

**PICA Staff Report  
on the  
City of Philadelphia's  
Quarterly City Manager's Report  
First Quarter of FY2010**

Submitted to PICA on November 16, 2009

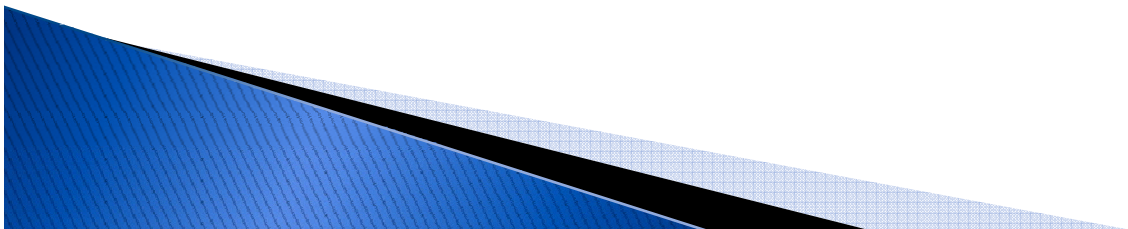
November 18, 2009

PICA Staff Report on the City of Philadelphia's Quarterly Report  
First Quarter of FY2010

**Overview**

The Quarterly Report projects that the City's fund balance will end the year at negative \$30.8 million in FY10, in large part due to a slowing of Wage Tax collections and a reduction in Police on Patrol grant funds.

While the projected negative \$30.8 million fund balance is over \$106 million higher than FY09's ending balance, it is \$33.8 million less than the amount projected in the FY10-FY14 Plan.

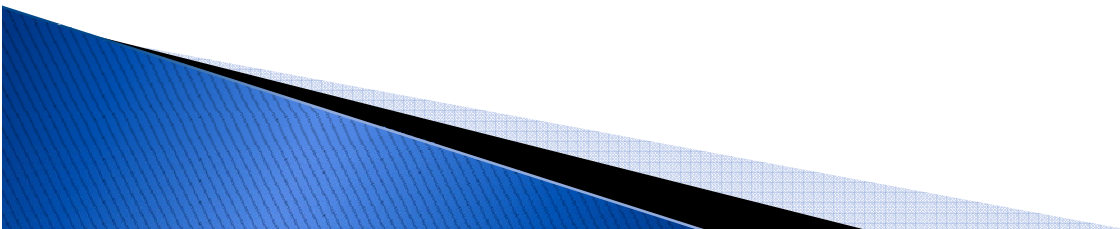


PICA Staff Report on the City of Philadelphia's Quarterly Report  
First Quarter of FY2010

Projected General Fund Balance for FY2010  
in Quarterly Report: **(\$30.8 million)**

Projected General Fund Balance for FY2010  
in the Five-Year Plan: **\$3.0 million**

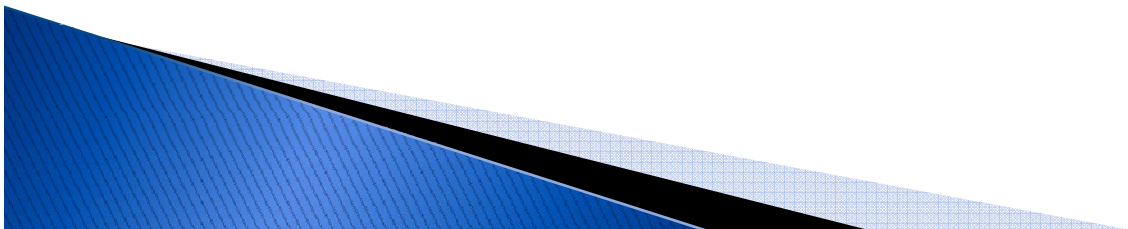
Change in General Fund Balance from the Five-Year  
Plan: **(\$ 33.8 million)**



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Fund Balance

- The FY09 Fund Balance of negative \$137.2 million was due in part to the delay in receipt of \$55 million in reimbursement funds from the State as a result of the delay in passage of the State budget. Excluding those funds, the FY09 ending fund balance would have been negative \$82 million, or \$12 million better than the original projection.
- The projected negative FY10 fund balance and other adjustments result in projected negative fund balances for each year of the Five-Year Plan.
- The City has yet to complete the arbitration/negotiation of new labor contracts with the four municipal unions. Those agreements will further impact the projected fund balance.



