiates collective bargaining agreements that contain "no layoff" clauses, it will have to rely on attrition to reduce the size of its workforce and attrition is unlikely to allow the City to eliminate the jobs of its entire custodial services staff during the term of the Plan.

STREETS DEPARTMENT

Base Obligations

As the following graph (based on the Plan and supporting detail for the FY93 Budget) demonstrates, Streets Department base expenditures are projected to have moderate growth. In the Plan, base expenditures increase from \$155.1 million in FY91 to \$187.9 million in FY96, an average annual growth rate of 3.9% and an overall growth rate of 21.2%.



The only classification in the Streets Department with substantial growth is Class 200 (purchase of services). Class 200 grows from \$80 million in FY91 to \$105 million in FY96, (31% in total or 5.6% a year). Almost three-quarters of the Department's FY91 purchases of services were landfill costs, and the Department's projections for their growth appear to be reasonable.

Class 100 (wages and benefits) remains frozen from FY93 through FY96. While this assumption is reasonable, other sections of this report (Executive Summary, Major Plan Assumptions and Personnel) discuss the variables that could have an impact on the projected expenditures in this Class.

Initiatives

The Streets Department projects savings of $95.6 million based on initiatives to be implemented over the life of the Plan. In FY93, those initiatives equal about $10.6 million, growing to $35.4 million in FY96. The expenditure reductions anticipated to be derived from the Plan's initiatives in FY96 total $31.2 million, a 16.6% reduction in expenditures from base projections.

Overtime is a significant item of Streets Department personnel costs - and only the Police Department forecasts a larger reduction in expenses resulting from the overtime cap. In FY91, Streets Department overtime was $11.1 million (excluding holiday overtime, which is linked to a separate initiative) and regular full time salaries were $63.8 million. After discounts, Streets Department overtime expenditures are projected to decrease by $2.3 million in FY93, $2.8 million in FY94, and $3.7 million each in FY95 and FY96. High overtime in the Streets Department is at least partially a result of high sick leave usage. If the City is successful in reducing its sick leave allowance from 20 to 10 days, the result could be a reduction in both sick leave use and the amount of resultant overtime. Overtime usage is also a result of insufficient staffing levels. As noted in the Personnel Section of this report, the City will have to weigh the costs of increased staff levels against the reduction in overtime costs in the management of its personnel complement.

The Department's largest initiative does not have an impact until FY95 and FY96. In those years, the City's new waste disposal contracts take effect. The Plan projects savings of $16.6 million in FY95 ($13.4 million after the Plan's built-in discount) and $18.5 million in FY96 ($14.9 million after discount). The Plan's base assumptions include $84.4 million for disposal costs in FY95 and $92.8 million in disposal costs in FY96. The initiative is described in the Plan as follows:

> New waste disposal contracts are expected to be in place in the last years of the Five Year Plan. The City expects to achieve $16.6 million of savings in FY95 and $18.5 million of savings in FY96. The new disposal contracts will enable the City to close its three transfer stations, producing an additional savings of $14.6 million.

The calculated savings are based both on the new contracts and on the amount of tonnage assumed for FY96 (700,000). The contracts are for four years beginning no earlier than April 1, 1994 and no later than July 1, 1994. Under the contracts, Wheelabrator Falls Inc. (30% of the City's waste after subcontracting quantity for a waste processing facility described as an "innovative alternative facility" and recycling) and TRC Inc. (70% of the City's waste after subcontracting quantity for an "innovative alternative facility" and recycling) will dispose of the City's trash through a combination of landfilling and incineration (trash to energy). The Streets Department indicates that the only remaining approvals to be received are permits from the Pennsylvania Department of Environmental Resources (DER) and that preliminary comments from DER have been encouraging. If DER does not grant the permits by May 31, 1992, the City has the option to accept $500,000 as liquidated damages for cancellation of the contracts. If the contractors fail to perform for reasons that are within the contractors' control, the contractors must reimburse the City for any costs above those detailed in the contracts. Despite this reimbursement, if the contractors' fail to perform, the City may not be able to achieve the savings projected in the Plan.

Because the factors underlying the trash contract savings are known and the City's disposal costs are capped by the contract, the projections appear to be reasonable. Assuming timely receipt of approval and permits from regulatory authorities, this initiative is likely to achieve 100% of its goal, thus producing savings in FY95 and FY96 beyond those contemplated in the Plan.

A second major Streets Department initiative made possible by the trash contracts is the elimination of two city transfer stations. In the Plan, this initiative is projected to produce $473,000 in FY93 Streets Department savings after discount plus an additional $277,000 in FY93 Public Property savings after discount (the Streets Department has continued to analyze its initiatives and a more recent Streets Department analysis projects $814,000 in savings in FY93, but that amount is not included in Plan calculations). Over the life of the Plan, this initiative is projected to reduce Streets Department expenditures by $13.1 million and Public Property expenditures by $1.5 million. The positions to be eliminated in FY93 to achieve this initiative have already been eliminated from the Streets Department's budget (the Department will probably have to use a combination of attrition and layoffs to achieve this initiative's goal). It is reasonable to expect that the Streets Department will achieve and perhaps even exceed its FY93 goal from this initiative. The initiative is projected to produce much larger savings in the later years of the Plan than in FY93 and will require closer monitoring in FY94 through FY96.

Another major Streets Department initiative is charging the Philadelphia Housing Authority (PHA), the Philadelphia School District, and large non-profit institutions for trash disposal services. If the entities involved do not agree to the charges, the City proposes to stop providing such services. In calculating the revenue derivable from this initiative, the City estimated the labor costs, disposal costs and vehicle costs of the trash collection services provided. Those are all costs that the City contends it could eliminate if services to the entities were terminated. The City thus projects savings either from new revenues based on reimbursement for the cost of services, or elimination of such services and costs if the serviced entities do not pay. Discussions with Administration officials led PICA staff to conclude that potential net savings from this initiative were probably no greater than the City's tipping fee expense for each ton of trash. PICA staff has continuing concern that the City may not be able to recover labor and vehicle costs associated with the entities' trash fully, particularly if the entities involved were to contract for other trash removal services rather than reimbursing the City. In such event, the City's savings may be less than those projected in the Plan.

The initiative is projected to produce $3 million in FY93 (after discount) and $14.1 million over the life of the Plan (after discounts). The Streets Department's supporting analysis for this initiative shows costs for Philadelphia Housing Authority (PHA) collections of $3.3 million including $2.4 million in tipping fees, and $1.9 million in costs for Philadelphia

School District collections, including $1.2 million in tipping fees. Those calculations exclude employee benefits. If employee benefits are included, the cost for PHA increases to $3.4 million and the cost for the School District increases to $2.0 million. Legislation approved by City Council projects an additional $300,000 in revenues from other large non-profit institutions which currently receive trash removal services at no cost.

Charging for collection costs is the most speculative of the Department's large initiatives. It may require negotiations with the entities involved, and it is possible such negotiations could result in some trade-offs of the proposed charges for concessions to and from the City on other matters. Any such concessions could produce costs that would have to be netted out against any savings achievable from this initiative. The Plan's discounts are a method of providing for the trade-offs that may be required to achieve this initiative and delays in implementation. Additionally, the Plan includes a figure for savings that is lower than the costs calculated by the Streets Department.

This initiative will require close monitoring because of its speculative nature. PICA's monitoring will include:

- o Following the progress of negotiations between the City and the entities from which it is seeking reimbursement.
- o Determining whether the City actually eliminates services for entities not providing reimbursement.
- o Tracking monthly City expenditure reports to determine whether expenditures for solid waste disposal actually decline.

