PICA Staff Report

on the

City of Philadelphia's

Quarterly City Managers Report

for the First Quarter of FY2011

Submitted to PICA on November 15, 2010

November 30, 2010

Introduction: PICA Staff Report on the City of Philadelphia's Quarterly City Managers Report for the First Quarter of FY11

- The Pennsylvania Intergovernmental Cooperation Authority (PICA) Act (Act of June 5, 1991, P. L. 9, No. 6), Section 209(i), requires the City to submit to PICA within 45 days following the end of each fiscal quarter a report describing actual or estimated revenues and expenditures in relation to the budgeted level for the most recent quarter.

- Accordingly, the City submits a Quarterly City Managers Report (QCMR) to PICA 45 days after the end of each fiscal quarter. The QCMR contains extensive detail on actual and estimated General Fund revenues and expenditures for the current fiscal year, as well as information on personnel, performance, cash flow, and quarterly financial results for the Water Fund and Aviation Fund.

- This report is PICA staff's analysis of the most recent QCMR submitted by the City, covering the period ending September 30, 2010, the first quarter of FY11.

- The report discusses the unaudited actual FY10 revenues and expenditures, which are reported in the first quarter QCMR for FY11. The relationship between these actual financial results for FY10 and the original FY10-FY14 Five Year Financial Plan projections for FY10, and subsequent FY10 projections in the QCMRs for FY10, is also discussed.

- Since the projections in the annual PICA-approved Five-Year Financial Plan establish the original budgetary baseline for each fiscal year, the analysis in this report also compares the FY11 revenue and expenditure projections contained in the QCMR for the first quarter of FY11 to projections for FY11 in the FY11-FY15 Five-Year Plan approved by PICA in August 2010.

FY10 Unaudited Actual Results

- Overview
- Tax Revenue
- Locally-Generated Non-Tax Revenue
- Revenues from Other Governments
- Obligations

FY10 Unaudited Actual Results: Overview

- FY10 unaudited actual revenues were below the projection in the QCMR for the fourth quarter of FY10 by $134.3 million, reflecting shortfalls in tax revenue and revenue from other governments. Unaudited actual obligations were below projections by $73.9 million, reflecting lower than projected obligations across most cost centers. The result was an FY10 operating surplus of $600,000, $60.4 million below the most recent QCMR projection.
- While the City's ability to lower obligations below projections in FY10 bodes well for continued financial stability, the shortfall in revenues does raise some uncertainty.

FY10 Projections Versus Unaudited Actual ($ in Millions)							
Category	**FY10-14 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change From Q4 QCMR to Unaudited Actual**
Revenues	$3,769.5	$3,783.0	$3,791.9	$3,783.9	$3,788.6	$3,654.3	($134.3)
Obligations	3,696.5	3,701.1	3,727.8	3,722.1	3,727.6	3,653.7	(73.9)
Operating Surplus/(Deficit)	73.0	81.9	64.1	61.8	61.0	0.6	(60.4)
Prior Year Adjustments	24.5	24.5	24.5	24.5	24.5	22.6	(1.9)
Prior Year Fund Balance/(Deficit)	(94.5)	(137.2)	(137.2)	(137.2)	(137.2)	(137.2)	0.0
Year-End Fund Balance	3.0	(30.8)	(48.6)	(50.9)	(51.7)	(114.0)	(62.4)

FY10 Unaudited Actual Results: Fund Balance

- The FY10 year-end General Fund balance is a deficit of $114.0 million, which compares to a projected deficit of $51.7 million in the QCMR for the fourth quarter of FY10.

- The primary reason for the change in projected FY10 fund balance is the late remittance of funds from the State for Human Services reimbursements, totaling nearly $70 million. Excepting these payments, the FY10 ending fund balance would have been $44 million, or $7.7 million better than projected.

<u>FY10 Year-End Fund Balance</u>

FY11-15 Plan Projection	**($51.7 million)**
Unaudited Actual	**($114 million)**
Cost of Delayed State Reimbursement	**$70 million**
Fund Balance including State Reimbursements	**($44 million)**

FY10 Unaudited Actual Results: Tax Revenue

- Unaudited actual FY10 tax revenue is $2,316.6 million, a decline of $18.4 million from the projection in the QCMR for the fourth quarter of FY10. This change was the combined effect of end-of-year accounting adjustments and tax amnesty program collections lower than estimated at the time of the fourth quarter QCMR. Actual FY10 General Fund amnesty collections were $48.1 million, $9 million below the amount included in the fourth quarter QCMR estimate.
- The fourth quarter QCMR classified $27 million in tax amnesty revenue from various taxes as "other" tax revenue. This amount was reclassified into various tax categories in the unaudited actual figures.

