PICA Staff Report
on the
City of Philadelphia’s
Quarterly City Manager’s Report

Third Quarter of FY2006

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May 23, 2006

PICA Staff Report on the City of Philadelphia's Quarterly Report
Third Quarter of FY2006

This report focuses on how the quarterly reports' projections compare to projections included in the proposed FY07-FY11 Five-Year Plan (Plan) and on significant financial and management issues.

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Overview

The Quarterly report shows no change from the Plan in the FY06 projected fund balance, no change in total projected revenues and no change in projected obligations.

The actual results will certainly be different from the Quarterly Report's projections and it is likely that the FY06 fund balance will be higher than the $168.6 million shown in the report. The probable increase in fund balance will, however, only be sufficient to compensate for a small portion of the nearly $500 million of speculative items included in the proposed FY07-FY11 Five-Year Plan.

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Projected General Fund Balance for FY2006 in Quarterly Report:	**$168.6 million**
Projected General Fund Balance for FY2006 in Proposed FY07-FY11Plan:	**$168.6 million**
Change in General Fund Balance from Proposed Plan:	**$ 0 million**

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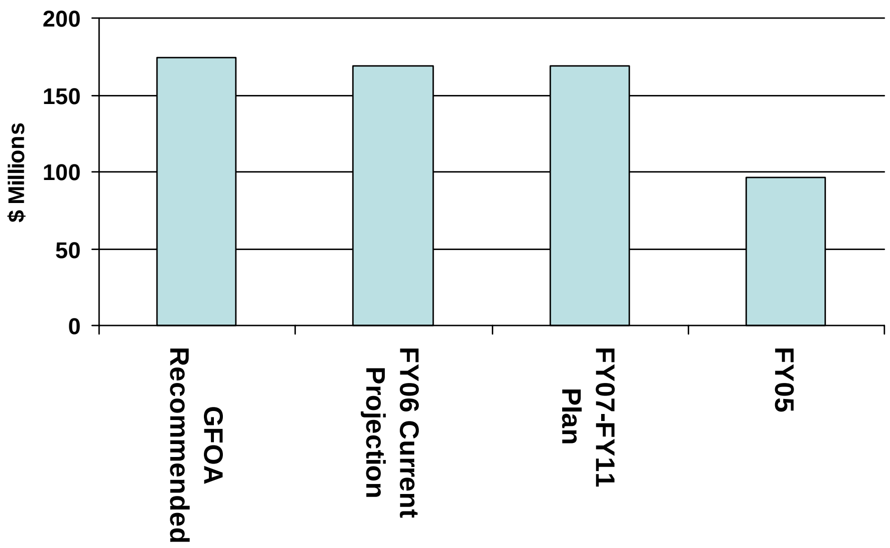
- If, as is likely, the actual FY06 fund balance is larger than the amount projected in the quarterly report, it will at least equal the amount recommended by the Government Finance Officer's Association.

- The GFOA recommends that fund balances equal at least five percent of revenues in order to provide contingencies against unexpected events during the course of the year. At $168.6 million, the City's projection is about $6 million lower than the minimum balance the GFOA recommends.

- While the City's fund balance may reach the level recommended by the GFOA in FY06, it almost certainly will fall well below that level in FY07 and the other years included in the FY07-FY11 Five-Year Plan.

The Projected FY06 Fund Balance is Slightly Smaller Than The Amount Recommended by the GFOA



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Major Changes in Revenue Projections

Projected General Fund Revenues for FY2006 in Quarterly Report:	**$3,495 million**
Projected General Fund Revenues for FY2006 in Proposed FY07-FY11Plan:	**$3,495 million**
Change in General Fund Revenues from Proposed FY07-FY11 Plan:	**$ 0 million**

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Major Changes in Obligations Projections

Projected General Fund Obligations for FY2006
in Quarterly Report: **$ 3,440.4 million**

Projected General Fund Obligations for FY2006
in Proposed FY07-FY11 Plan: **$ 3,440.4 million**

Change in General Fund Obligations from Proposed FY07-FY11
Plan: **$ 0.0 million**

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Major Changes in Revenue Projections: Taxes

- The quarterly report projects that the property, real estate transfer and sales taxes will be a combined $10 million higher than Plan. All other taxes were projected to equal the projections included in the FY07-FY11 Plan.