Other initiatives contemplated to result in large expenditures reductions are:

- o Changing to two-man crews to move to semi-automatic collection on a number of City trucks. After discounts, this initiative is projected to reduce expenditures by $1.2 million in FY94, $1.2 million in FY95 and $1.3 million in FY96. This initiative would lead to a reduction of 60 positions and would require $3.7 million to implement. The Plan proposes using money from the PICA-funded Productivity Bank to implement this initiative. To achieve the FY93 savings projected from this initiative, the reduction in workforce size would probably require some layoffs in addition to attrition.
- o Replacing blockmen (persons who manually sweep streets) with mechanical brooms and reducing the number of blockmen. After discounts, this initiative is projected to produce $375,000 in savings in FY93 (a more recent Streets Department projection is for a

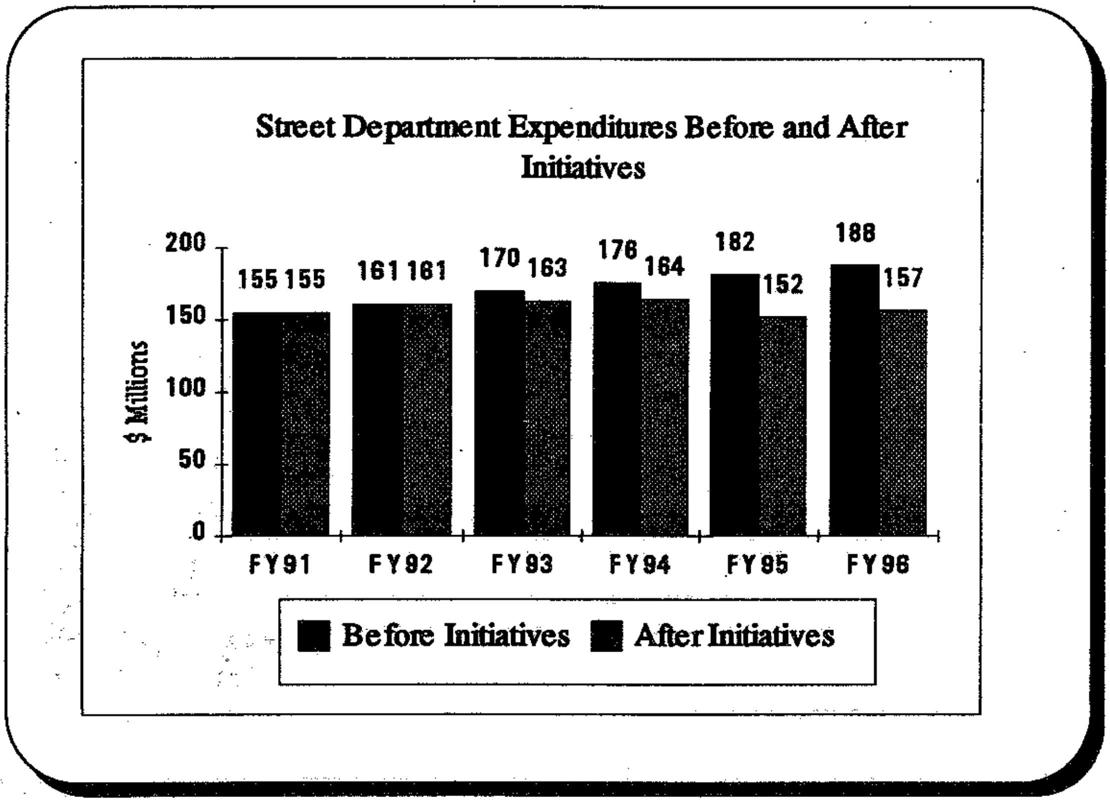
$875,000 reduction in expenditures in FY93), $932,000 in FY94, $964,102 in FY95 and $998,000 in FY96. This initiative would lead to a reduction of 45 positions, probably through a combination of attrition and layoffs. The positions have been eliminated from the Department's FY93 budget.

o Discontinuation of private alley lighting. After discounts, this initiative was projected to reduce expenditures by $614,000 in FY93, but newer Streets Department calculations estimate savings for FY93 at $1.25 million ($1 million in electrical power savings and $250,000 in contract maintenance savings). The initiative projects reductions of expenditures of $850,000 in FY94, $893,000 in FY95, and $938,000 in FY96. The most recent Streets Department calculations indicate that successfully implementing the initiative could reduce expenditures by a greater amount than Plan projections. The alley lights would be disconnected by July 1, 1992 and fixtures would be removed over a four year period. Lighting alternatives could be provided by private homeowners or community groups.

There are a number of other smaller initiatives in the Streets Department aggregating $20.8 million in savings or additional revenues over the life of the Plan.

<u>Change in Expenditure Growth Caused By Initiatives</u>

As the next graph (based on the Five Year Plan and Supporting Detail for the FY93 Budget) demonstrates, if the Plan's initiatives are successful, Streets Department expenditures will only be about $2 million higher in FY96 than they were in FY91, actually representing a <u>decline</u> from 7.4% of actual FY91 total General Fund Expenditures to 6.3% of estimated FY96 total General Fund expenditures.



Major Areas of Concern

To a large extent, the success of many of the Streets Department's initiatives depends of the Department's ability to reduce the size of its workforce. This ability could be severely constrained if the City fails in its attempt to negotiate a contract that does not contain a "no layoff" clause. The Department does, however, have high turnover and could reduce its workforce through attrition. As an example, a Streets Department analysis shows that from June 30, 1991 to December 29, 1991, staffing declined from 2,727 to 2,643, a rate of about 14 employees a month. As noted above, reducing staff size by attrition is more difficult than reducing staff size by layoffs because reductions through attrition count on employees leaving positions that the Department does not want filled. The occurrence of vacancies in areas related to particular initiatives would have a significant impact on implementation.

The size of the Department's workforce will also have an impact on its ability to reduce overtime by the amounts forecasted in the Plan. The workforce will have to be appropriately staffed and managed to reduce overtime. Additionally, the City's ability to reduce the number of sick days allowed per year could have a direct impact on the Department's ability to reduce its overtime costs.

PICA staff is concerned that recovery of costs relative to revenue/savings achievable from charging PHA, the School District and major non-profits for services may not be achievable up to the amounts (and at the levels) contemplated in the Plan. Staff is skeptical as to the City's ability to negotiate the charges or eliminate services without offering something in return to the serviced entities. Any trade-off will require a netting out of costs against the savings amounts included in the Plan, with concomitant reductions in net positive benefits.

PICA staff also questions whether the City would be able to eliminate all of the costs associated with the services provided to the entities if the entities decided to obtain those services from another provider rather than paying the City. The savings may be reasonable, however, because they are discounted from full projections, and there is little question that the tipping fee savings could be achieved.

Another major concern is the impact on the Plan if the trash facilities (which are integral to the success of the tip fee savings and elimination of transfer services initiatives) are not completed on time (or perhaps not at all). The initiatives that hinge on the successful completion of the facilities are among the most important in the Plan. There are no obvious threats to the contracts beyond those normally associated with large waste disposal facilities, but PICA will closely monitor developments.

LAW AND REVENUE DEPARTMENTS

Revenue Initiatives

The Law and Revenue Departments, while separately shown in the Plan, are involved in several jointly managed major initiatives, and for convenience are discussed jointly in this report. The Law Department projects an after discount increase in revenue collections of $29.4 million over the life of the Plan and the Revenue Department projects an after discount increase in revenue collections of $46.6 million for the same period, both as the result of jointly managed revenue initiatives.

Law Department

The two major revenue initiatives in the Law Department are improved tax collection and enhanced enforcement.

The Law Department projects that employing additional enforcement attorneys and using an improved automation system will enable the Department to generate a one-time after discount revenue gain of $20 million. This revenue gain is apportioned over a two year period, with after discount revenue of $8.0 million projected in FY94 and $12 million projected in FY95.

The Law Department also contemplates initiation of a focused tax recovery plan which would require an additional 15 employees to implement. The Law Department projects that this tax recovery plan will generate an after discount revenue increase of $1.8 million in FY93 growing to an after discount revenue increase of $2.6 in FY96. Projected after discount revenue over the life of the plan totals $9.4 million from this initiative.

Other Law Department Revenue initiatives include faster processing of tax (sheriff) sales, and better claims filing (collection) in bankruptcy sales.

Revenue Department

The Revenue Department's revenue initiatives focus on four major areas: improving collections through computerized coordinated collection efforts; redeployment of personnel savings from computerization, transferring assessment, collection, and enforcement functions to the Revenue Department from the Board of Revision of Taxes; and either having legislation passed to implement suburban withholding (withholding of Philadelphia wage taxes from wages paid to Philadelphia residents by suburban employers) or achieving the same net result through a computer matching program utilizing State-provided income tax return information pertinent to Philadelphia resident taxpayers.

The Revenue Department plans to modernize its computer system using a $5.8 million loan from the Productivity Bank and an as yet undetermined contribution from the School District (which will also benefit from this initiative). The Revenue Department projects that this computer system will improve its collection efforts and also improve taxpayer service.