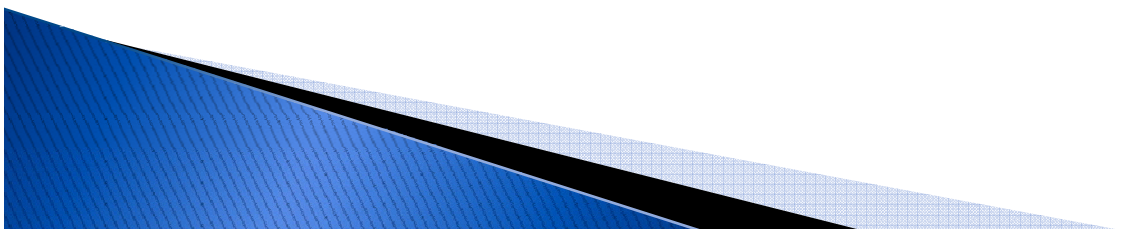
PICA Staff Report on the City of Philadelphia's Quarterly Report  
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**Major Changes in Revenue Projections**

Projected General Fund Revenues for FY2010  
in Quarterly Report: **\$3,783.0 million**

Projected General Fund Revenues for FY2010  
in the Five-Year Plan: **\$3,769.5 million**

Change in General Fund Revenues from the Five-Year  
Plan: **\$13.5 million**



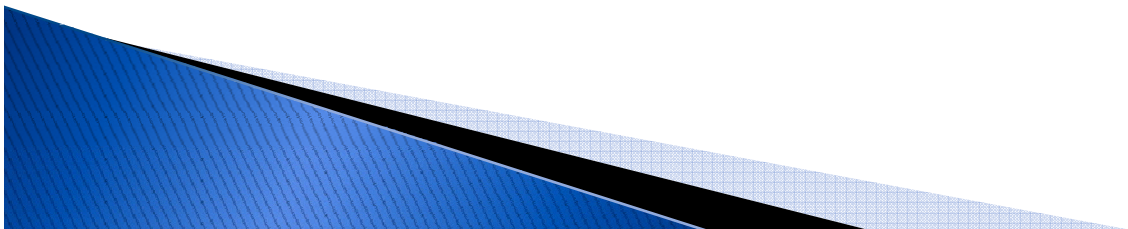
PICA Staff Report on the City of Philadelphia's Quarterly Report  
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**Major Changes in Obligations Projections**

Projected General Fund Obligations for FY2010  
in Quarterly Report: **\$ 3,701.1 million**

Projected General Fund Obligations for FY2010  
In the Five-Year Plan: **\$ 3,696.5 million**

Change in General Fund Obligations from the Five-Year  
Plan: **\$ 4.6 million**



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Key Revenue Projections: Taxes

- ▶ While the Quarterly Report projects that Wage Tax collections will decrease, that decrease is projected to be offset by an increase in Business Privilege and Real Estate Transfer Tax collections.

<u>Tax</u>	<u>FY10 Plan</u>	<u>FY10 Quarterly Report</u>	<u>Change (in millions)</u>
Wage and Earnings	\$ 1,158.0	\$1,117.0	(\$41.0)
Business Privilege	\$ 356.7	\$376.7	\$20.0
Real Estate Transfer	\$ 94.7	\$ 114.7	\$20.0

## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Key Revenue Projections:

#### Locally-Generated Non-Tax and Revenue from Other Governments

- The Quarterly Report projects that the City will receive \$10 million less from the Police on Patrol Grant than was originally expected.
- The Quarterly Report projects that the City will receive \$11.5 million less from the PICA City Account. \$9 million is a result of the fall-off in Wage Tax collections and \$2.5 million is the result of an increase in PICA debt service.
- As a result of a FY09 Department of Human Service (DHS) reimbursement from the State not being paid until FY10, the Quarterly Report projects an increase of \$38 million in FY10 DHS reimbursements