- The Quarterly Report's projections appear to be conservative and it is likely that tax revenues will be slightly higher than the report projects.

Tax	Proposed Plan	Current Projection	Change
Property Tax	$ 394.8 M	$396.8 M	**$2.0 M**
Real Estate Transfer	$ 210.0	$216.0	**$6.0**
Sales	$ 122.9	$124.9	**$2.0**

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Major Changes in Revenue Projections: Local Non-Taxes

- The Quarterly Report shows the receipt of Eagle's rent being moved from FY06, as projected in the proposed plan, to FY07. The rent was initially due in FY02, but is now the subject of a legal dispute between the Eagles and the City.

- The Quarterly Report also projects that fees resulting from the activities of the Department of Licenses and Inspections and the Courts will each fall $1 million short of projection. All other local non-tax revenues are projected to be equal to the amounts included in the FY07-FY11 Plan.

Item	Proposed Plan	Current Projection	Change
Eagle's Rent	$ 8.0 M	$ 0.0 M	**$8.0 M**
Licenses and Inspections	$44.4	$43.4	**($1.0)**
Courts	$ 33.8	$32.8	**($1.0)**

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Major Changes in Revenue Projections: Revenues from Other Governments

- The Administration projects that revenues from other governments will be equal to the amount projected in the FY07-FY11 Plan.
- By far the largest single source of revenues from other governments is reimbursements for costs incurred by the Department of Human Services. Whether that number meets projections is largely dependant on whether the state provides its payments to the city on time.

Item	Proposed Plan	Current Projection	Change
Human Services Reimbursements	$ 525.3	$525.3	**$0.0**

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Major Changes in Obligations Projections

- The report projects that obligations for each cost area in the budget will be exactly equal to the FY07-FY11 Plan's projections for FY06.

- It is likely, however, that obligations for some departments will differ from the Plan's projections, for reasons such as those noted in the adjoining table.

Item	Reason for Likely Change
Sanitation	Tonnage is now projected to be 28% lower than target budget
Free Library, Public Health and Revenue Dept.	Through March, personnel costs for these agencies were a combined $3.6 million below budget.
Emergency Shelter and Services	The number of emergency shelter beds is now projected to be 10% over the target budget amount number.
Prisons	Through March, overtime was $2 million over budget.

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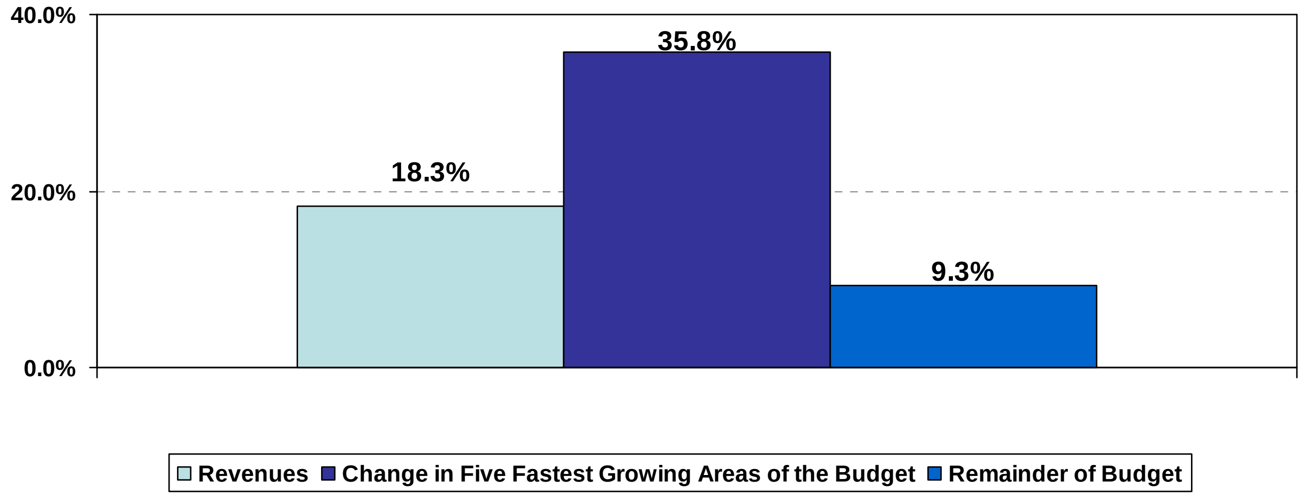
Key Financial Issues Raised in Quarterly Report