The after discount projected increase in revenues from the computerization initiative is \$2.1 million for FY93 growing to \$4.8 million in FY96. The total after discount revenue projected to be collected over the life of the Plan amounts to \$16.5 million.

In each fiscal year of the Plan, the Revenue Department plans to divert \$1 million of personnel savings generated by the computer initiative to more aggressive tax collections. The after discount revenue projection for FY93 from more aggressive tax collections is \$1.2 million growing to \$1.7 million for FY96. The total projected revenue from this initiative is \$6.3 million.

The initiative to transfer certain responsibilities of the Board of Revision of Taxes to the Revenue Department is envisioned to produce additional revenues of \$400,000 after discount in FY94 growing to \$800,000 in FY96. The projected after discount savings from this initiative totals \$1.8 million. This initiative requires legislative approval and resultantly is not projected for implementation until FY94.

The suburban withholding initiative requires the approval of the State legislature and governor before suburban employers of City residents can be required to withhold City wage tax from such employees. The Revenue Department indicates that if legislation enabling suburban withholding is not passed it believes the initiative results can alternatively be achieved through proper use of computerization. The projected revenue increase after discount from this initiative is \$7.2 million in FY94 growing to \$7.4 million in FY96. The total projected revenue increase over the life of the plan totals \$21.9 million after discount.

<u>Major Areas of Concern</u>

While PICA staff believes it should be possible to achieve the results shown in the Plan for the Law and Revenue Departments, staff has several major concerns relative to initiatives implementation.

The Revenue Department computer improvement initiative causes PICA staff the most concern. Historically City computerization efforts have not achieved expected results. Accordingly PICA staff plans to monitor the modernization effort closely by reviewing reports on the project in comparison with the schedule for modernization. PICA staff also plans to monitor employee training programs and schedules in order to determine that once the new system is in place, it will be operated appropriately with employee learning curves kept to a minimum. PICA staff will request current reports on the overall planning process and on attainment of measurable Plan milestones to determine whether there is appropriate on-going assessment of the new system's ability to produce required timely accurate meaningful data.

After the new system is properly installed, PICA staff will monitor revenue reports to determine whether revenues are increasing to the levels projected in the Plan.

The Suburban withholding initiative is dependent on action by the State Legislature. PICA staff plans to monitor progress in the legislature as it pertains to this issue. PICA staff will also study the City's alternate plan for this initiative (which requires computer analysis of State provided resident income tax return data). PICA staff will follow up to determine the City's ability to implement this alternative system if the needed legislation is not passed.

It may be difficult, however, to directly link the Law and Revenue Department initiatives to increases in wage tax collections because of the many factors that can influence tax collections.

OTHER INITIATIVES

Several departments each have only one large initiative. These large initiatives are discussed in this section of the PICA staff report.

Licenses & Inspections - Revamp Fee Structure

The fees to be increased include license, permit and service fees. The Plan anticipates raising such fees to amounts that the Plan indicates would approximate more closely the cost of providing the service. This initiative is projected to yield revenue increases of $1.5 million in FY93, $2.1 million in FY94, $2.2 million in FY95 and $2.3 million in FY96. The total four year revenue enhancement from this initiative is projected to be $8.1 million. The calculations of these increased revenues appeared reasonable to PICA staff. The only approval required for the fee increases to take effect was from City Council, and Council has now passed legislation approving the increased fees. PICA will monitor General Fund locally generated non-tax revenues to determine whether these fee increases are meeting the Plan's projections.

Philadelphia Prisons System - Overtime Cap

The overtime cap is projected to reduce Prison expenditures by $2.3 million in FY93, $2.0 million in FY94, $2.6 million in FY95 and $2.6 million in FY96. The total expenditure reduction, after implementation of the initiative, is projected to be $9.5 million. The Department has a record of success in reducing overtime expenditures (non-holiday overtime is estimated to decrease to $6.6 million in FY92 from $10.3 million in FY91).

One of the elements of the Department's overtime initiative is an adjustment of shift time to cover roll call instead of having roll call coverage through overtime. Shift adjustment accounts for $1.4 million annually, before discounts, making it a key element of the Prisons' overtime reduction initiative. The roll call shift time adjustment would likely require union agreement. The second important element for the overtime cap's successful implementation is the City's maintenance of proper staffing levels. The Prisons need 24 hour coverage; thus reductions in employee complement can be tied directly to increases in overtime. The City has indicated that it will maintain an appropriate personnel complement in the Prisons system to avoid increased overtime costs.

Various Departments and Commissions - Budget Caps

The Plan contains budget caps for a number departments and percentage decreases in expenditures for several departments and commissions. The Plan does not call for specific cuts in these departments and commissions, but does call for overall reductions in their budgets. PICA staff believes that these cuts, which were included in the FY93 budget, are based on reasonable assumptions as to City managers' abilities to reduce expenditures in their departments.

MANAGEMENT AND PRODUCTIVITY

The final section of the main body of the Five Year Plan submitted to PICA on February 20, 1992 is entitled "Management and Productivity". No quantified savings were included in the Plan from this section, but it provided the framework by which many of the Plan's initiatives are to be analyzed. The section described the Rendell Administration's plans to change the management climate of the City of Philadelphia.

Certain management and productivity initiatives have already been implemented, including several not described in the Plan. Among the initiatives included in this section are the following for which no return was formally recognized:

- The renegotiation of the prescription drug plan at the City's prisons is underway and is expected to produce savings of more than $200,000 annually.
- The voluntary 5% pay cut for Administration executive appointees earning more than $30,000 a year.
- The reduction of City expenditures for Fairmount Park through encouraging private companies and non-profit institutions to "adopt" portions of the Park to fund maintenance costs.

The Plan also indicated that the Administration would seek to improve management of the City through a Charter Commission; major changes in Civil Service regulations; the budget process and the procurement system; and through contract negotiations with the Unions. City Council has approved the creation of a Charter Commission (which is expected to propose changes for inclusion on the ballot for voter approval in May of 1993) and the City has begun its negotiations with the unions. PICA is monitoring the progress of these activities.

Injecting competition into all levels of government is a goal established in the Plan. The Plan calls for competition between private and public sector service providers and between different units of government. The Plan indicates that the City intends to seek private bids for a number of contracts, which may include: legal and debt collection services; building and grounds maintenance; Fairmount Park and recreation center maintenance; fleet management and maintenance; Art Museum and other building guard services; Philadelphia Nursing Home and Riverview Home; data processing services; trash collection; road and street maintenance; tree trimming and planting; and streetlight operation. One of the purposes of the legislation establishing PICA was to foster sound financial planning and budgetary practices in place of the existing practices which resulted in ongoing deficits. One of the ways the Act contemplated fostering sound financial planning and budgetary practices was through consideration of increased privatization. As of the date of this report, PICA staff had seen little substantive evidence that the City is actively seeking competition for the provision of little substantive evidence that the City is actively seeking competition for the provision of services, or that consideration of the concept is being integrated into the planning and operation of City agencies.

This section also contemplated the establishment of a Productivity Bank to fund specific initiatives requiring upfront capital investment. The Productivity Bank is to be used to fund projects that departments demonstrate will reduce expenditures or increase revenues. The benefit gained is intended to flow back to the department implementing the productivity initiative. The borrowings are to be paid back through revenues or savings achieved by the productivity projects or through proceeds from asset sales. The PICA board, in accord with staff recommendations, has funded $20 million for the Productivity Bank. PICA staff nontheless has continuing reservations about the City's ability to capture savings for a particular department. PICA staff urged that the Productivity Bank funds should not be placed in the Consolidated Cash fund (because that would make them available for inter-fund borrowing). The City must still develop a coherent strategy for the implementation of the Productivity Bank.

The Management and Productivity section also calls for improvements in ways the City manages its workforce, including actions such as improving shift scheduling for police, consolidating sanitation crews and purchasing more efficient equipment. Examples of other areas in which the City anticipates that a changed management-union relationship will aid productivity are in the elimination of no-layoff clauses, removal of "antiquated" work rules and past practices, and giving managers greater latitude to make changes in restructuring departments. The section points out that few of the improvements can be implemented without "establishing a new, more cooperative relationship between the City and its employee unions." That relationship has yet to develop, and the City will not have a real measure of the status of its relationship with its workforce until it has concluded collective bargaining with its major unions.