FY10 Tax Revenue Projections Versus Unaudited Actual ($ in Millions)							
Tax	**FY10-14 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Q4 QCMR to Unaudited Actual**
Wage, Earnings, and Net Profits	$1,172.4	$1,131.4	$1,131.4	$1,131.4	$1,136.2	$1,128.7	($7.5)
Real Estate	412.7	412.7	413.4	413.4	398.9	402.2	3.3
Business Privilege	356.7	376.7	376.7	376.6	358.2	364.7	6.5
Sales	215.3	215.3	207.3	199.8	205.3	207.1	1.8
Real Estate Transfer	94.7	114.7	114.7	118.7	114.7	119.2	4.5
Parking	70.7	70.7	70.7	70.7	70.7	70.5	(0.3)
Amusement	20.9	20.9	20.9	20.9	20.9	21.9	1.0
Other	3.0	3.0	3.0	3.1	30.1	2.4	(27.7)
Total	**2,346.5**	**2,345.5**	**2,338.1**	**2,334.6**	**2,335.1**	**2,316.6**	**(18.4)**

FY10 Unaudited Actual Results: Locally-Generated Non-Tax Revenue

Actual locally-generated non-tax revenue in FY10 is $229.4 million, a $17.9 million decline from the projection in the QCMR for the fourth quarter of FY10. This decline reflects late collections of cable television franchise fees (reported under Division of Technology), a delay in receipts from a commercial property trash collection fee (reported under the Streets Department), and a reduction in interest earnings (reported under the City Treasurer). These and other reductions are offset by higher than projected license and permit revenue in the Department of Licenses and Inspections, and smaller increases in other agency collections.

FY10 Locally-Generated Non-Tax Revenue Projections Versus Unaudited Actual ($ in Millions)							
Departmental Source	FY10-14 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Unaudited Actual
Division of Technology	$16.9	$16.9	$18.0	$18.0	$18.0	$13.8	($4.2)
Streets	13.9	12.4	13.5	13.5	13.5	6.4	(7.1)
Fire	37.2	37.2	37.2	37.2	37.2	34.6	(2.6)
Public Health	12.6	12.1	12.1	12.1	12.1	13.7	1.6
Public Property	9.4	9.4	8.4	8.4	8.4	8.9	0.5
Licenses and Inspections	45.4	45.4	45.4	40.8	40.8	44.5	3.7
Records	18.0	18.0	16.6	16.6	16.6	16.0	(0.6)
City Treasurer	11.8	11.8	9.8	9.8	9.8	3.9	(5.9)
Clerk of Quarter Sessions	8.0	8.0	7.0	7.0	7.0	8.6	1.6
Sheriff	10.6	10.6	9.6	9.6	9.6	7.3	(2.2)
First Judicial District	35.1	35.1	35.1	35.1	35.1	31.1	(4.0)
All Other	39.9	39.9	39.4	39.4	39.4	40.8	1.4
Total	**258.7**	**256.7**	**251.9**	**247.3**	**247.3**	**229.4**	**(17.9)**

FY10 Unaudited Actual Results: Revenue from Other Governments

FY10 unaudited actual revenue from other governments is $1,076.4 million, a reduction of $93.4 million from the projection in the QCMR for the fourth quarter of FY10. This reduction primarily reflects a $76.0 reduction in Department of Human Services reimbursements, due primarily to a delay in State payments. Also contributing to the shortfall was a $13.2 million reduction in PICA City Account revenue which reflects lower-than-expected PICA tax receipts, and a $8.2 million reduction in Department of Public Health revenue primarily due to a delay in reimbursements for the cost of services provided at district health centers.

FY10 Revenue from Other Governments Projections Versus Unaudited Actual ($ in Millions)							
Departmental Source	FY10-14 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Unaudited Actual
PICA City Account[1]	$297.2	$285.7	$313.2	$313.2	$314.0	$300.8	($13.2)
Police	17.3	7.3	7.7	7.7	7.7	8.8	1.1
Public Health	58.9	58.9	58.8	58.8	58.8	50.6	(8.2)
Public Property	18.0	18.0	18.0	18.0	18.0	18.0	0.0
Human Services	531.8	569.8	563.3	563.3	563.3	487.3	(76.0)
Finance	148.8	148.8	147.5	147.5	147.5	147.6	0.0
Revenue	30.0	30.0	30.0	30.0	30.0	33.8	3.8
First Judicial District	16.6	16.6	15.4	15.4	15.4	16.2	0.8
All Other	17.6	17.6	15.1	15.1	15.1	13.3	(1.8)
Total	**1,136.1**	**1,152.6**	**1,168.9**	**1,168.9**	**1,169.7**	**1,076.4**	**(93.4)**

[1] Includes $25.0 million in PICA funds granted to the City for non-recurring public safety costs, a one-time payment not assumed in the FY10-14 Plan estimate.

FY10 Unaudited Actual Results: Obligations

Unaudited actual General Fund obligations in FY10 are $3,653.7 million, a decline of $73.9 million from the fourth quarter QCMR projection. Obligations for all major cost centers except the Police Department and First Judicial District are down from the fourth quarter projection. The declines primarily reflect lower than projected wages ($21.3 million), employee benefits ($18.3 million), and contracted services ($21.8 million).

FY10 Obligations Projections Versus Unaudited Actual ($ in Millions)							
Agency or Cost Center	**FY10-14 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Q4 QCMR to Unaudited Actual**
Debt Service	$215.5	$210.8	$201.6	$201.6	$201.6	$185.5	($16.1)
Division of Technology[1]	31.3	36.3	41.6	41.6	41.6	38.5	(3.1)
Employee Benefits	830.7	830.7	835.2	848.2	848.2	829.9	(18.3)
Fire	188.7	188.7	190.5	190.5	190.5	188.9	(1.6)
First Judicial District	99.1	99.1	106.7	106.7	106.7	107.2	0.5
Human Services	590.9	590.9	590.9	563.5	563.5	561.1	(2.4)
Indemnities	24.5	24.5	34.5	34.5	34.5	32.7	(1.8)
Police	524.3	528.3	527.4	527.5	527.5	528.9	1.4
Prisons	248.8	248.8	239.8	239.8	239.8	233.8	(6.0)
Public Health	116.9	116.9	116.9	116.9	116.9	111.1	(5.8)
Streets	114.1	114.1	125.6	134.1	137.1	130.4	(6.8)
All Other	711.7	711.9	717.1	717.1	719.6	705.8	(13.8)
Total	**3,696.5**	**3,701.1**	**3,727.8**	**3,722.1**	**3,727.6**	**3,653.7**	**(73.9)**

[1] Includes telecommunications costs originally budgeted under the Department of Public Property.