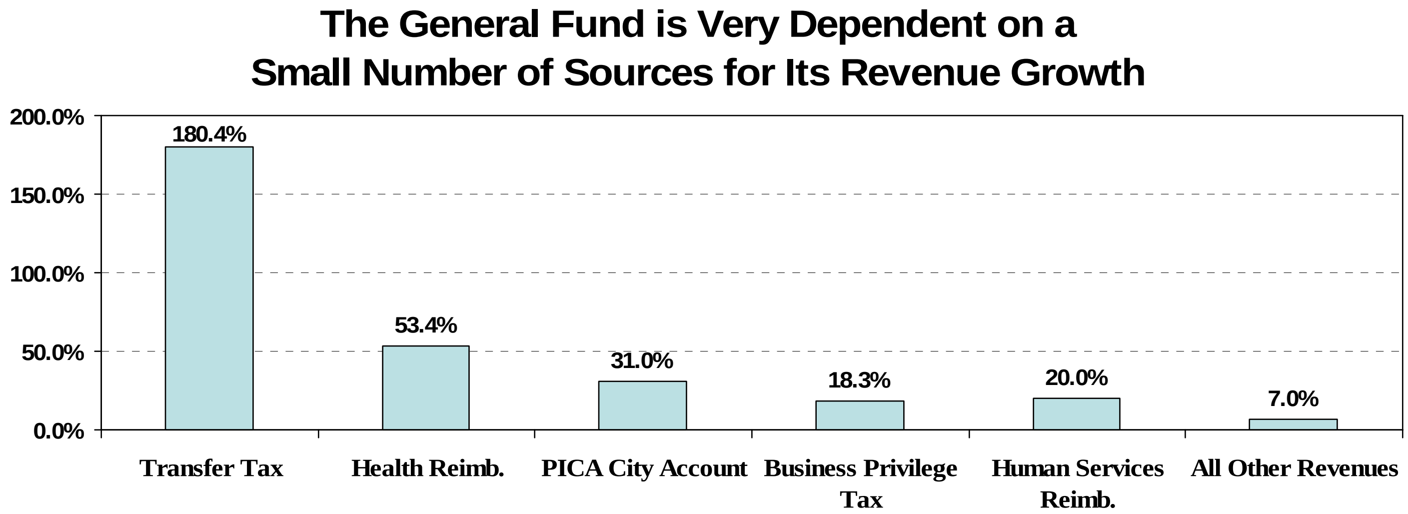
Previous PICA Staff Reports on quarterly reports demonstrated that five areas of the budget – the Department of Human Services, pensions, health/medical costs, prisons and debt service were growing far faster than revenues and other obligations areas. That trend appears to be continuing in FY06. These five expenditure items are projected to account for 43% of FY06 expenditures, up from 38% in FY01.

Expenditure Growth in Five Areas Far Outstripped Revenue Growth FY01 to Projected FY06



Key Financial Issues Raised in Quarterly Report (continued)

The City's general fund is dependent on a small number of mostly volatile revenue sources for its growth. Almost three-quarters of the growth in revenues from FY01 through the FY06 projections are from only five sources. Four of those sources – the transfer tax, the business privilege tax, and state and federal reimbursements for health and human services costs are all highly volatile. BPT revenues and the state and federal reimbursements have all had years since FY01 when they declined and the transfer tax is highly dependent on the continuing strength of the real estate market. Excluding these five areas, revenues have grown by less than 1.5% annually.