The section indicates that the City intends to include sharing a portion of any surpluses with employees, and sharing the savings from employee suggestions with employees, as methods of improving its relationship with its workforce. The Plan, however, provides no method for calculating the allocation of surpluses or savings to employees.

The section concludes by listing more than 50 management and productivity initiatives and also listing over 40 assets that it indicates the City should pursue selling. Some initiatives, such as patrolling business districts to locate those which are operating without a business license and without paying taxes, already have begun. PICA will monitor the ongoing implementation of the initiatives in this section. If any of the savings or revenues projected to be received from these initiatives become a formal part of the Plan, PICA will analyze them more closely, as was the case with an initiative to implement fines for false burglar alarms.

In addition to setting the tone for management of the City, the Management and Productivity section lists a series of initiatives which, if successfully implemented, would provide additional cost savings and revenue enhancements. These initiatives could become

integral elements of the Plan if baseline projections fall below expectations or if presently relied upon initiatives do not produce the results projected in the Plan.

DEBT

Plan Debt Assumptions

The City's inability to gain access to credit markets was the catalyst for the creation of PICA. The City's debt problem goes beyond its lack of market access and accompanying credit ratings that are below investment grade. Additionally, the City has a high existing debt burden and is close to its statutory tax-supported debt limit.

At the end of FY91, the City's long term obligations totalled $4.6 billion (the Plan included interest in calculating long term obligations, while PICA staff totalled only principal from the tables in the Plan's Long Term Obligations section). The City's population as reported in the 1990 census was 1,585,577, meaning that per capita long term obligations at the end of FY91 were approximately $2,892. The bonded debt includes general obligation bonds, bond anticipation notes and Aviation, Gas Works and Water System revenue bonds. Only the general obligation bonds are tax-supported and payable from the general fund, bond anticipation notes are repaid from future bond issues and revenue debt is payable from the revenues of the related fund. The City also has long term commitments which extend over the next 27 years including lease obligations, an unfunded pension liability, accrued vacation and sick pay, workers' compensation and indemnities.

The Long Term Obligations section of the Plan shows that the break-out of long term obligations at June 30, 1991 was $1.04 billion of General Obligation debt, $79.5 million of bond anticipation notes, $2.14 billion of revenue debt, and $1.33 billion of other long-term obligations.

The City's plans for future borrowing are constrained by its amount of outstanding long term debt. The City's Constitutional limit on the amount of principal outstanding for tax supported debt is the equivalent of 13 1/2 percent of the preceding ten year average of the assessed value of taxable real property in the City. The City's FY91 Comprehensive Annual Financial Report showed a remaining legal debt margin for the City of $39.6 million (this amount increases as the value of the City's assessed property increases and as debt is retired). The Plan shows that $136 million in principal on general obligation tax supported bonds was scheduled to be retired during FY92. As a result of retirement of that debt, if the ten year average of the assessed value of taxable real property in the City did not change in FY92, the City's available debt limit would increase to about $175.6 million.

There is little information on future borrowings in the Plan. The Debt section projects that PICA will issue $68.2 million (to produce for the City spendable proceeds of $60 million) in December of 1993. The $60 million in City spendable proceeds is approximately equal to the dollar amount of the City-proposed capital projects for which PICA found that there was insufficient information to justify borrowing in its initial bond issue.

The Long Term Obligations appendix of the Plan shows $11.6 million principal and interest payments in each of FY94, FY95 and FY96 on new general obligation debt. The Plan does not list the principal amount of the contemplated City borrowing that would create the need for the $11.6 million in annual debt service, explain what the proceeds of the issue would be used for or explain why an additional PICA borrowing would be necessary in FY94 if the City had regained market access. The Plan states the City hopes to regain market access in FY95.

Debt Reduction Initiatives

The February 20, 1992 Plan contained two initiatives for lowering the City's debt burden.

The February 20, 1992 Plan had an initiative under which the City would request that PICA issue insured AAA-rated bonds to refinance five of the City's currently outstanding bond issues that carry interest rates significantly higher than those that could be obtained in today's lower interest rate environment. The issue would be for approximately $119 million and would refinance the City's Series 1975, Series 1977 (two issues), Series 1978, and Series 1979B bonds. The Plan projected $640,000 savings annually for 13 years from the refinancing. The City did not request that PICA borrow for the refinancing.

The second initiative (an initiative also included in the Personnel section of the February 20, 1992 Plan) required the City to "amend Civil Service Regulation 32 to limit abuse, realign pension ordinance with Regulation 32 to mandate rehabilitation and redeployment of the partially disabled, tighten Disability system by eliminating disincentives to return to work." No dollar figure was attached to the initiative, but the Plan projected that it would improve the health of the pension system and limit long term obligations by reducing the growth of the City's accrued unfunded pension liability. PICA will monitor the City's implementation of this initiative.

Major Areas of Concern

The Plan presents the City's amount of debt as a problem, but does not provide proposed solutions. Additionally, aside from PICA borrowings and a statement that the City hopes to return to the capital markets in FY95, the section does not provide any indication of the City's long- or short-term debt issuance plans. It is apparent (from the inclusion of debt service beginning in FY94 on a new general obligation issue in the appendix on long term obligations) that the City does plan to issue new debt. The explanation of how the City plans to regain access to the markets for a large general obligation issue within two fiscal years, and why the City would need an additional PICA borrowing during FY94 if the City had already regained market access, is yet to be provided.

An additional PICA concern is the use of assessed real estate values as the determination basis for the City's General Obligation debt limit. Except for revenue sources specifically dedicated to particular uses, all of the City's revenues are available for debt service and total revenues minus revenues dedicated to particular uses would serve as a much better measure of the amount of debt that the City can afford to incur. While the use of the assessed real estate value method is Constitutionally mandated, the City could develop internal guidelines, based on total revenues minus revenues designated for particular uses, for determining its limit on total long term obligations (many of which fall outside of its Constitutionally defined debt limit).

PICA BORROWINGS

Borrowing Mentioned in the Plan

One of PICA's functions is to serve as a financing vehicle for the benefit of the City. Under the PICA Act, the Authority is empowered to issue bonds for deficit reduction and capital project purposes until December 31, 1994, for cash flow deficit purposes until December 31, 1996 and for refundings of PICA debt for as long as PICA is in existence. The Plan specifically mentions three PICA borrowings:

- The recently completed $474.6 million deficit reduction and capital borrowing issue;
- A December 1993 $68 million capital borrowing; and
- A $119 million refunding issue that was projected to save the City $640,000 annually (mentioned only in the February 20, 1992 version of the Plan).

Initial Borrowing

The initial bonds were sold as of June 1, 1992 at a true interest cost of 6.56% and useable proceeds for the City will be allocated as follows:

Purpose	$ Million
FY91 deficit reduction	$153.5
FY92 deficit reduction	94.9
FY93 deficit reduction	7.8
Productivity Bank	20.0
Capital Projects	120.0
Total	$396.2

The remainder of the proceeds were used to fund a debt service reserve fund and capitalized interest; bond discount; bond insurance, other issuance costs and initial Authority costs.

PICA based its deficit reduction borrowing on the General Fund deficit for FY91 shown in the City's Comprehensive Annual Financial Report for FY91, the City's projections for its FY92 deficit and PICA's analysis of both the Plan and the FY93 budget.

The Capital borrowing was based on a review of City provided information concerning $177 million in capital projects. The Authority determined that it did not have sufficient information on projects totalling over $55 million. Section 3.01 (e) (2) of the PICA Act limits

PICA capital borrowings to emergency projects or projects "necessary to achieve savings and balanced budgets under an approved financial plan."

The Authority agreed to borrow $20 million for the Productivity Bank after reviewing City descriptions of the Bank's intended use and control.

Future Borrowings

The Authority has made no determination about future borrowings. It will analyze any financings proposed by the City, but is under no obligation to issue any bonds in the future.

Deficit Financing

PICA staff would be reluctant to embrace any proposed future deficit borrowings. Deficit financings are generally poor policy because they require future debt service payments for benefits that were exhausted prior to, contemporaneously with, or soon after debt issuance. Deficit financings can be justified only in extraordinary circumstances. PICA staff felt that funding the deficits through FY93 met the extraordinary circumstance test only because the City's financial problems were so extensive, and had been built up over so many years, that it was reasonable to have a transition year to balanced budgets. Future deficit financings would mean that the City had not met its goals (as set in the Five Year Plan) and thus would represent a significant setback in the City's attempts to regain both fiscal solvency and market access. The Plan does not contemplate deficit borrowings beyond FY93, and projects balanced budgets in FY94, FY95 and FY96.