FY11 Projections

- Overview
- Tax Revenue
- Locally-Generated Non-Tax Revenue
- Revenues from Other Governments
- Obligations

FY11 Projections: Overview

• The QCMR for the first quarter of FY11 projects revenues to be $66.8 million above the level in the FY11-15 Plan. Obligations are projected to be $8.7 million above Plan. The year-end fund balance is projected at $29.6 million, or $4.3 million below the Plan estimate.

• In response to the late FY10 reimbursements for the Department of Human Services, the City has increased projected revenues by $51.1 million. As the actual figure for delayed reimbursements was approximately $70 million, the City is effectively reducing the projected revenue collections by $20 million for FY11; however, the City still assumes that all appropriate DHS costs will eventually be reimbursed, even if not within the appropriate fiscal year.

FY11 General Fund Projections ($ in Millions)			
Category	**FY11-15 Five-Year Plan**	**Q1 QCMR**	**Change From Plan to Q1 QCMR**
Revenues	$3,849.2	$3,916.0	$66.8
Obligations	3,788.1	3,796.8	8.7
Operating Surplus/(Deficit)	61.1	119.2	58.1
Prior Year Adjustments	24.5	24.5	0.0
Prior Year Fund Balance/(Deficit)	(51.7)	(114.0)	(62.4)
Year-End Fund Balance	34.0	29.6	(4.3)

FY11 Projections: Tax Revenue

- FY11 tax revenue is projected at $2,453.3 million, an increase of $7.0 million compared to the FY11-FY15 Plan estimate. The $7 million increase reflects a $5 million increase in projected revenue from the wage, earnings, and net profits taxes, and a $2 million increase in projected sales tax revenue. Other tax projections are unchanged.
- The increased projected wage tax revenue reflects a slightly higher estimated tax base growth rate of 1.93 percent, compared to 1.85 percent at the time of the Plan estimate. The projected increase in sales tax revenue reflects actual FY10 revenue that was $7.5 million above the original FY11-FY15 Plan estimate, and no change in the assumed 1.5 percent growth in the tax base in FY11.

FY11 Tax Revenue Projections ($ in Millions)			
Tax	FY11-15 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Wage, Earnings, and Net Profits	$1,143.5	$1,148.5	$5.0
Real Estate	491.4	491.4	0.0
Business Privilege	350.7	350.7	0.0
Sales	241.8	243.8	2.0
Real Estate Transfer	121.2	121.2	0.0
Parking	72.5	72.5	0.0
Amusement	21.1	21.1	0.0
Other	4.1	4.1	0.0
Total	**2,446.3**	**2,453.3**	**7.0**

FY11 Projections: Locally-Generated Non-Tax Revenue

The first quarter QCMR projects FY11 locally-generated non-tax revenue at $270.3 million, an increase of $1.0 million from the FY11-FY15 Plan estimate. The overall increase reflects three changed estimates. Division of Technology revenues are $4.0 million above Plan due to a delay in collection of FY10 cable television franchise fees. Streets Department locally-generated non-tax revenues are projected at $5 million above Plan, due to a delay in receiving commercial trash collection fees. City Treasurer revenues are projected to be $8.0 million below Plan due to lower-than-projected interest earnings, a reflection of declining interest rates nationally and relatively low cash balances.

FY11 Locally-Generated Non-Tax Revenue Projections ($ in Millions)			
Departmental Source	**FY11-15 Five-Year Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
Division of Technology	$18.7	$22.7	$4.0
Streets	22.0	27.0	5.0
Fire	37.2	37.2	0.0
Public Health	12.3	12.3	0.0
Public Property	8.5	8.5	0.0
Licenses and Inspections	43.2	43.2	0.0
Records	18.0	18.0	0.0
City Treasurer	12.8	4.8	(8.0)
Clerk of Quarter Sessions	8.0	8.0	0.0
Sheriff	9.6	9.6	0.0
First Judicial District	35.1	35.1	0.0
All Other	43.9	43.9	0.0
Total	**269.3**	**270.3**	**1.0**

FY11 Projections: Revenue from Other Governments

FY11 revenues from other governments are projected at $1,140.2 million, an increase of $59.9 million from the Plan estimate. The increase reflects increases in four areas. State and federal reimbursements to the Department of Human Services are projected to increase $51.1 million above Plan due to delays in the reimbursement process. Finance Department revenue is projected $1.8 million above Plan due to higher than expected State pension aid. Revenues in other departments are expected to increase $6.9 million, including expected funding from the School District of Philadelphia to reimburse the City for Office of Property Assessment personnel costs and federal and state funding for extraordinary FY10 snow removal costs.