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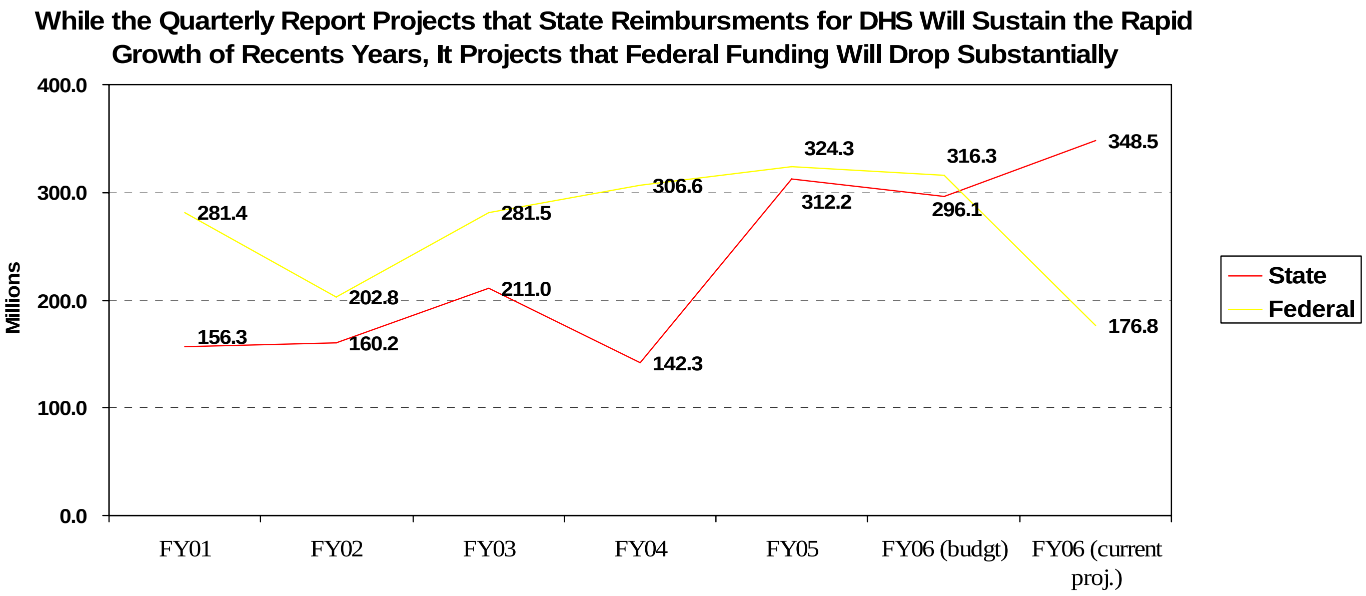
Key Financial Issues Raised in Quarterly Report (continued)

The quarterly report demonstrates the risk of being dependent on a small number of revenue sources for growth by showing that one of those sources – federal reimbursements for human services costs -- is now projected to drop over 45 percent from FY05 to FY06 and to fall $139 million short of the original budget.



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Key Financial Issues Raised in Quarterly Report (continued)

- The City projects that it will receive $18 million in parking violation fines from the Parking Authority, up from $14.5 million in FY05, but $7 million below the amount included in the original FY06 budget.

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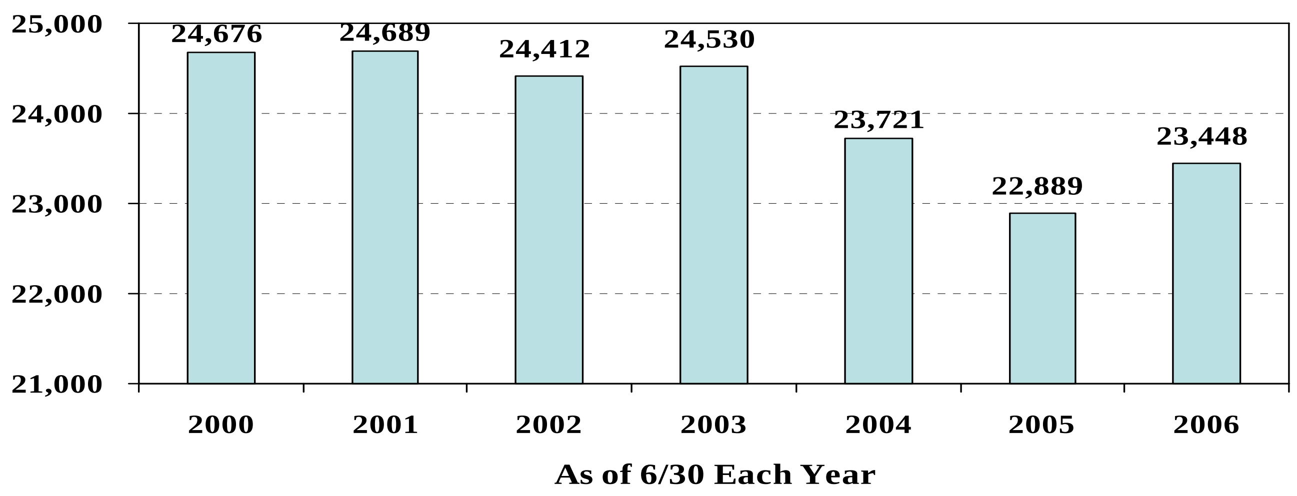
Key Managerial Issues Raised in Quarterly Report