<u>Item</u>	<u>FY10 Quarterly Report Projected Change</u>
Police on Patrol Grants	(\$10.0)
PICA City Account	(\$11.5)
DHS Reimbursements	\$38.0



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Major Changes in Obligations Projections

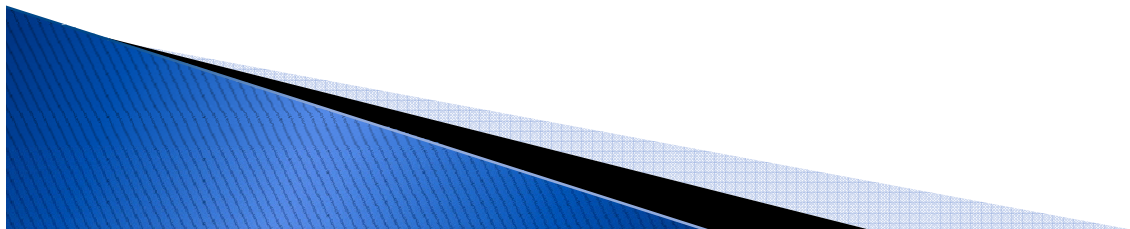
- ▶ The largest estimated increases in obligations are for technology improvements and increased Police overtime.
- ▶ The largest estimated obligations reduction from the Plan is in the Sinking Fund. The City was able to liquidate a \$4.7 million reserve related to stadium litigation reducing debt service requirements for FY10.

<u>Item</u>	<u>FY10 Plan</u>	<u>FY10 Quarterly Report</u>	<u>Change (in millions)</u>
Division of Technology	\$21.7	\$26.7	<b>\$5.0</b>
Police Department	\$524.3	\$528.3	<b>\$4.0</b>
Sinking Fund	\$215.5	\$210.8	<b>(\$4.7)</b>

**PICA Staff Report on the City of Philadelphia's Quarterly Report  
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**Key Financial Issues Resulting from Quarterly Report:**

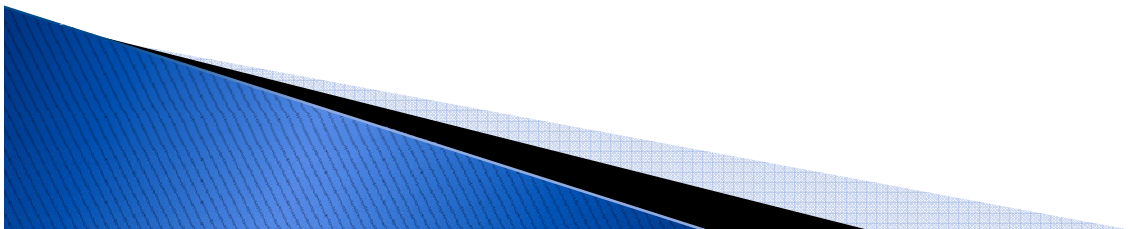
- Reduction in Fund Balance
- Weakness in Wage Tax Collections
- Labor Contracts



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### **Key Financial Issues Raised in Quarterly Report: Negative Fund Balance**