Capital Borrowings

PICA staff will analyze carefully any proposed future capital projects to determine whether they meet the Act's requirements, and will determine whether the debt service on any proposed capital borrowing would threaten the City's ability to comply with the Five Year Plan. PICA staff was disappointed with the quality of information supplied in support of the initial borrowing's capital projects and anticipates that the City will provide more thorough information for both future proposed borrowings and relative to disbursement of the initially borrowed capital amounts. As an example, the vast majority of initially proposed projects had no rational cash drawdown schedules. A number of projects had little or inadequate descriptions of emergencies they would ameliorate, and several of the deficit reduction projects contained no analysis of the expected increase in revenues or decrease in expenditures that would result from project implementation.

Refundings

Any proposed refunding will be analyzed to determine whether it will produce sufficient debt service savings to justify transaction costs and whether it represents a prudent use of PICA's limited borrowing capacity. Despite the inclusion of a $119 million refunding as an initiative in the original Five Year Plan, the City has not requested that PICA issue refunding bonds.

Loan Notes

PICA staff also anticipates that the City may request that the Authority issue tax and revenue anticipation notes. PICA staff would analyze any such request in terms of the City's actual cash needs, the City's ability to obtain notes on its own at a reasonable rate, the City's costs of entering the market versus borrowing from PICA and the impact of borrowing from PICA on the City's eventual ability to regain access to capital markets.

INITIATIVE MONITORING

PICA staff will monitor the progress of each of the initiatives contained in the Plan closely, and the items noted below will be subjected to the closest scrutiny. For the most part, they are items which have a particularly large dollar impact, but others are on the list because staff believes that they offer particularly difficult problems of implementation.

The value of the monitoring process is to provide a system which will permit PICA to have and issue early warnings about shortfalls in Plan implementation that could, if left unaddressed, threaten the success of the Plan. It is also important that PICA staff be aware of situations where Plan targets have been exceeded, and thus be able to assess the net negative effect of any shortfall.

<u>Personnel Initiatives - $98.6 million in FY93 after 75% discount - $492.1 million over the life of the Plan after discounts.</u>

The initiatives include health benefits reform, elimination of City-paid legal services, holiday overtime reduction and workforce and salary restructuring. Together, they represent the largest single initiative in the Plan.

o The City's overall ability to implement these initiatives will depend on its success in upcoming police and fire arbitrations and in the collective bargaining process with unionized non-uniformed employees. The City is required to provide PICA with an analysis of the impact of any new labor contracts on the prospects for the City's compliance with the Plan. PICA staff plans to develop a system to test City calculations as to the financial impact of the settlements.

o After the impact of any new labor agreement is calculated by the City, PICA expects to have the capability to determine independently whether the financial impact the City projects is reasonable under the circumstances, and to assess the life-of-the Plan impact of such agreement.

o Documentation of details such as cost, a listing of the number of employees covered and the date on which the coverage is to begin should be provided to PICA on any proposed new health plans. Any delay in implementation of new health plans will diminish the City's ability to achieve even its discounted target savings.

o PICA staff will monitor closely the City's implementation of new health care benefit programs.

o Overtime usage reports should be provided to PICA at least quarterly.

o PICA must be provided with full descriptions of all cost containment efforts included in the proposed new health plan.

o PICA staff plans to monitor implementation of the disability system reform by requesting that it be provided with updates when any steps are taken toward implementing any facet of the reform.

<u>Fire and Police - Reduce Starting Salaries - $2.3 million in FY93 after 25% discount and $22.2 million over the life of the Plan after 25% discounts</u>

The initiative is to: "Implement a system whereby higher salaried workers are replaced due to retirement and attrition with lower salaried entry-level employees. Lower Police and Fire Department entry-level salaries from $29,750 to $23,750."

o This change in starting salaries will have to be achieved in arbitration.

o If the City obtains lower starting salaries in arbitration, PICA staff plans to use the City's personnel inventories to determine whether turnover ratios are matching those projected in this initiative, a critical factor in reaching the planned-for savings.

<u>Fire - Injured off Payroll Quicker - $615,000 in FY93 in Plan after 40% discount - $7.2 million over the life of the Plan after discounts.</u>

The initiative is to: "Manage the temporary injured list to ensure that those unable to work enter the pension or disability system quickly and get off the Department's payroll. Although these firefighters will not be replaced, there will be no diminution of on-the-street staffing levels since they were not available for service anyway. In addition, although there will be an increased cost in the Finance Department caused by the transfer of firefighters into the disability system, that increase will be more than offset by the $5.7 million in savings projected by the City Controller from reform of the disability system".

o PICA staff plans to ask for current and updated reports from the Department on the number of injured firefighters being moved off the departmental payroll.

o PICA staff plans to regularly monitor departmental staffing levels to determine whether the removed firefighters are being replaced.

o PICA staff plans to monitor the reforms of the disability system. If those reforms are not made, the savings from this initiative will be greatly diminished.

Human Services - Needs Based Budget - $6.6 million in FY93 in Plan after 40% discount - $58.6 million over the life of the Plan after discounts.

The initiative is to: "Adopt a policy of funding mandated programs only to the level of the City ratio of the needs-based budget actually certified by the State Department of Welfare. The City will not fund any mandated program to a level in excess of the State certified need."

This initiative is projected to produce $11 million in savings for the City in FY93, and $6.6 million after the Plan's discount. PICA's monitoring of this initiative will include:

o Determining whether the needs-based budget certified by the DPW agrees with the certification amount assumed in the Plan.

o Determining whether the FY93 State budget as finally passed provides adequate funding for 90% of the State's share of the needs-based budget (Act 30 provides for a phasing in of the State's commitment to fund 100% of the certified needs based budget).

o Attempting to track the City's expenditures to determine whether its expenditures are matching budgeted expenditures.

o Determining whether the City is meeting its initiative to receive 71% eligibility for IV-E reimbursement. The level of Title IV-E reimbursement is important to the needs-based budget initiative because Title IV-E reimbursements are offset against Act 148 Children and Youth expenditures.

o Monitoring the progress of possible litigation related to this initiative.

Human Services - Improve Title IV-E Reimbursements - $6.5 million in FY93 in Plan after 40% discount - $38.5 million over the life of the Plan after discounts.

The initiative is to: "Continue efforts to increase patient eligibility for Title IV-E and to pursue more aggressively the reimbursement opportunities in place. Title IV-E reimbursements require no State matching funds and are, therefore, easier to attain".

o This initiative depends on the City maintaining a 71% Title IV-E eligibility rate. PICA staff plans to monitor this by receiving quarterly or more frequent reports of IV-E eligibility rates.

o PICA may also monitor IV-E receipts to determine whether the City is receiving the amounts projected in the initiative.

Changes in the Administration's calculation of Title IV-E reimbursement for FY93 dropped its Title IV-E revenue estimate by $6.5 million. The initiative would, after discount, recover that $6.5 million through increasing the Title IV-E eligibility rate from 51% to 71%, which had been the Plan's original base estimate for FY93. The original City revenue estimate was considered to be reasonable by the Controller's Office. The initiative will be more difficult to achieve in FY94-FY96. While the revenue loss from reducing the original estimates of Title IV-E reimbursement is increasing at the assumed rate of Title IV-E revenue growth of 16% a year, revenue goals for the initiative will grow by over 47% from FY93 to FY94 (because target savings in FY94 will be discounted by 20% rather than the 40% used in FY93). The "lost" revenue in FY94 will be $7.5 million, but the initiative is projected to yield $9.6 million. In the later years of the Plan, the numbers slowly converge because the initiative grows at under 11% a year while the revenues grow at a projected 16% a year. While the initiative grows to $10.6 million in FY95 and $11.8 million in FY96, the revenue "loss" grows to $8.7 million in FY95 and $10.1 million in FY96. The gap between the initiative's targets and the revenues "lost" is $2.1 million in FY94, $1.9 million in FY95 and $1.7 million in FY96.