FY11 Revenue from Other Governments Projections ($ in Millions)			
Departmental Source	**FY11-15 Five-Year Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
PICA City Account[1]	$295.6	$295.6	$0.0
Public Health	58.8	58.8	0.0
Public Property	18.0	18.0	0.0
Human Services	495.5	546.6	51.1
Finance	148.3	150.2	1.8
Revenue	32.0	32.0	0.0
First Judicial District	15.4	15.4	0.0
All Other	16.7	23.6	6.9
Total	**1,080.3**	**1,140.2**	**59.9**

FY11 Projections: Obligations

The QCMR for the first quarter projects FY11 obligations at $3,796.8 million, an increase of $8.7 million from the FY11-15 Plan estimate. The increase reflects higher projected obligations in the Office of Property Assessment, District Attorney's Office, Police and Fire departments, and the Sheriff's Office. $3.8 million of the $6 million increase in the Fire Department is the result of a legal settlement regarding EMS overtime. These funds were budgeted in Indemnities and will be transferred to offset that portion of the increase in Fire Department costs.

FY11 Obligations Projections ($ in Millions)			
Agency or Cost Center	FY11-15 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Property Assessment	$6.5	$8.0	$1.5
District Attorney	29.1	30.5	1.4
Employee Benefits	964.9	964.9	0.0
Fire	185.0	191.0	6.0
First Judicial District	99.1	99.1	0.0
Human Services	564.4	564.4	0.0
Indemnities	40.6	36.8	(3.8)
Police	527.6	530.0	2.4
Prisons	233.1	233.1	0.0
Public Health	113.7	113.7	0.0
Sheriff	13.1	14.3	1.2
Streets	114.7	114.7	0.0
All Other	896.3	896.3	0.0
Total	**3,788.1**	**3,796.8**	**8.7**

FY11 Projections: Changes in Obligation Projections

The largest changes in obligations between the FY11-FY15 Plan and the first quarter QCMR are as follows:

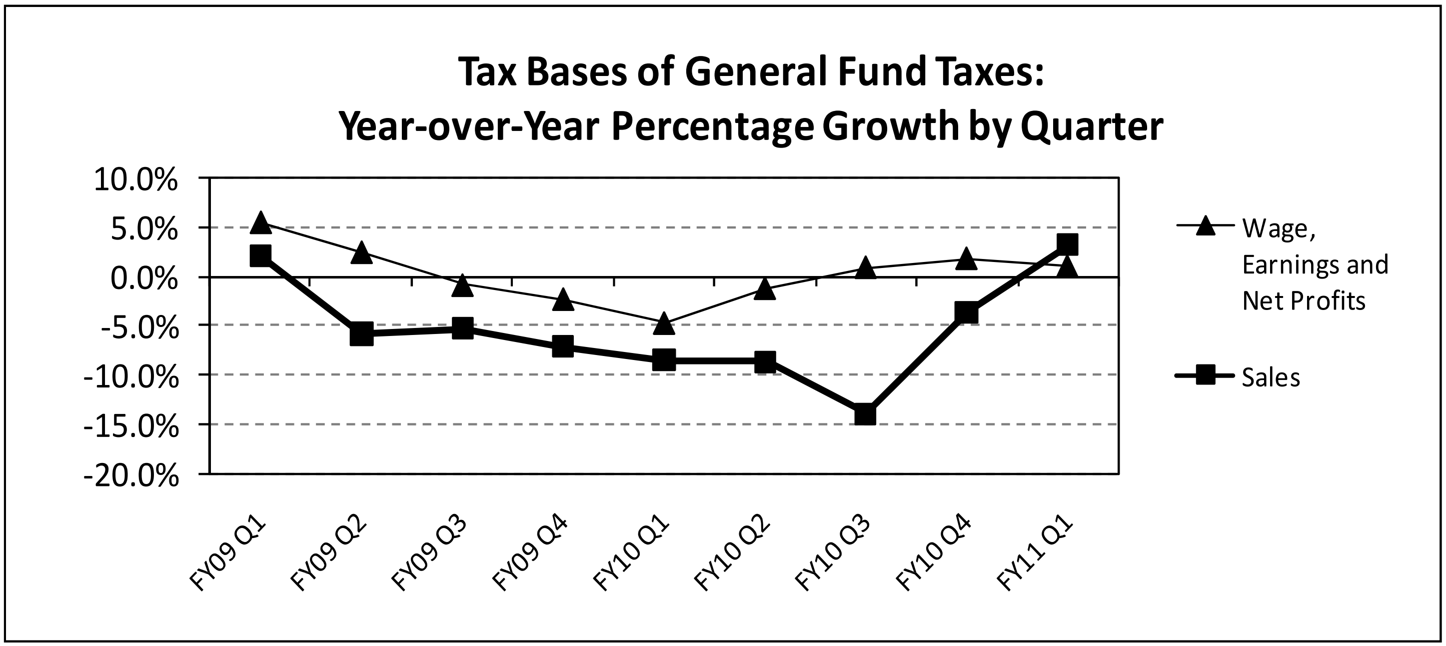
- **Office of Property Assessment** ($1.5 million increase): The City's assumption of costs for assessment personnel previously paid for by the School District of Philadelphia.
- **District Attorney's Office** ($1.4 million increase): Higher than projected personnel costs.
- **Fire Department** ($6.0 million increase): Unanticipated increases in overtime costs, including $3.8 million resulting from a legal settlement regarding EMS overtime.
- **Indemnities** ($3.8 million decrease): $3.8 million in indemnities funds will be transferred to the Fire Department to cover the costs associated with a legal settlement regarding EMS overtime.
- **Police Department** ($2.4 million increase): Higher than projected personnel costs, including overtime.
- **Sheriff's Office** ($1.2 million increase): Higher than projected personnel costs.