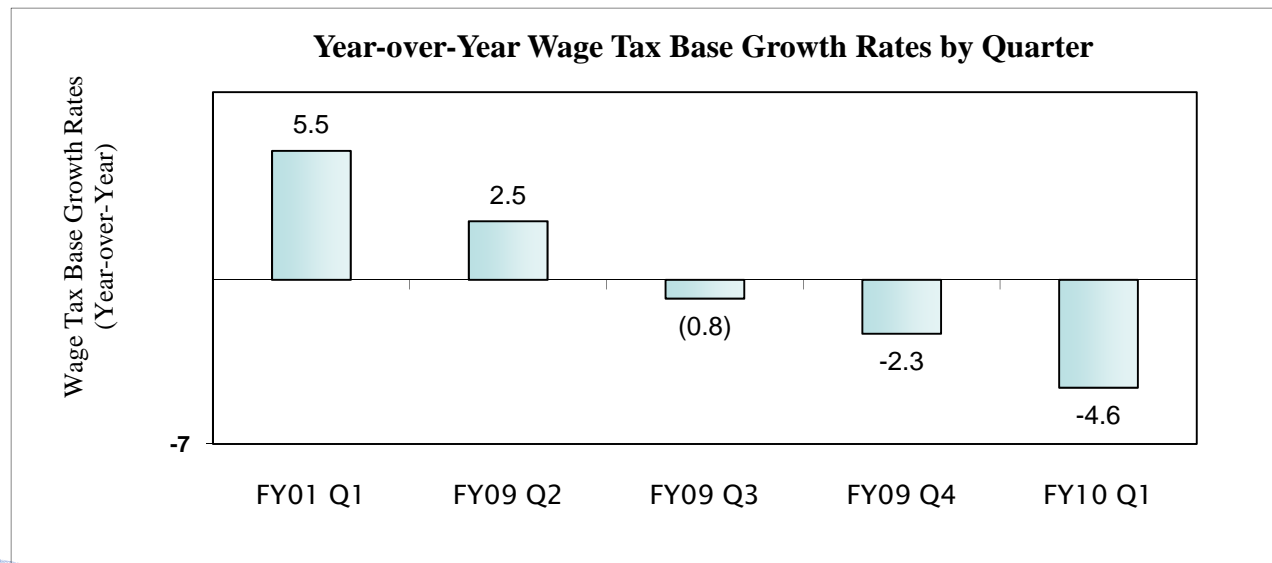
- The Quarterly Report projects a fund balance of negative \$30.8 million. When the revised figures are utilized for base revenue and obligation projections over the Five-Year Plan period, they result in negative fund balances for each year of the Plan, with the lowest balance at negative \$132.0 million in FY2013.
- The City has already begun asking Departments to prepare FY2011 budget requests assuming a 7.5 percent reduction in General Fund dollars. It is possible the City will need to implement some of those cuts prior to the start of FY2011 in order to address the negative fund balances.



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Key Financial Issues Raised in Quarterly Report: Weakness in Wage Tax Collections

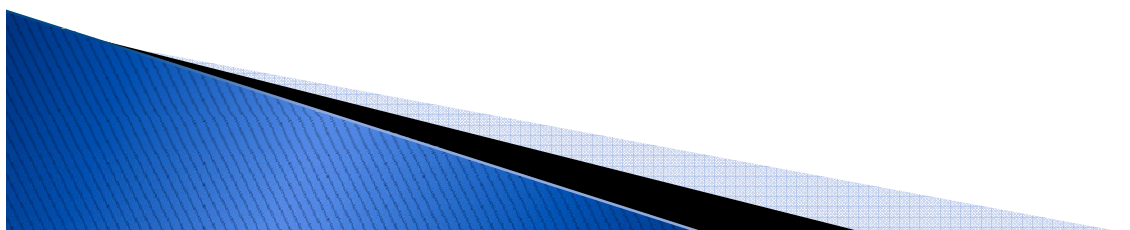
The fund balance is declining in large part because Wage Tax collections continue to fall relative to prior years. In a year-over-year comparison, collections fell 4.6 percent in the first quarter of FY10 after adjusting for the impact of rate changes, the third consecutive negative quarter. The projected \$41 million shortfall in collections could worsen if this trend continues.