<u>Human Services - Expanded Early & Periodic Screening, Diagnosis, and Treatment (EPSDT) Funding - $5.4 million in FY93 in Plan after 40% discount - $27 million over the life of the Plan after discounts.</u>

The initiative is to: "Take an active role in maintaining pressure on the Commonwealth to expand availability of EPSDT federal funding, which requires a Commonwealth match. The Commonwealth, under pressure from various advocacy groups, is proposing to expand the availability of EPSDT screening by significantly increasing payments to providers for health screening and allowing partialized screens by different providers. Make every effort to manage the screening, paperwork, and follow-through necessary to get as many medically needy children as possible certified for federal medical assistance under the EPSDT program."

o The success of the initiative depends in part on the favorable resolution on a timely basis of a suit filed by advocates against the State. PICA staff is monitoring the progress of the litigation.

o PICA staff will review details of the system put in place to perform the screening.

o After the lawsuit is resolved, PICA staff will monitor federal revenues for comparison to Plan.

<u>Human Services - Treat 5% of '92 Out-of-Home Children In-Home - $2.1 million in FY93 in Plan after discount - $11.1 million over the life of the Plan after discounts.</u>

The initiative is: "To the greatest extent possible, strive to provide in-home services to reduce expensive placements out-of-home. In FY92, the average per-diem cost for services out-of-home is $44, while the average in-home per-diem is $18. DHS believes it can service 5% more of its out-of-home client days in-home."

- o PICA is to receive monthly analyses from DHS that will allow PICA staff to track the Department's progress in reducing out-of-home services and to see what is being done differently.

- o PICA staff plans to request information on the financial impact of reducing out-of-home service as the initiative is implemented. This information should be provided at least quarterly.

<u>Law - Improved Tax Collection - $0 in FY93 - $20 million over the life of the Plan after discounts.</u>

The initiative is to: "Improve tax collection by the Enforcement Division. The Tax Recovery practice of the Enforcement Division generated $42.9 million in FY91. It is estimated that there are $260 million of General Fund tax delinquencies outstanding, and approximately one-third of that amount is collectable with improved automation, additional enforcement attorneys, and other miscellaneous steps to improve collections."

- o PICA staff plans to keep in contact with the Enforcement Division to review the progress of steps it is taking to achieve this initiative and the implementation schedule for those steps.

<u>Law - Tax Recovery (enforcement) - $1.8 million in FY93 in Plan - $9.4 million over the life of the Plan after discounts.</u>

The initiative is to: "Add one Assistant City Solicitor, four tax analysts, four paralegals, and six clerk typists to increase enforcement of taxes and fines due the City."

- o PICA staff expects to monitor the Law Department's hiring to determine whether the additional dedicated staff has been hired.

- o PICA plans to determine whether the initiative is being implemented utilizing the schedule drawn up by the Chief Deputy City Solicitor.

- o PICA will attempt to determine whether the initiative actually increases revenues by monitoring receipts. This may not prove possible, however, because of the myriad factors that can lead to variations in receipts from year to year (although it should be possible to discern a trend over time).

Licences and Inspections - Revamp Fee Structures - $1.5 million in FY93 in Plan - $8.1 million over the life of the Plan after discounts.

The initiative is to: "Raise license, permit and service fees to approximate more closely the cost of providing service."

o Council has passed ordinances imposing all of the fee increases included in the Licences and Inspections initiatives, effective as of July 1, 1992.

o After the fees are initiated, their impact should be discernable from the City's reports on locally generated non-tax revenues.

Police - Injured off payroll Quicker - $2.2 million in FY93 after discount - $19.6 million over the life of the Plan after discounts

The initiative is to: "Reduce time lag between medical diagnosis of long-term disability and removal of officer from the payroll from six months to 30 days. Although, these policemen will not be replaced, there will be no diminution of on-the-street staffing levels since they were not available for service anyway. In addition, although there will be an increased cost in the Finance Department caused by the transfer of policemen into the disability system, that increase will be more than offset by the $5.7 million in savings projected by the City Controller from reform of the disability system."

o PICA plans to receive regular reports from the Department on the number of injured police officers being moved off the departmental payroll.

o PICA contemplates monitoring departmental staffing levels to determine whether the officers in question are being replaced.

o PICA also plans to monitor the reforms of the disability system. If those reforms are not made, the savings from this initiative will be greatly diminished.

PICA's approach to monitoring this initiative will be the same for the Police and Fire departments.

Public Health - Improve Medicaid Billing and Eligibility - $2.4 million in FY93 after discount - $12.6 million over the life of the Plan after discounts.

The initiative is split into two parts. The first part of the initiative, which requires implementation of a process called "outstationing", is to: "Assure that District Health Center patients are enrolled in all entitlement programs for which they are eligible, especially Medicaid, and that reimbursement is aggressively pursued. It is estimated that 50% of health center patients for whom DPH does not now receive Medicaid reimbursement are Medicaid eligible. This represents approximately one-fourth of the current patient population. To expeditiously obtain Medical Assistance coverage for these patients, by July 1, 1992 the State must implement the Congressional mandate that Medicaid applications must be processed at health care sites."

The second part of the initiative is to: "Increase reimbursement for the District Health Centers by obtaining Federally Qualified Health Center (FQHC) status. The District Health Centers are in the final stages of obtaining FQHC certification. The necessary federal approval for FQHC status is anticipated by June 30, 1992."

o The Health Department, by its own admission, required DPW support for a series of actions by April 15 to successfully implement outstationing for all of FY93. To date, the Department has been unsuccessful in gaining DPW support; it has also been unsuccessful in soliciting support from the Governor's Office. It appears unlikely that the City will meet its targets for outstationing; and PICA staff is concerned that the City will not see any benefit from this initiative in FY93.

o If outstationing is approved, PICA staff should determine whether staff is being placed in health centers to implement the initiative.

o If staff is placed in the centers and the initiative is undertaken, PICA staff may be able to track the revenues generated by this initiative through increases in federal revenues.

o PICA staff plans to monitor the health centers' attempts to receive various levels of Federal approval. If the approvals are received, PICA will monitor Federal revenues in an attempt to determine whether the initiative is yielding its anticipated revenues.

o To obtain FQHC status, the Department needs approval from four Federal agencies. It has received approvals from three of those agencies.

<u>Public Health - EPSDT Expansion - $2.1 million in FY93 after discount - $10.5 million over the life of the Plan after discounts.</u>

The initiative is to: "Obtain Medicaid reimbursement for children's health services, including mental health/mental retardation, medical care, immunization, lead paint screening and hazard investigation and similar activities that are reimbursable under the Early and

Periodic Screening, Diagnosis and Treatment Program (EPSDT). Since the State has failed to fund fully this required expansion of Medicaid, litigation has been initiated, and the State has recently been showing considerably more flexibility on EPSDT eligibility and reimbursements."

> o The success of the initiative depends in part on the favorable resolution of the legal action. PICA staff will monitor the progress of the suit.
>
> o After the suit is resolved, PICA staff expects to monitor federal revenues to attempt to determine the success of the initiative.

<u>Public Health - PNH Improvements - $1.2 million in FY93 after discount - $9.3 million over the life of the Plan after discounts.</u>

The initiative has three parts. The first part is to: "Improve the Medicaid reimbursement-to-cost ratio for the Philadelphia Nursing Home. The preferred strategy is implementation of full-cost reimbursement for all county public nursing homes. Because significant cost differentials exist between the county nursing homes in Philadelphia, Allegheny, and Bucks counties as compared to the balance of the state, an alternative strategy is the establishment of a more favorable reimbursement category. The State Department of Public Welfare had previously created a new, more generous reimbursement category for certain hospitals."

The second part of the initiative is to improve billing for the Philadelphia Nursing Home specialty services such as physical therapy and the third part is to: "Increase occupancy at the Philadelphia Nursing Home to full capacity over two-year period. The Philadelphia Nursing Home has 500 beds, of which only 349 are currently occupied. Because of fixed costs associated with operating the facility, net revenues are directly proportional to increased occupancy."

The success of this initiative relies on three major components. The first is the creation of a special reimbursement rate for Philadelphia, Bucks and Allegheny Counties, the second is the City's ability to recruit a sufficient number of nurses to allow it to place more residents at the nursing home, and the third is the accuracy of the City's assumptions about the increase in net revenues from each additional resident at the nursing home. To monitor the success of this initiative, PICA staff expects to:

> o Receive updates on the City's progress in getting special reimbursement status for Philadelphia, Bucks and Allegheny counties. To date, the State has not been contacted by the City. If no State action has been taken by June 30, the City should be asked to reconsider this initiative. The revenues projected for this initiative were reduced by half for FY93 in response to concerns raised by PICA staff and the Controller's Office. This is a very speculative initiative in light of the significant administrative action that is required.

o Follow the City's progress in recruiting new nurses. Supporting detail for the Plan notes that this recruiting process had to begin by April 15 and the Department said the process had begun. PICA staff expects to be able to see, from personnel inventories, whether the health department's nursing complement is growing.

o Obtain a copy of a report being prepared by an independent accounting firm on behalf of the City to determine how increases in PNH's number of residents impacts City costs. The report is expected to include a calculation of the net cost per patient.