- The City reduced staffing substantially from the end of FY03 to the end of FY05, but projects that staffing will increase by 559 positions – nearly two and a half percent -- during FY06.
- Staffing is projected to increase largely because of additions to a handful of departments including prisons (272 prisons), the Free Library (99 positions), Fire (54 positions), Streets (68 positions) and Sanitation (42 positions). Excluding those five agencies, staffing is projected to increase by only 24 positions.

The Number of General Fund Employees Has Dropped Substantially Since FY03



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Key Managerial Issues Raised in Quarterly Report (continued)

- Overtime is projected to increase at the same time as staffing increases, though at a much faster rate. While staffing is projected to increase almost two and a half percent in FY06, overtime is projected to grow by 14 percent -- $15.6 million -- to $124.7 million after having dropped by $13 million in FY04 and another $12 million in FY05.
  - The overtime increase is largely the result of a projected $9 million jump in Police Department overtime to $50.1 million.
  - Fire Department overtime is projected to increase $2.8 million in FY06 to $24.4 million. As recently as FY03, Fire overtime was just under $10 million. Overtime in the Fire Department has increased dramatically because of a change in sick leave policy and because the Fire Department reconfiguration plan has not been implemented.

- The average monthly inmate population in the Prison System continues to increase. The population is projected to increase over three percent in FY06 alone and, if the projection is accurate, the average census will be 8.5 percent higher in FY06 than it was in FY04. At the same time, prisons expenditures are projected to be about $6.5 million or 3.5% higher in FY06 than they were in FY04.

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Key Managerial Issues Raised in Quarterly Report (continued)

- The report does not show sufficient progress in the implementation of management and productivity initiatives. For example, the strategic marketing and asset sales initiatives are now projected to generate a combined $6 million in FY06, $21.5 million less than initially budgeted.
- The population at the Youth Study Center has increased almost 10 percent from an average of 102 in FY05 to an average of 111 in FY06. At the same time, the average length of stay in the facility has jumped from 7.6 days to 8.3 days. Those increases appear to have affected overtime, which, through the end of the third quarter, totaled $2.2 million, which is $450,000 or 26 percent higher than projected.
- The average number of employees out of work because of injuries has jumped to 182 for the first nine months of FY06 from 158 in FY05 and 125 in F04 – a 46 percent increase in just two years.

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Key City Budget Characteristics

Cost Areas Projected to Exceed $100 Million in FY2006

Item	Amount (in millions)	% of Budget
Human Services	$559.3	16.3%
Police	$475.0	13.8%
Pensions Plus Pension Obligation Bonds	$342.2	9.9%
Health/Medical Benefits	$298.6	8.7%
Prisons	$191.0	5.5%
Fire	$173.4	5.0%
Debt Service	$169.3	4.9%
Courts	$110.7	3.2%
Health	$107.2	3.1%
Public Property (excl. Septa Subsidy)	$106.6	3.1%

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Key City Budget Characteristics (continued)

Revenue Areas Projected to Exceed $100 Million in FY2006

Item	Amount (in millions)	% of Budget
Wage and Net Profits Tax	$1,102.9	31.6%
Human Services Reimbursement	$525.3	15.0%
Property Tax	$394.8	11.4%
Business Privilege Tax	$371.3	10.6%
PICA City Account	$226.6	6.5%
Real Property Transfer Tax	$216.0	6.2%
Sales Tax	$124.9	3.6%