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### **Key Financial Issues Raised in Quarterly Report: Labor Contracts**

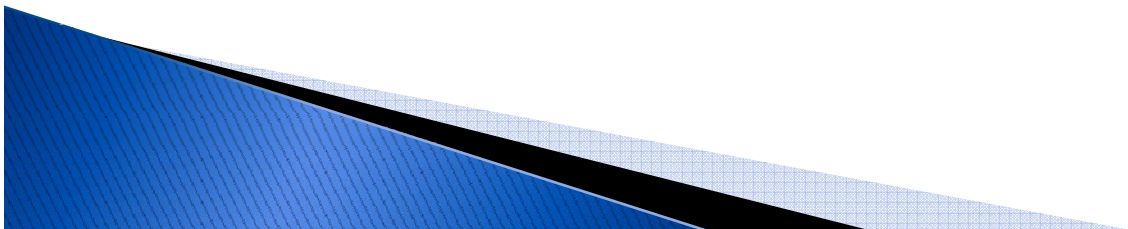
- The City is currently in arbitration or negotiation with each of its four municipal labor unions. The Five-Year Plan assumes that there will be no wage or benefit increases resulting from these contracts and that the City will be able to realize annual savings of \$25 million from benefit and work rule changes.
- The City has recently changed the City-administered health plan, with projected annual savings of \$6 million. Additional labor cost changes of this kind will be necessary to achieve the goal of \$25 million in annual savings.
- Failure to realize these assumptions will negatively affect the projected fund balance for FY2010 and the remaining years of the Plan.



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### **Key Managerial Issues Raised in Quarterly Report:**

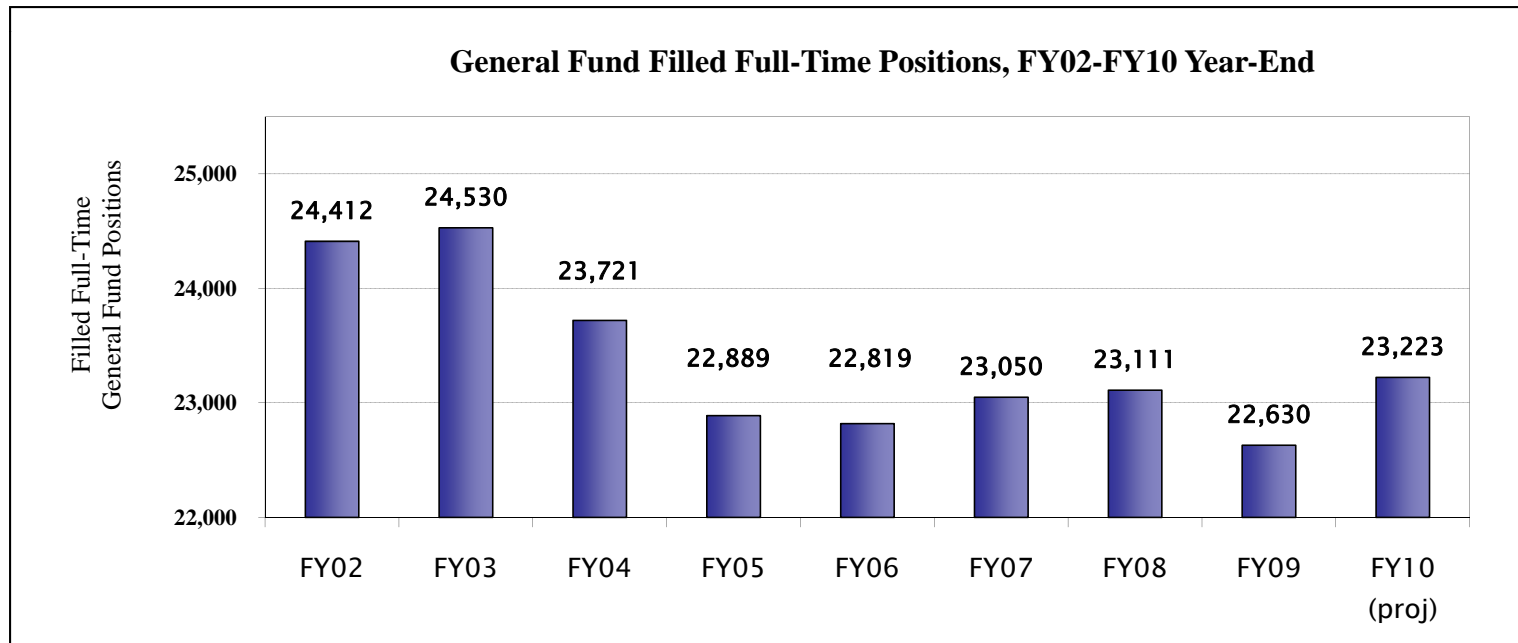
- Staffing Levels
- Increase in Police Overtime
- Reduction in Prison Population
- Other Managerial Issues