Key Financial Issues

- Tax Collections
- Labor Contracts

Key Financial Issues: Tax Collections

- Tax collections through September suggest a generally improving trend for the wage and sales tax bases. In the first quarter of FY11, the tax base for the wage tax grew an estimated 1.1 percent from the level of the first quarter of FY10, and the sales tax base grew an estimated 3.2 percent over the same period. These levels are generally improved from prior quarters over the past two fiscal years, and suggest a trend toward stabilization or modest growth in the tax base for these two important revenue sources.
- The FY11-15 Five-Year Plan assumes that the trend toward stability in tax bases will continue. In FY11, the wage tax base is estimated to grow 1.9 percent, and the sales tax base to grow 1.5 percent. The business privilege tax base is projected to increase 0.15 percent, and real estate tax assessments are projected to remain constant in 2011. Continuing the recent trend toward stabilization and growth in the city's major economic indicators is essential to meeting the new Plan's revenue projections in FY11 and later years.



Key Financial Issues: Labor Contracts

- A major outstanding issue for the City is the unresolved labor contracts with three of the four major municipal unions – the International Association of Firefighters (IAFF) and District Councils (DC) 33 and 47 of AFSCME. The FY11-15 Five-Year Plan assumes $25 million in employee benefit cost savings each year from FY11 through FY15 as a result of efficiencies enabled by labor contract changes.
- Some of these savings are achievable as a result of changes in the Fraternal Order of Police (FOP) health and pension plans authorized under the December 2009 arbitration award for the FOP. Other savings have been achieved as a result of changes in the City-administered health plan and pension changes for non-union City workers. However, the remaining savings assumed by the Five-Year Plan cannot be achieved without similar changes for Fire and non-uniformed DC 33 and DC 47 workers.
- In October 2010, an arbitration panel awarded a four year contract to the IAFF. The City is appealing this award because it does not provide adequate management flexibility and financial savings to allow the City to maintain service levels within the financial targets set by the Five-Year Plan. Under the PICA Act, arbitration panels are required to accord substantial weight to the City's Five-Year Plan and its ability to pay the cost of any increases in wages or fringe benefits without adversely affecting citizen services.
- Resolution of the IAFF appeal, and the outcome of the City's bargaining with the two major non-uniformed unions will determine whether the City can maintain financial stability and service levels, as the Plan projects. Addressing health care and pensions for non-uniformed workers is particularly critical. Reforms to the administration of health care benefits will allow the City to control the growth in benefit costs despite cost inflation. Restructuring of employee pensions is necessary to ensure the viability of the pension program and prevent unsustainable cost growth over the long term.

Key Management Issues

- Agency Performance
- Staffing Levels
- Overtime
- Leave Usage

Key Management Issues: Agency Performance

The QCMR presents performance measures for major City agencies. Some key measures include:

