PICA Staff Report
on the
City of Philadelphia's
Quarterly City Managers Report
for the First Quarter of FY2012

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Introduction: PICA Staff Report on the City of Philadelphia's Quarterly City Managers Report for the First Quarter of FY12

- 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, 2011, the first quarter of fiscal year 2012 (FY12). A copy of the QCMR can be found on the City's website at: http://www.phila.gov/finance/reports-Quarterly.html

- The QCMR contains unaudited actual revenues and expenditures for FY11, as well as projections for FY12. The projections in the annual PICA-approved Five-Year Financial Plan establish the original budgetary baseline for each fiscal year. This report includes: (1) a comparison of the FY11 unaudited actual results contained in the current QCMR to FY11 projections in previous QCMRs and the initial projection for FY11 contained in the FY11-FY15 Five-Year Plan approved by PICA in August 2010; and (2) a comparison of the projection for FY12 in the current QCMR to the initial FY12 projection contained in the FY12-FY16 Five-Year Plan approved by PICA in July 2011. (The FY12-FY16 Five-Year Plan is currently in effect.)

FY11 Unaudited Actual

- Overview
- Revenue
- Obligations

FY11 Unaudited Actual: Overview

- FY11 unaudited actual General Fund revenues are $3,860.3 million, $35.6 million below the projection in the QCMR for the fourth quarter of FY11. Unaudited actual obligations are $3,785.3 million, $17.6 million below the fourth quarter QCMR projection. The unaudited actual operating surplus is $75.0 million. Prior year adjustments are $39.1 million, $14.6 million above the fourth quarter QCMR projection. The unaudited actual fund balance is $94,000, $3.4 million below the fourth quarter QCMR projection.
- The initial projection of the end of year fund balance for FY11 contained in the FY11-FY15 Five-Year Plan was $34.0 million. Since that time, each successive QCMR projection of the end of year surplus was lower than the previous projection. The unaudited actual fund balance of $92,000 is a surplus, but is also $33.9 million below the originally projected amount.

FY11 General Fund Projections and Unaudited Actual ($ in Millions)

Category	FY11-15 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Actual	Change from Plan to Actual
Revenues	$3,849.2	$3,916.0	$3,933.5	$3,928.7	$3,895.9	$3,860.3	($35.6)	$11.1
Obligations	3,788.1	3,796.8	3,830.4	3,834.0	3,802.9	3,785.3	(17.6)	(2.8)
Operating Surplus/(Deficit)	61.1	119.2	103.1	94.7	93.0	75.0	(18.0)	13.9
Prior Year Adjustments	24.5	24.5	24.5	24.5	24.5	39.1	14.6	14.6
Prior Year Fund Balance/(Deficit)	(51.7)	(114.0)	(114.0)	(114.0)	(114.0)	(114.0)	--	(62.4)
Year-End Fund Balance	34.0	29.6	13.5	5.1	3.5	0.1	(3.4)	(33.9)

FY11 Unaudited Actual: Revenue

- FY11 unaudited actual General Fund revenues are $3,860.3 million, $35.6 million below the projection in the QCMR for the fourth quarter of FY11, and $11.1 million above the original projection in the FY11-FY15 Five-Year Plan.
- Unaudited actual revenues in each major category except locally-generated non-tax revenue are below the projection in the fourth quarter QCMR. The most significant change is in tax revenue, which is $29.9 million below the fourth quarter QCMR projection.
- Unaudited actual revenues are 0.9 percent below the fourth quarter QCMR projection, and 0.3 percent above the original Plan projection.

FY11 General Fund Revenue Projections and Unaudited Actual ($ in Millions)								
Category	FY11-15 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Actual	Change from Plan to Actual
Taxes	$2,446.3	$2,453.3	$2,481.5	$2,481.5	$2,489.0	$2,459.1	($29.9)	$12.9
Locally-Generated Non-Tax	269.3	270.3	274.8	271.0	266.1	280.0	13.9	10.7
Revenue from Other Governments	1,080.3	1,140.2	1,125.0	1,112.0	1,076.6	1,066.5	(10.1)	(13.8)
Revenue from Other Funds	53.3	52.2	52.2	64.2	64.2	54.6	(9.6)	1.3
Total	**3,849.2**	**3,916.0**	**3,933.5**	**3,928.7**	**3,895.9**	**3,860.3**	**(35.6)**	**11.1**

FY11 Unaudited Actual: Tax Revenue

- FY11 unaudited actual tax revenues are $29.9 million below the projection in the fourth quarter QCMR. Actual revenues for all major taxes except the business privilege tax are below the fourth quarter projection.
- Unaudited actual tax revenues are $12.9 million higher than the original FY11-FY15 Plan projection. This result reflects higher-than-expected collections for the business privilege ($26.2 million), sales ($2.8 million), and wage and earnings ($2.7 million) taxes, offset by lower-than-expected collections for the real estate ($8.6 million), net profits ($3.1 million), real estate transfer ($4.6 million), parking ($0.9 million), amusement ($0.3 million), and other ($1.3 million) taxes.