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Key Managerial Issues Raised in Quarterly Report: Staffing Levels

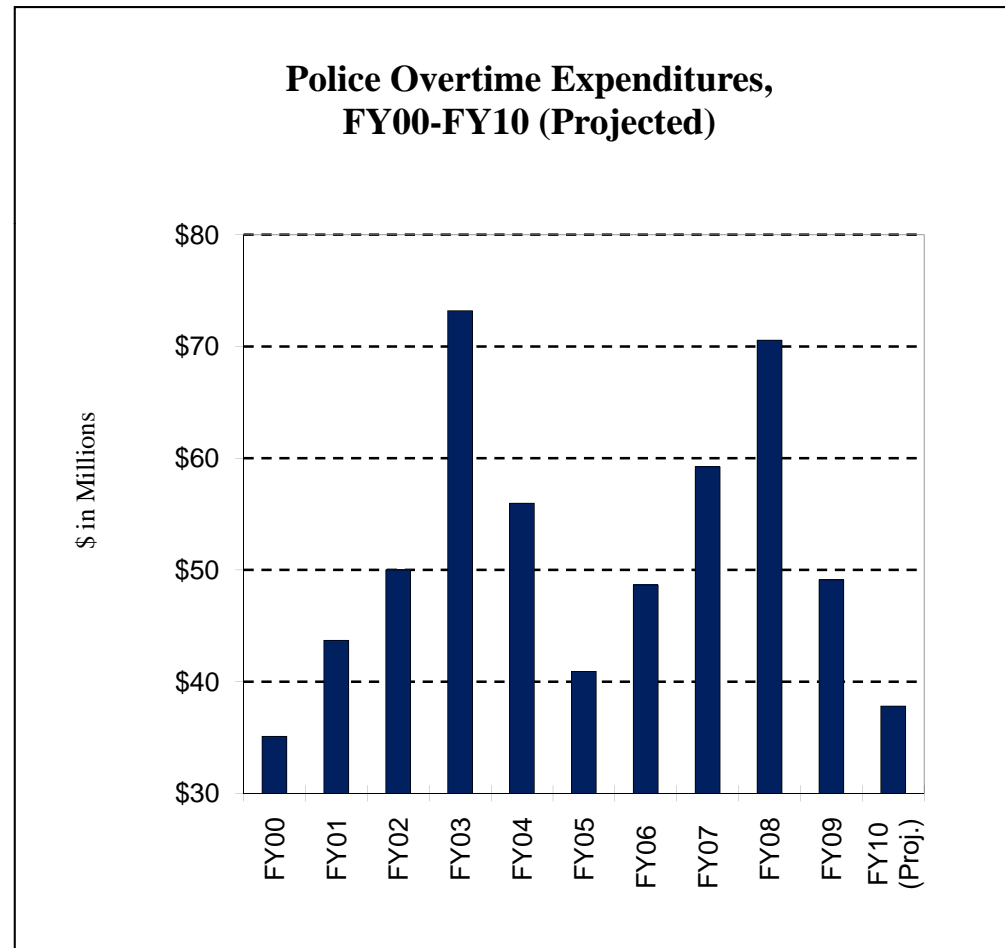
The City reduced staffing substantially from the end of FY03 to the end of FY09. However, FY10 staffing is projected to increase to its highest level since FY04.



## PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

### Key Managerial Issues Raised in Quarterly Report: Increase in Police Overtime

- ▶ The Police Department is projecting an increase in FY10 overtime spending of \$4 million.
- ▶ Despite the increase, the department continues to project its lowest level of overtime spending since FY00.
- ▶ An increase in management controls and new initiatives on reducing Court-related overtime continue to have a positive effect on reducing Police overtime.