Public Property - Cap SEPTA contribution - $2.3 million in FY93 after discount - $19.5 million over the life of the Plan after discounts.

The initiative is to: "Control annual increase in City's SEPTA operating subsidy by fixing growth for five year period consistent with growth in the City's baseline revenues, which is lower than the original base growth assumption. This initiative can be accomplished consistent with SEPTA's projected operating subsidy needs and the City's legal obligations under existing fare and operating subsidy agreements."

o Monitoring this initiative will require PICA's being informed by the City of the actual amount it pays to SEPTA and determining that no legal challenge to the contribution will be made. While SEPTA officials testified before Council that the Five Year Plan meets the City's matching requirements, that testimony was based on current projections of State funding. Any increase in State funding for SEPTA might require an increased match from the City.

Public Property - 911 Telephone User Fee - $3 million in FY93 after discount - $16.2 million over the life of the Plan after discounts.

The initiative is to: "Institute a telephone user fee for 911 services to cover the direct costs of operating the service. Under recent changes in State law, the City is legally able to charge up to $1.00 per telephone line for providing emergency response telephone service, subject to approval by the Commonwealth of Pennsylvania's Department of Community Affairs. (PUC approval is not necessary.) This charge would be added by the telephone company to each monthly bill it issues, and the funds would be remitted directly to the City. Bucks County, by way of example, has imposed similar charges (at the rate of $.57 per line), and many other counties and cities in the State have imposed or are considering imposing such charges."

PICA plans to:

o Follow the approval process. Approvals should be obtained from City Council and the State by June 30, 1992, in order to timely implement the program. The initiative appears to be based on a fee of $1 per line per month (which, a February 7, 1992 Public Property analysis projects, would produce about $1 million a month) which provides some degree of latitude in implementation. City Council postponed consideration of this fee when it approved the Licenses and Inspections fee increases in April and set another hearing date in June.

o Determine whether and how Bell of Pennsylvania is actually charging, collecting and remitting the fee.

o Monitor locally generated non-tax revenue to see whether the fee generates as much revenue as projected.

<u>Revenue - Computerized Collections and Additional Collections - $3.3 million in FY93 after discount - $22.7 million over the life of the Plan after discounts.</u>

The initiative indicates: "The Revenue Department will modernize its computer system with a $5.8 million loan from the Productivity Bank. The School District will be asked to fund a portion of this cost since it will also benefit from this improvement. This will improve enforcement by coordinating collection efforts. It will also improve taxpayer service by permitting integrated filing and posting."

o PICA staff plans to follow the modernization effort by monitoring completion dates in comparison to the Department's schedule for modernization. PICA staff has some concern about the Department's ability to implement this initiative under the timetable presented in the Plan.

o PICA staff also plans to monitor employee training programs and schedules.

o PICA staff anticipates monitoring the planning process to determine whether it is designed to ensure that the new system's results agree with results from the City's existing system.

o Monthly revenue reports to be received from the City will enable PICA staff to determine whether revenues are increasing as the system is put in place. It will be difficult to determine the portion of any tax revenue increases which are a result of the Revenue Department initiatives because of the many factors that impact on the timing of such receipts.

Revenue - Suburban withholding - $0 in FY93 - $21.9 million over the life of the Plan after discounts.

The initiative is to: "Have legislation passed that will require suburban employers of Philadelphia residents to withhold Wage Tax for them and remit it to the City. If legislation is not passed, computerization will be used to achieve the same result."

PICA staff's intent is to:

- o Monitor progress of withholding legislation in the Pennsylvania General Assembly.

- o If legislation is not passed by the end of the current legislative session, determine whether the City has a system to begin computerization (cross referencing State income tax returns with names of city residents to determine who is not paying wage taxes). The City will need to begin this process quickly because it will require some time to implement.

- o In FY94, monitor Wage Tax revenues to determine whether the initiative is producing the projected extra revenues. It may prove difficult to determine the portion of any increase in revenues caused by this initiative because of the many factors that impact Wage Tax collections.

Streets - charge PHA and Schools for Services - $3 million in FY93 after discount - $14.1 million over the life of the Plan after discounts

The initiative is to: "Seek reimbursement for services the Department of Streets provides to the Philadelphia School District, the PHA, and large non-profit institutions (including tipping fees)."

PICA staff's plan for monitoring this initiative, which has already received City Council approval, is to:

- o Follow the progress of negotiations between the City and the entities from which it is seeking reimbursement.

- o Determine whether the City actually eliminates services for entities who will not agree to cost reimbursement.

- o Track monthly City expenditure reports to see whether there is a decline in related expenditures if services are eliminated.

Other Large Initiatives:

Fire - EMS fees/better collections - $1.6 million in FY93 after discount - $8.2 million over the life of the Plan after discounts.

Human Services - Increasing ratio of social workers to cases to 75 to 1 from 30 to 1 for cases handled by providers - $1.7 million in FY93 after discount - $8.6 million over the life of the Plan after appropriate discounts. The DHS Commissioner said in a Council hearing that he was going to "rethink" this initiative. It appeared from the hearing that this initiative will not be implemented in its present form and DHS plans to hire a consultant to determine the appropriate ratio.

Public Health - Lower Non-Mandated Health Costs - $2.1 million in FY93 after discount and $11.3 million over the life of the Plan after discounts. Commissioner Robert Ross told the Philadelphia Business Journal that the projected savings from this initiative were "unrealistic" and that this initiative was a mistake that was not intended for the public version of the Plan. Deputy Commissioner Barry Savitz said the Department has initiated other cost saving measures equal to $3.5 million. Those initiatives include delays in hiring, leaving positions unfilled and reducing expenditures for mental health and mental retardation.

Streets - Tip Fee Savings - $0 in FY93 - $28.2 over the life of the Plan after discounts - (the savings from this initiative come in FY95 and FY96 and stem from the new trash contract). PICA will monitor items like the construction of new facilities essential for the success of this initiative.

Streets - Elimination of City Transfer Stations - $473,000 in FY93 after discount plus $277,000 in Public Property in FY93 after discount - $13.1 million over the life of the Plan after discounts plus $1.5 million in Public Property over the life of the Plan after discounts. The positions that are to be eliminated to achieve this initiative have already been eliminated from the Streets Department's budget. It is probably an initiative that will require closer monitoring in later years.

PICA staff will initiate appropriate monitoring procedures for the above initiatives when those procedures are deemed necessary.

ACKNOWLEDGEMENTS

PICA staff would like to acknowledge the contributions of a few of the many people whose work helped make the timely completion of the PICA review of the first phase of the Plan process possible.

The PICA Board provided direction and support for the staff in each step of the review process. The Board members, who are unpaid for their labors, put in many difficult hours during this first phase of the Plan process to enable the City to take its initial steps toward fiscal recovery. Their leadership and dedication are unsurpassed.

The City of Philadelphia Controller's Office not only provided written opinions on the Plan, it also acted as advisor to PICA on various facets of the Plan when so requested. Of particular assistance to PICA staff were Deputy City Controller David A. Volpe and Assistant City Controllers David Finger and Michael Isard. They worked long hours, including weekends, to assist PICA in reaching its independent conclusions about the Plan and the City's proposed capital projects. The Controller's Office contributions were invaluable. PICA staff looks forward to continuing the mutually rewarding professional relationship that has evolved in the Plan review process.

PICA's two ex-officio board members also provided very valuable assistance in the Plan review process. Anthony Wagner, the designee of Michael H. Hershock, the Pennsylvania Budget Secretary, provided invaluable insights in the State funding process and served as the catalyst in resolving a number of issues relating to the Commonwealth. Director of Finance Stephen P. Mullin provided requested insights into City policies and provided a valuable line of communication with the City bureaucracy.