FY11 General Fund Tax Revenue Projections and Unaudited Actual ($ in Millions)

Tax	FY11-15 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Actual	Change from Plan to Actual
Wage and Earnings	$1,131.6	$1,136.6	$1,149.9	$1,149.9	$1,149.9	$1,134.3	($15.6)	$2.7
Real Estate	491.4	491.4	488.7	488.7	488.7	482.7	(6.0)	(8.6)
Business Privilege	350.7	350.7	360.8	360.8	370.8	376.9	6.1	26.2
Net Profits	11.9	11.9	17.1	17.1	17.1	8.8	(8.3)	(3.1)
Sales	241.8	243.8	247.5	247.5	247.5	244.6	(2.9)	2.8
Real Estate Transfer	121.2	121.2	119.8	119.8	117.3	116.6	(0.7)	(4.6)
Parking	72.5	72.5	72.5	72.5	72.5	71.6	(0.9)	(0.9)
Amusement	21.1	21.1	21.1	21.1	21.1	20.8	(0.3)	(0.3)
Other	4.1	4.1	4.1	4.1	4.1	2.7	(1.3)	(1.3)
Total	**2,446.3**	**2,453.3**	**2,481.5**	**2,481.5**	**2,489.0**	**2,459.1**	**(29.9)**	**12.9**

FY11 Unaudited Actual: Locally-Generated Non-Tax Revenue

- Unaudited actual locally-generated non-tax revenue for FY11 exceeds the fourth quarter QCMR projection by $13.9 million, largely due to better-than-expected revenue in the Division of Technology ($4.1 million), Office of the Director of Finance ($2.0 million), and other agencies ($9.9 million). The unaudited actual total revenue in this category exceeds the original FY11-FY15 Plan projection by $10.7 million.

FY11 General Fund Locally-Generated Non-Tax Revenue Projections and Unaudited Actual ($ in Millions)								
Agency Source	**FY11-15 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Q4 QCMR to Actual**	**Change from Plan to Actual**
Division of Technology	$18.7	$22.7	$22.7	$22.8	$20.8	$24.8	$4.1	$6.1
Police	4.8	4.8	4.8	4.8	3.8	3.9	0.1	(0.9)
Streets	22.0	27.0	28.0	27.8	16.8	16.7	(0.1)	(5.3)
Fire	37.2	37.2	37.2	35.4	35.4	35.2	(0.2)	(2.0)
Public Property	8.5	8.5	8.5	8.5	10.5	10.8	0.3	2.3
Licenses and Inspections	43.2	43.2	43.2	43.2	46.0	46.0	(0.0)	2.8
Records	18.0	18.0	18.0	16.2	16.2	15.4	(0.8)	(2.5)
Finance	12.5	12.5	18.4	18.5	19.8	21.9	2.0	9.3
Revenue	7.4	7.4	6.4	6.2	4.2	4.3	0.2	(3.1)
City Treasurer	12.8	4.8	4.8	5.3	5.3	5.6	0.3	(7.3)
Sheriff	9.6	9.6	9.1	9.1	5.1	3.3	(1.8)	(6.3)
First Judicial District[1]	43.1	43.1	42.1	42.1	50.1	50.0	(0.1)	6.9
All Other	31.6	31.6	31.7	31.3	32.3	42.2	9.9	10.6
Total	**269.3**	**270.3**	**274.8**	**271.0**	**266.1**	**280.0**	**13.9**	**10.7**

[1] Includes Clerk of Quarter Sessions.

FY11 Unaudited Actual: Revenue from Other Governments

- FY11 unaudited actual revenue from other governments is $10.1 million below the projection in the fourth quarter QCMR, reflecting reductions in the Department of Public Health ($4.2 million), the Department of Human Services ($11.8 million) and other agencies ($6.6 million), offset by increases in the PICA City Account ($2.6 million) and Revenue Department ($9.6 million). Total General Fund revenue from other governments is $13.8 million below the original FY11-FY15 Plan projection.