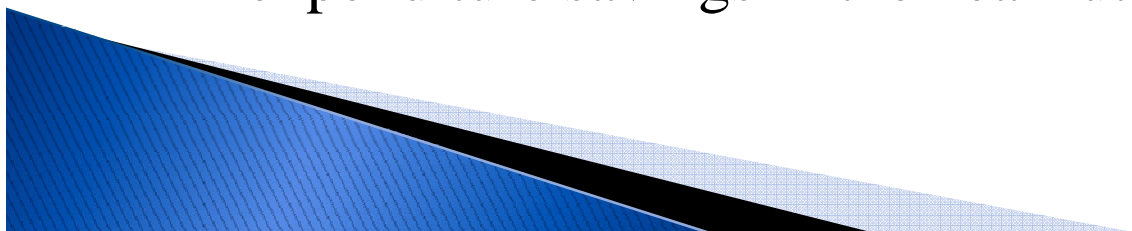


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**Key Managerial Issues Raised in Quarterly Report:**

**Decreasing Prison Population**

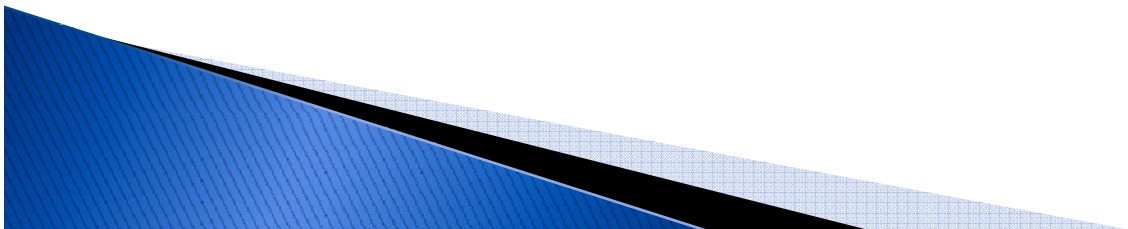
- ▶ The monthly average prisons census has been declining since June, and the average census in October was nearly 500 below October 2008, the largest month-over-month decline since April 2003.
- ▶ Efforts to effectively manage the population both within the Prison System and in partnership with the other agencies of the Philadelphia criminal justice system are producing results.
- ▶ If this trend continues, the City could realize some expenditure savings in the near future.



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**Key Managerial Issues Raised in Quarterly Report:  
Other Management Issues**

- ▶ The median total leave usage for all departments through the first quarter of FY10 is 17.6 percent as compared to 16.5 percent through the first quarter of FY09.
- ▶ Levels of serious crime continue to fall, with FY10 first quarter results in line with Police Department goals for an 11 percent reduction in homicides and a 5 percent reduction in the number of shooting victims and Part One violent crimes. Homicide clearance rates are at 76.4 percent for the first quarter of FY10, slightly below the 80 percent level in FY09, but well above the 66 percent clearance rate in FY08.



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**Key City Budget Characteristics**

**Cost Areas Projected to Exceed \$100M in FY2010**

<b>Item</b>	<b>FY10 Plan (\$ in millions)</b>	<b>% of Budget</b>	<b>FY10 Q1 Report (\$ in millions)</b>	<b>% of Budget</b>
Human Services	\$590.9	16.0%	\$590.9	16.0%
Police	\$524.3	14.2%	\$528.3	14.3%
Health/Medical Benefits	\$368.8	10.0%	\$368.8	10.0%
Pensions Plus Pension Obligation Bonds	\$350.1	9.5%	\$350.1	9.5%
Prisons	\$248.8	6.7%	\$248.8	6.7%
Debt Service	\$215.5	5.8%	\$210.8	5.7%
Fire	\$188.7	5.1%	\$188.7	5.1%
Health	\$116.9	3.2%	\$116.9	3.2%
Public Property (excl. SEPTA Subsidy)	\$111.0	3.0%	\$111.0	3.0%