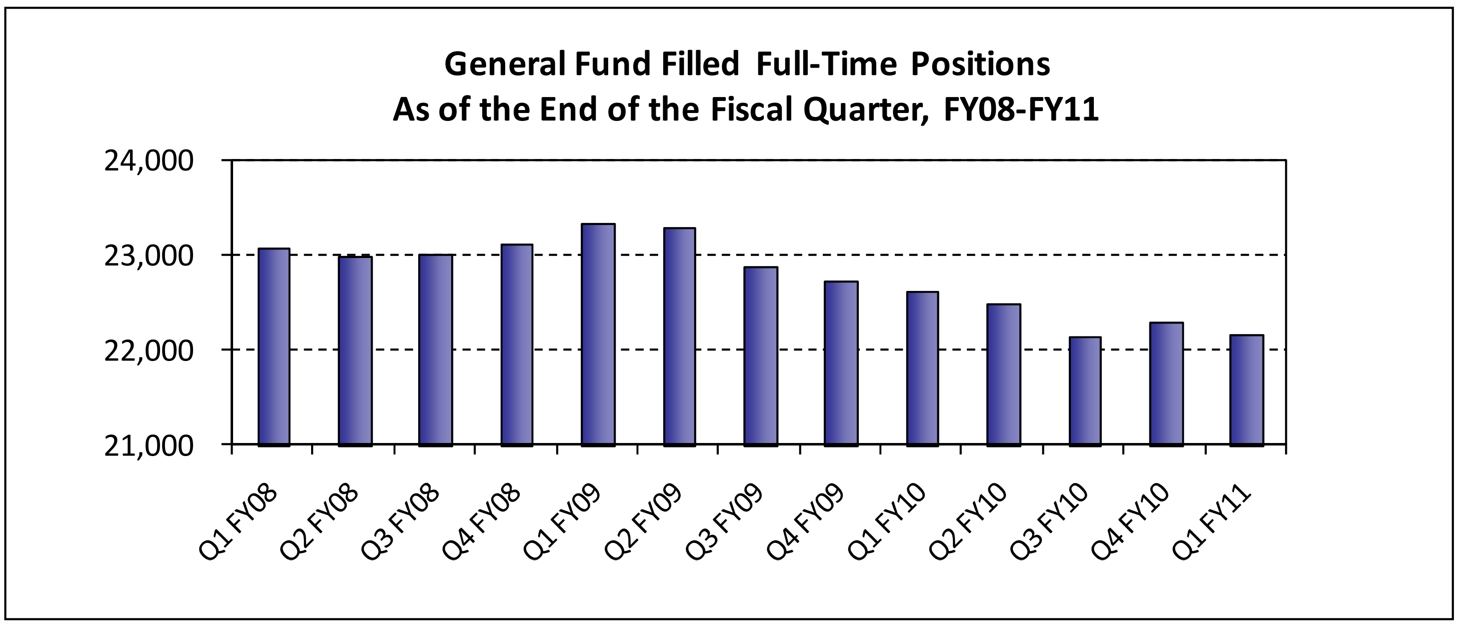
- **Police Department**: While the number of homicides and Part 1 violent crime incidents declined from FY09 to FY10, in the first quarter of FY11, there has been an increase compared to the first quarter of FY10. The estimated number of homicides in the first quarter of FY11 was 95 compared to 81 in the first quarter of FY10, while the number of Part 1 violent crime incidents was 5,258 in the first quarter of FY11 compared to 5,236 in the first quarter of FY10. The QCMR does not provide an explanation for these trends. One positive note is that the clearance rate for homicides of 79.7 percent in the first quarter of FY11 is higher than the 74.1 percent reported in the first quarter of FY10.
- **Fire Department**: Fire response times increased from an average of 4:33 in FY09 to 4:46 in FY10, in part due to severe snow storms. The average fire response time in the first quarter of FY11 was 4:49, compared to 4:37 in the first quarter of FY10. These figures have fluctuated between 4:33 and 5:00 over the last six quarters. The number of structural fires declined from 1,634 in FY09 to 1,362 in FY10, although the QCMR does not provide figures for the first quarter of FY11. The number of fire-related deaths in the city declined from 36 in FY09 to 32 in FY10. In the first quarter of FY11, there were 4 fire-related deaths. The recent decline in fires and fire-related deaths indicates the impact of improved building codes and the department's prevention programs.
- **Streets Department**: The recycling rate increased from 12 percent in FY09 to 16 percent in FY10, and is on track for further increases in FY11. Through the first quarter of FY11, the recycling rate is 17 percent, higher than the 14 percent achieved in the first quarter of FY10. The on-time collection rate for recycling decreased from 97 percent in FY09 to 94 percent in FY10, but increased to 96 percent in the first quarter of FY11. The on-time collection rate for trash decreased from 97 percent to 90 percent from FY09 to FY10, in part due to snow storms in FY10. The on-time trash collection rate increased to 98 percent in the first quarter of FY11.
- **Prison System**: The percentage of sentenced inmates given the opportunity to participate in an education, training or treatment program increased from 65 percent in FY09 to 75 percent in FY10. This percentage increased to 77 percent in the first quarter of FY11. This indicates progress toward increasing the ability of inmates to successfully transition to employment after release.

Key Management Issues: Agency Performance

- **Department of Human Services (DHS)**: The number of reports of child abuse and neglect received by DHS increased from 11,512 in FY09 to 12,372 in FY10. The number of such reports received in the first quarter of FY11 was 2,800, an increase from the 2,793 reports in the first quarter of FY10. The number of dependent and delinquent children in foster care or institutional placement outside the home continues to decline. The number of dependent children in placement declined from 5,525 at the end of FY09 to 4,762 at the end of FY10 and 4,585 at the end of the first quarter of FY11. Similarly, the number of delinquent children in placement declined from 2,041 at the end of FY09 to 1,774 at the end of FY10 and 1,762 at the end of the first quarter of FY11. This decline indicates that more children are remaining in their own homes or are achieving permanency more rapidly.
- **Department of Public Health**: The total number of patient visits to the district health centers increased from 349,078 in FY09 to 350,695 in FY10. However, the number of visits in the first quarter of FY11 was 82,021, a decline from the 88,103 in the first quarter of FY10. The percentage of visits by uninsured patients declined from 51.2 percent in FY09 to 49.6 percent in FY10, and increased to 52.4 percent in the first quarter of FY11.
- **Department of Licenses and Inspections**: The department has established 12 customer service standards which are goals for the timeliness of performing certain services. Three of these standards have been revised in FY11 to set more ambitious goals for timeliness of reviewing plumbing, electrical, and zoning plans. For nine of the 12 measures, the department met its service standards at least 90 percent of the time in the first quarter of FY11. The remaining goals were met between 78 and 88 percent of the time.

Key Management Issues: Staffing Levels

- General Fund filled full-time positions have generally declined since the first quarter of FY09. From the end of the first quarter of FY09 to the end of the first quarter of FY11, the total number of filled positions has declined from 23,330 to 22,156, a decline of 1,174 positions or 5.0 percent.
- Employee wage and benefit costs make up nearly 60 percent of General Fund expenditures. Initiatives to increase productivity and adopt more efficient processes, such as information technology investments and better coordination among City agencies, could ultimately result in further staffing reductions, and free up resources for key economic and financial priorities such as establishing a rainy day fund, addressing the large pension liability, tax reduction, and investment in capital infrastructure.
- These types of initiatives are essential to the long-term fiscal health of the city, even though it would likely take time to realize savings.