FY11 General Fund Revenue from Other Governments Projections and Unaudited Actual ($ in Millions)

Agency Source	FY11-15 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Actual	Change from Plan to Actual
PICA City Account	$295.6	$295.6	$279.2	$279.2	$291.2	$293.8	$2.6	($1.8)
Public Health	58.8	58.8	58.8	58.8	58.8	54.6	(4.2)	(4.2)
Public Property	18.0	18.0	18.0	18.0	18.0	18.0	--	--
Human Services	495.5	546.6	546.6	535.1	486.6	474.8	(11.8)	(20.6)
Finance	148.3	150.2	150.2	150.2	151.2	151.5	0.4	3.2
Revenue	32.0	32.0	32.0	32.0	32.0	41.6	9.6	9.6
First Judicial District	15.4	15.4	15.4	15.4	15.4	15.3	(0.1)	(0.1)
All Other	16.7	23.6	24.9	23.4	23.4	16.8	(6.6)	0.1
Total	**1,080.3**	**1,140.2**	**1,125.0**	**1,112.0**	**1,076.6**	**1,066.5**	**(10.1)**	**(13.8)**

FY11 Unaudited Actual: Obligations

- FY11 unaudited actual General Fund obligations are $3,785.3 million, a decline of $17.6 million from the projection in the fourth quarter QCMR. The overall decline reflects reductions in employee benefits, the Department of Human Services, and other agencies, offset by increases in the First Judicial District and the Police Department. Actual obligations are $2.8 million below the original FY11-FY15 Plan projection.

FY11 General Fund Obligations Projections and Unaudited Actual ($ in Millions)								
Agency or Cost Center	FY11-15 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Q4 QCMR to Actual	Change from Plan to Actual
Debt Service	$211.0	$211.0	$211.0	$211.0	$197.9	$197.9	--	($13.1)
District Attorney	29.1	30.5	30.5	30.5	30.5	30.5	($0.0)	1.4
Employee Benefits	964.9	964.9	979.9	979.9	979.9	967.1	(12.8)	2.2
Fire	185.0	191.0	191.0	191.0	191.0	193.8	2.8	8.8
First Judicial District[1]	103.5	103.5	110.1	110.1	110.1	115.2	5.1	11.8
Human Services	564.4	564.4	564.4	564.4	549.4	542.9	(6.5)	(21.5)
Indemnities	40.6	36.8	36.0	35.0	35.0	33.6	(1.4)	(7.0)
Licenses and Inspections	22.1	22.1	22.1	22.1	19.1	18.1	(1.0)	(4.0)
Police	527.6	530.0	530.0	530.0	530.0	536.2	6.2	8.6
Property Assessment[2]	6.5	8.0	8.2	8.2	8.2	7.6	(0.6)	1.1
Sheriff	13.1	14.3	14.3	14.3	14.3	14.1	(0.2)	1.0
Streets	114.7	114.7	124.1	125.7	125.7	124.1	(1.6)	9.4
All Other	1,005.6	1,005.6	1,008.8	1,011.7	1,011.7	1,004.2	(7.5)	(1.4)
Total	**3,788.1**	**3,796.8**	**3,830.4**	**3,834.0**	**3,802.9**	**3,785.3**	**(17.6)**	**(2.8)**

[1] Includes Clerk of Quarter Sessions.

[2] Includes Board of Revision of Taxes.

FY11 Unaudited Actual: Changes in Obligations from Plan to Actual

The largest changes in FY11 obligations between the original FY11-FY15 Plan projection and the unaudited actual amounts are as follows:

- **Debt Service** ($13.1 million decrease): Later than anticipated issuance of general obligation bonds, and lower than anticipated costs for short-term borrowing.
- **District Attorney** ($1.4 million increase): Higher personnel costs.
- **Employee Benefits** ($2.2 million increase): Lower than anticipated costs for employee health benefits and payroll taxes, offset by higher than anticipated costs for pension benefits.
- **Fire** ($8.8 million increase): Includes higher than projected overtime costs, and an unanticipated $3.8 million legal settlement regarding EMS overtime which was transferred from indemnities.
- **First Judicial District** ($11.8 million increase): Reflects additional expenditures allowed under revenue sharing agreements between the City and the First Judicial District.
- **Human Services** ($21.5 million decrease): Lower cost for out-of-home placements.
- **Indemnities** ($7.0 million decrease): Lower costs for legal settlements, and $3.8 million transferred to the Fire Department for the costs of a settlement regarding EMS overtime.
- **Licenses and Inspections** ($4.0 million decrease): Lower than anticipated demolitions costs.
- **Police** ($8.6 million increase): Higher personnel costs due to a larger than anticipated workforce.
- **Property Assessment** ($1.1 million increase): Transfer of assessment personnel from the School District to the City, and consulting services for full valuation and operational assessment.
- **Sheriff** ($1.0 million increase): Higher personnel costs and $0.2 million for a forensic audit.
- **Streets** ($9.4 million increase): Unanticipated costs for snow removal and LED traffic lights
- **All Other** ($1.4 million decrease): Primarily reflects lower than anticipated costs in Prisons ($2.0 million), Public Health ($4.9 million), City Council ($1.3 million), and Division of Technology ($2.2 million), and higher than anticipated costs in the Office of Director of Finance ($4.7 million), PGW rental reimbursement ($1.7 million), Fleet Management ($2.6 million), and Public Property ($1.4 million).