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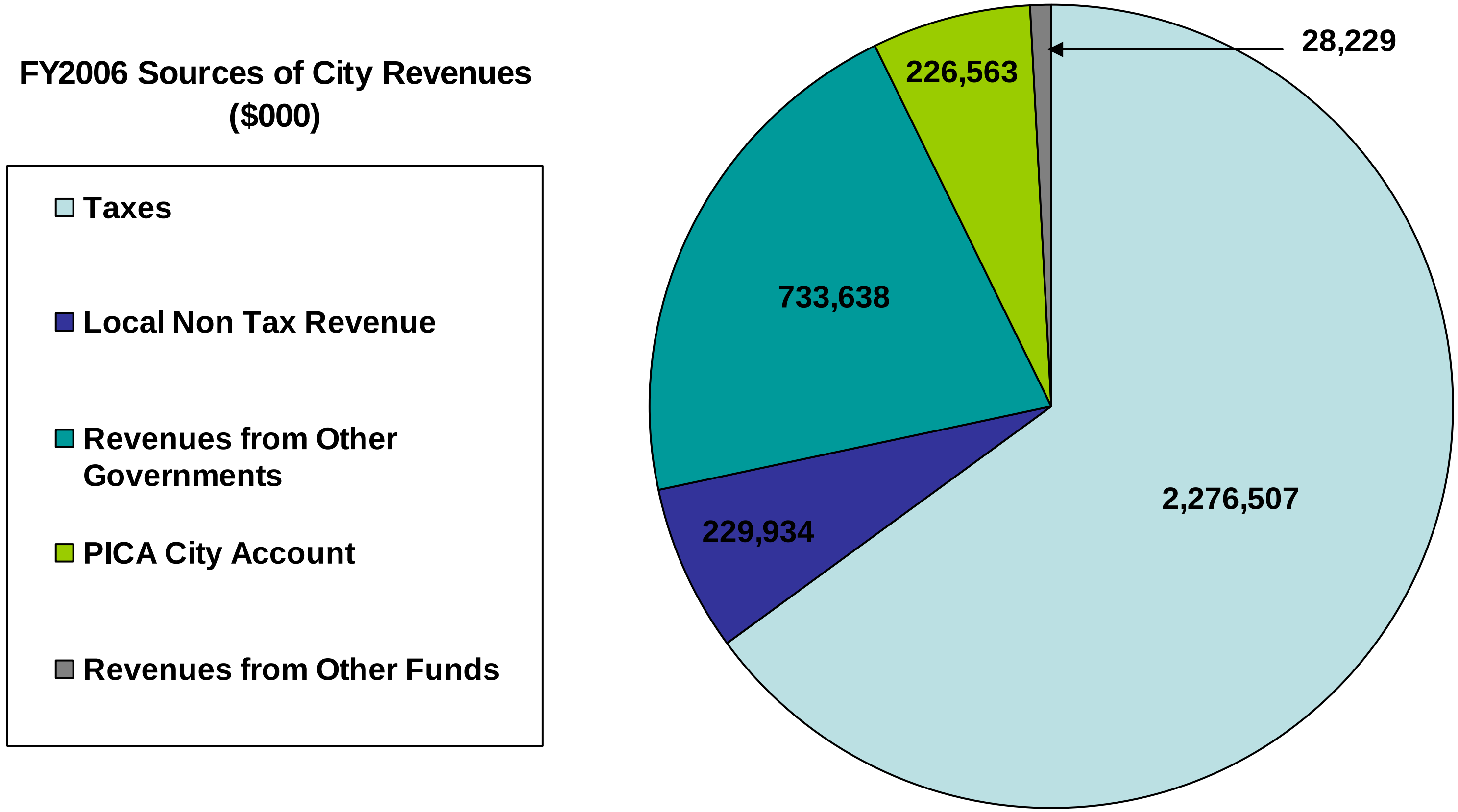
Key City Budget Characteristics (continued)

FY2006 Sources of City Revenues ($000)



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Key City Budget Characteristics (continued)