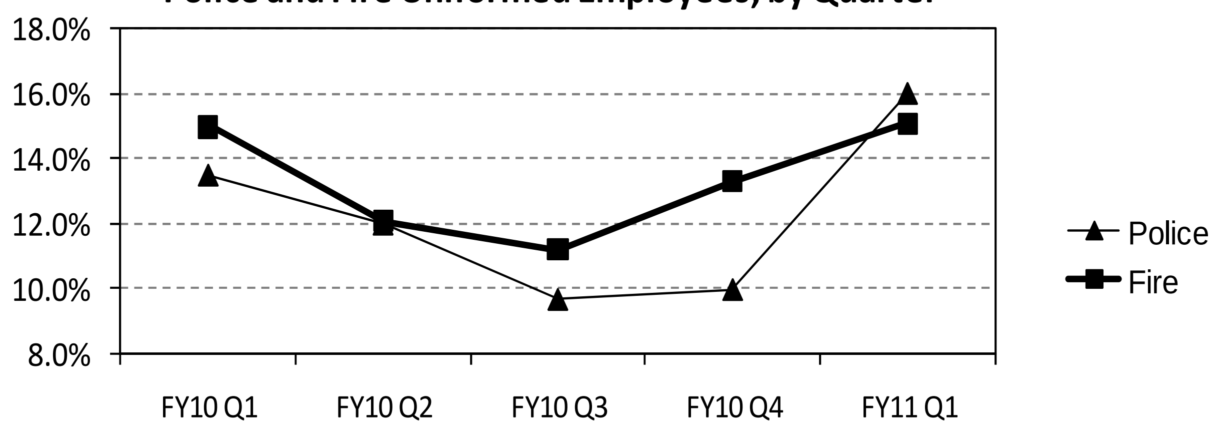
Key Management Issues: Overtime

- Despite the reduction in filled General Fund positions since the end of FY08, the City has reduced overtime costs since FY09. Total General Fund overtime costs declined from $132.9 million in FY09 to $119.9 million in FY10. Total overtime costs in FY11 are projected to decline further to $116.7 million in FY11.
- However, there is some reason for concern about the City's ability to meet the FY11 projection since actual overtime costs through the first quarter of FY11 were $33.1 million, compared to $27.5 million in the first quarter of FY10. Much of this increase reflects Fire Department overtime, which increased from $4.7 million in the first quarter of FY10 to $9.5 million in the first quarter of FY11.
- 63% of the increase in projected Fire Department overtime ($3.8 million out of $6 million) is attributable to a legal settlement regarding EMS overtime. Without the legal settlement costs, total overtime costs for the first quarter of FY11 were $29.3 million.
- The reduction in overtime costs that has occurred since FY09 – a period when personnel levels have declined substantially – indicates that the City has been successful in reducing unnecessary overtime expenses through management initiatives. For instance, the Police Department has worked with the First Judicial District to reduce court-related Police overtime through efficiencies in scheduling court appearances of police officers. Continued progress at controlling overtime costs through management initiatives will be necessary to meet budgeted overtime targets.

Key Management Issues: Leave Usage

- For the median City agency, employees were absent from work on 17.5 percent of available work days in the first quarter of FY11. Among agencies, leave usage in the first quarter of FY11 varied from a high of 23.2 percent in the City Commissioners' Office to a low of 11.8 percent in the Managing Director's Office.
- Leave usage shows seasonal variation. For agencies that require consistent personnel availability over the year, variability in leave use has major cost implications. These departments incur overtime costs to assure consistent staffing during periods of high leave usage, often in the summer.
- Contractual restrictions on the City's ability to manage leave usage by its employees are therefore costly. For instance, while the 2009 Fraternal Order of Police arbitration award allows the PPD to limit new hires to one week of vacation during the summer for the first five years of employment, PPD management cannot impose these limits for the majority of its current workforce.

Leave Days Used as a Percentage of Available Work Days, Police and Fire Uniformed Employees, by Quarter



Note: The calculation includes vacation, annual, sick, funeral, and unpaid leave, and absences due to comp time and "AWOL."

Key City Budget Characteristics

Expenditure Categories Projected to Exceed $100 Million in FY11 ($ in Millions)				
Category	**FY11-15 Five-Year Plan Projection**	**Percent of Total General Fund**	**Q1 QCMR Projection**	**Percent of Total General Fund**
Employee Benefits[1]	$964.9	25.5%	$964.9	25.4%
Human Services	564.4	14.9%	564.4	14.9%
Police	527.6	13.9%	530.0	14.0%
Prisons	233.1	6.2%	233.1	6.1%
Debt Service	211.0	5.6%	211.0	5.6%
Fire	185.0	4.9%	191.0	5.0%
Streets	114.7	3.0%	114.7	3.0%
Public Health	113.7	3.0%	113.7	3.0%