Mayor Edward G. Rendell and City Council President John Street, together, inspired the City's representatives to address and overcome the many problems incident to implementing the first phase of the Plan process. Their support and involvement were an absolute necessity.

Various City officials and advisors worked long and hard, not only in the preparation of the Plan, but also in providing PICA with information that enhanced its understanding of the Plan and its many components. Among those who were particularly helpful were Chief of Staff David L. Cohen, Treasurer Kathryn Engebretson, Deputy Director of Finance Mike Masch, F. John White and David Jasper of Public Financial Management, Streets Commissioner Alexander Hoskins, Deputy Health Commissioner Barry Savitz, Department of Human Services Budget Officer John Zanier, Peter Certo, Chief Accounting Officer for City Council and Charles McPherson, Chief Financial Officer for City Council.

Additionally, PICA staff would like to acknowledge the contribution of Theodore Crone of the Federal Reserve Bank of Philadelphia who provided important insights into the region and City's economy and the impact of changes in the economy on the City's revenues.

PICA staff also gratefully acknowledges the contributions of City Solicitor and former PICA Board member Judith E. Harris for her leading role in the crafting of the Intergovernmental Cooperation Agreement and for her continuing assistance to PICA in her new role as City Solicitor.

Coopers and Lybrand, Rodney Johnson, President of Fairmount Capital Advisors, and Arlene Friner, Director of Finance of the Pennsylvania Convention Center Authority, each provided valuable assistance in the early stages of the development of the Plan.

There are many others who helped in the process and, without providing page after page of names and titles, we hereby express our gratitude to each of them, and our intent to call on them again in the future.

Last, and perhaps most importantly, PICA staff would like to acknowledge the People of Philadelphia, who have endured the fiscal problems of their City with pride and determination, and who will benefit the most from successful Plan implementation. We all should remember, as well, that it is they who will be hurt the most if the City fails to regain fiscal stability.

PERSONAL VIEWS OF PICA MEMBERS

BERNARD E. ANDERSON

The PICA staff report on the City's Five Year Financial Plan offers a thorough and comprehensive assessment of the challenge facing the City's elected leadership on the long and difficult journey toward fiscal solvency. The Plan is only the first step toward achieving that goal; many more steps, and much effort will be required to get there.

The Plan is a blueprint for bringing City spending in line with available revenue. It sets priorities and assigns responsibility for the achievement of cost savings that will balance the budget. Most importantly, it sets the framework for elected officials to perform their jobs in a manner that if followed conscientiously, will assure a bright future for the people of Philadelphia.

The prescription written in the plan offers bitter medicine to cure a long term illness in the City's fiscal health. Many social problems have become the responsibility of the City, while revenues from other sources to help address such problems have declined significantly.

The people of Philadelphia, and their elected officials, face tough choices. There simply is not enough money to provide all the services many would like to have. In a time of severe fiscal constraint, the government must trim its sails to fit the wind, and that means sacrifice for all segments of the community.

The Five Year Plan is a reasonable compromise through which the conflicting demands for public services can be reconciled with limited resources. But none of the choices available to the Mayor and the City Council to reconcile the conflict were ideal.

Faced with steadily worsening structural deficits, city leaders could either raise taxes, or cut services in order to balance the budget. To raise taxes would place an unreasonable burden on an already overtaxed population, and accelerate the flight from the City to other areas. To cut services would substantially diminish the quality of life in the City, with the most unfavorable consequences for the elderly, youth, and low income families. The Plan's strategy on reducing the cost, but maintaining the level of services seems the best option for correcting the structural deficit, while minimizing the pain and suffering that would otherwise be inflicted on a broad segment of the City's population.

A careful reading of the Plan might suggest an imbalance in the sacrifice required to achieve a balanced budget. In the first year of the Plan, about 55 percent of the projected cost savings come from personnel, and 45 percent from managerial efficiency and enhanced revenue. But that apparent imbalance reflects the large proportion that personnel costs represent of the total budget. In FY93 salaries and benefits are budgeted to rrepresent 56% of General Fund expenditures. What is more important, the quid pro quo for the reduction in personnel cost is the retention of the workforce at current levels. By maintaining the City workforce in jobs at less costly, but competitive wages and benefits, the impact on families will be minimized as the City moves toward fiscal stability.

The City administration must be determined to avoid business as usual in the delivery of public services. Serious effort must be made to achieve productivity gains and efficiency in management operations; cost effectiveness must be the order of the day. Greater managerial effectiveness, and the corollary increase in workforce morale, can be achieved through labor-management cooperation. All must pull together to achieve success in implementing the Plan.

PICA's role is to monitor the City's implementation of the Five Year Financial Plan. PICA must assure satisfactory progress toward fiscal stability. The new requirement for oversight of the City's fiscal affairs was made necessary by past excesses of fiscal irresponsibility. PICA exists to help City officials achieve the goals they know are in the best short, and long term interest of all.

Voters elect public officials to represent their interest in public affairs. A key and compelling interest is fiscal responsibility. There is no greater lesson from recent events in the financial life of this City than that the people will pay $148 million in interest on the $342 million borrowed to retire deficits incurred in the delivery of public services. Every effort must be made to reform the way the City does business, in order to eliminate structural deficits in the future.

PICA's role in deficit borrowing is a unique and profound concession to the first exigencies of recent years. We borrowed to cover the accumulated deficits through fiscal year 1991, and the projected deficits for fiscal years 1992 and 1993. The PICA board should not support additional deficit borrowing under any circumstances in the years ahead.

The monitoring and oversight function is critical to the success of the effort to restore Philadelphia to good fiscal health. Cooperation between PICA, the Mayor, and the City Council is indispensable to that goal. If we succeed, it will be for the benefit of present and future generations of Philadelphians.

CHARLES L. ANDES

Philadelphia has been like a desperately ill man rushed to the hospital by ambulance. Will he live or die? Will the City's cash hold out, or will the City go under?

The critical patient is treated first at the trauma center, where doctors stand ready to apply the most extreme measures to save his life. Mayor Rendell's Five-Year Financial Plan is Philadelphia's "trauma plan", where the most severe medicine is justified, where only the failure to take drastic action is inexcusable.

The initiatives described in the Five-Year Plan must be tried because the City's condition is critical. Not every initiative will work. The Plan recognized this by discounting the estimated savings. But the probability that all initiatives will not succeed is not an argument against undertaking them; rather it is a powerful argument for trying them all -- and even more.

Personnel initiatives in the Plan are discounted by 25%, other initiatives by 40% in the first year to 20% in the later Plan years. While only time will tell what percentage of the initiatives' goals will actually be achieved, my view is that the discount for personnel initiatives is too small, and that it will require the cooperation of the City's unions to achieve the Plan's goals.

Unfortunately, the unions have shown little willingness to cooperate. It would be very much to the average union member's advantage to recognize that the City is in desperate shape, and that the future of every single City employee is in jeopardy, as well as the jobs of many. It is time for the unions to work with the Mayor to save the jobs of thousands of union members. The alternative of lost jobs is appalling.

It should be noted that the Mayor's alternate strategy, laying off City workers, while an acceptable budget alternative, is not a good management alternative. It does little long term good to eliminate jobs, but to be stuck with crippling work practices (such as no lay-offs) and costly benefits (such as 47 to 62 paid days off a year).

The City must completely overhaul the work practices and motivation and compensation arrangements of its employees in order to have a reasonable chance to put Philadelphia back on the road to efficient government, reduced costs, acceptable service and fiscal integrity. I hope that the City unions would recognize that a structural rearrangement of the City workforce is in their long range interests. I also hope that the Mayor will stay the course on basic reform with the unions. The immediate dispute, a 99 million dollar "give back", is only the beginning of what must be done to achieve significant reform.

This is not a new trail we are asking Philadelphia to blaze. Many other governments around America have done it. Cities, school boards, counties, states, even Federal government units, have demonstrated that introducing competition into government, and allowing government employees the freedom to use their heads and be rewarded for it, pays off for them in the same way it has for private industry.

So I applaud Mayor Rendell, his administration, and President Street and City Council for having the grit to develop Philadelphia's "trauma plan". I encourage them to hang tough to implement the Plan's initiatives. I urge them to incorporate the recommendations of the business task force into the next revision of the Five Year Plan. And, finally, to make fundamental changes in the way the City works by amending the City Charter. Only when all of these major efforts have been accomplished will we have a city that effectively and efficiently delivers a high level of service to its citizens.