# PICA Staff Report on the City of Philadelphia's Quarterly Report First Quarter of FY2010

## Key City Budget Characteristics (continued)

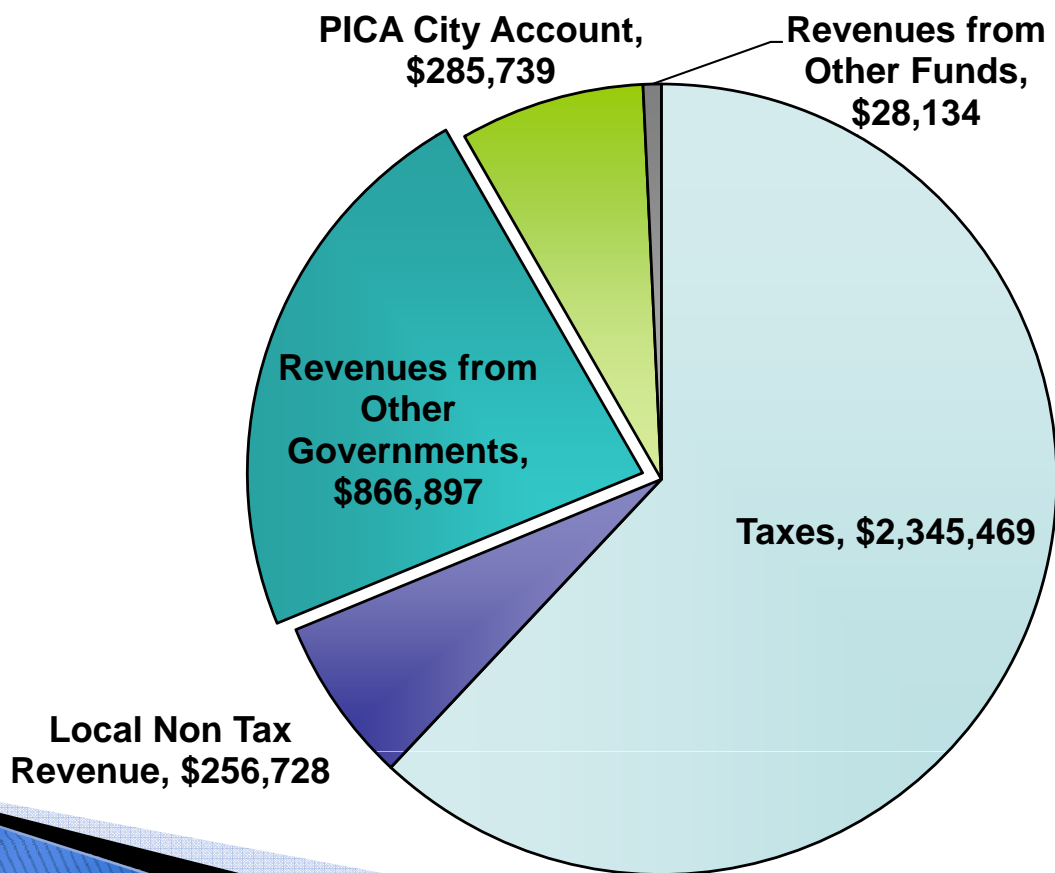
### Revenue Areas Projected to Exceed \$100M in FY2010

Item	FY10 Plan (Ms)	% Of Budget	FY10 QR (Ms)	% of Budget
Wage, Earnings, and Net Profits Tax	\$1,172.4	31.1%	\$1,131.4	29.9%
Human Services Reimbursement	\$531.8	14.1%	\$569.8	15.1%
Property Tax	\$412.7	10.9%	\$412.7	10.9%
Business Privilege Tax	\$356.7	9.5%	\$376.7	10.0%
PICA City Account	\$297.2	7.9%	\$285.7	7.6%
Sales Tax	\$215.3	5.7%	\$215.3	5.7%
Real Property Transfer Tax	\$94.7	2.5%	\$114.7	3.0%

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Key City Budget Characteristics (continued)

**FY2010 Sources of City Revenues (\$000)**  
**Total FY10 Revenues = \$3.78 Billion**



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Key City Budget Characteristics (continued)

**Distribution of FY10 Expenditures (\$000)**

**Total Expenditures = \$3.70 Billion**