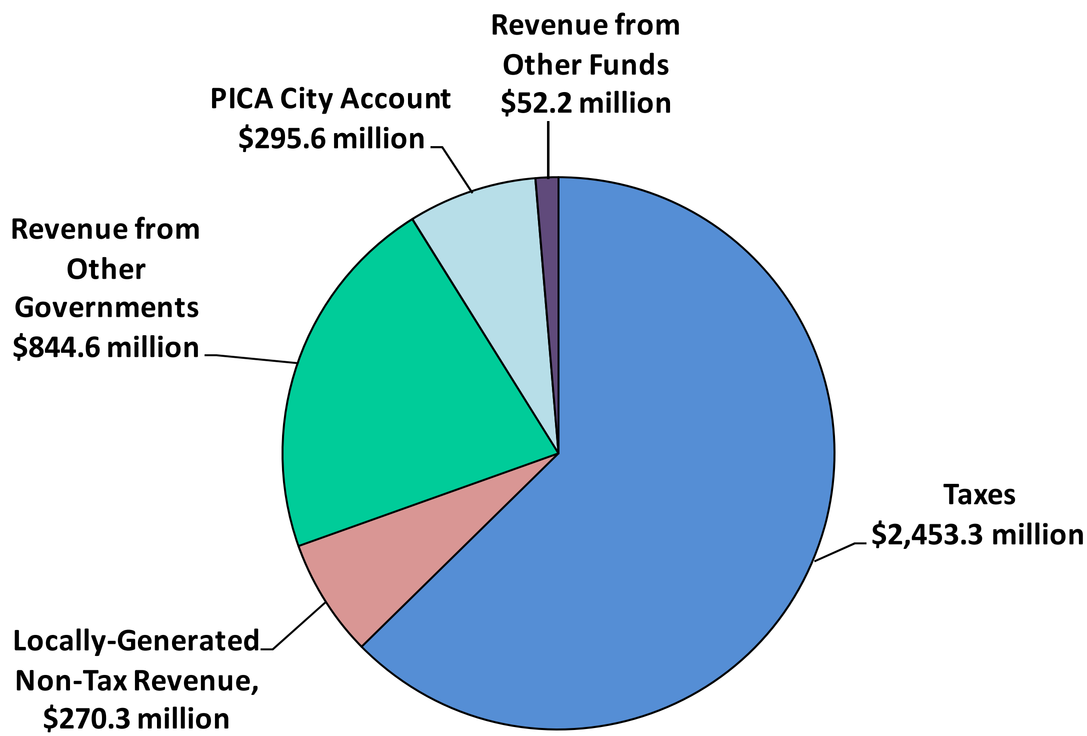
[1]Includes debt service on Pension Obligation Bonds.

Key City Budget Characteristics

Revenue Categories Projected to Exceed $100 Million in FY11 ($ in Millions)				
Category	**FY11-15 Five-Year Plan Projection**	**Percent of Total General Fund**	**Q1 QCMR Projection**	**Percent of Total General Fund**
Wage, Earnings, and Net Profits Tax	$1,143.5	29.7%	$1,148.5	29.3%
Human Services Reimbursement	495.5	12.9%	546.6	14.0%
Real Estate Tax	491.4	12.8%	491.4	12.5%
Business Privilege Tax	350.7	9.1%	350.7	9.0%
PICA City Account	295.6	7.7%	295.6	7.5%
Sales Tax	241.8	6.3%	243.8	6.2%
Real Estate Transfer Tax	121.2	3.1%	121.2	3.1%

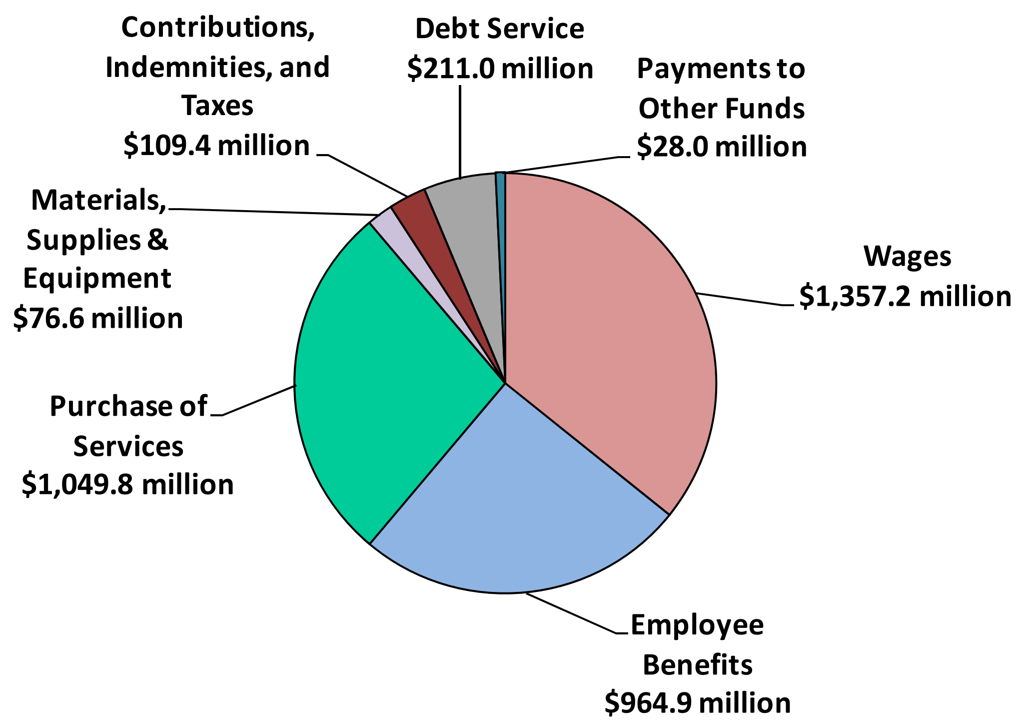
Key City Budget Characteristics

FY11 Sources of General Fund Revenues
Total Projected Revenues: $3.916 Billion



Key City Budget Characteristics

Distribution of FY11 General Fund Obligations
Total FY11 Projected Obligations: $3.797 Billion



Note: Debt Service includes $89.6 million in debt service for lease-supported debt. This spending is classified in the Quarterly Report as purchase of services.