FY11 Unaudited Actual: Employee Benefit Obligations

- FY11 unaudited actual employee benefit obligations are $967.1 million, a decline of $12.8 million from the projection in the fourth quarter QCMR. The decline represents a reduction in contributions to the pension fund ($6.3 million), lower-than-anticipated debt service for pension obligation bonds ($1.0 million), reduced FICA payroll taxes ($5.6 million), lower group life and legal insurance costs ($0.2 million), and lower miscellaneous benefit expenses ($0.2 million). These savings are offset by higher than projected costs for employee disability programs ($1.1 million) and unemployment compensation ($0.8 million). In addition, actual health benefit costs (including anticipated savings from management initiatives shown as a separate line in the fourth quarter QCMR) are $1.4 million below the QCMR projection. Total employee benefit obligations are $2.2 million higher than the original FY11-FY15 Plan projection.

FY11 General Fund Employee Benefits Obligations Projections and Unaudited Actual ($ in Millions)								
Category	**FY11-15 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Q4 QCMR to Actual**	**Change from Plan to Actual**
Pension Contribution	$381.4	$381.4	$393.9	$393.9	$393.9	$387.6	($6.3)	6.2
Pension Obligation Bonds	98.6	98.6	98.6	98.6	98.6	97.7	(1.0)	(1.0)
Health Benefits	370.0	370.0	356.8	356.8	356.8	343.6	(13.2)	(26.4)
Employee Disability	54.0	54.0	54.0	54.0	54.0	55.1	1.1	1.1
FICA	70.2	70.2	70.2	70.2	70.2	64.6	(5.6)	(5.6)
Unemployment Compensation	2.5	2.5	5.0	5.0	5.0	5.9	0.8	3.3
Group Life and Legal	12.0	12.0	12.0	12.0	12.0	11.8	(0.2)	(0.2)
Other	1.1	1.1	1.1	1.1	1.1	0.9	(0.2)	(0.2)
Anticipated Savings	(25.0)	(25.0)	(11.9)	(11.9)	(11.9)	--	11.9	25.0
Total	**964.9**	**964.9**	**979.9**	**979.9**	**979.9**	**967.1**	**(12.8)**	**2.2**

FY12 Projection

- Overview
- Revenue
- Obligations

FY12 Projection: Overview

- The QCMR for the first quarter projects FY12 General Fund revenues at $3,505.8 million, an increase of $3.1 million over the FY12-FY16 Plan projection. The QCMR projection of FY12 obligations is $3,479.6 million, an increase of $9.5 million from the Plan projection. The FY12 operating surplus is projected at $26.2 million, a decline of $6.4 million from the Plan.
- The QCMR projection of the prior year fund balance reflects the unaudited actual FY11 fund balance of $0.1 million, a decline of $3.4 million from the Plan estimate. The FY12 year end fund balance is projected at $50.8 million, a decline of $9.8 million from the Plan projection.
- Like each of the quarterly reports for FY11, the QCMR for the first quarter of FY12 projects a lower fund balance than was contained in the previous projection. However, the end-of-year surplus projected in the QCMR for the first quarter of FY12, $50.8 million, is somewhat higher than the $29.6 million surplus projected for FY11 in the QCMR for the first quarter of FY11.

FY12 General Fund Projections ($ in Millions)

Category	FY12-16 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Revenues	$3,502.7	$3,505.8	$3.1
Obligations	3,470.1	3,479.6	9.5
Operating Surplus/(Deficit)	32.6	26.2	(6.4)
Prior Year Adjustments	24.5	24.5	--
Prior Year Fund Balance/(Deficit)	3.5	0.1	(3.4)
Year-End Fund Balance	60.6	50.8	(9.8)

FY12 Projection: Revenue

- The QCMR for the first quarter of FY12 projects General Fund revenues of $3,505.8 million, an increase of $3.1 million from the FY12-FY16 Plan projection.
- Taxes are projected at $2,507.8 million, a $31.7 million decline from Plan due to weakness in collections through the first quarter. Locally-generated non-tax revenue is projected at $258.0 million, a $2.0 million decline from the Plan projection. Revenue from other governments is projected at $688.6 million, an increase of $36.8 million from Plan due primarily to an increase in projected State pension aid and an unanticipated PICA grant to the City resulting from a legal settlement. The projection of revenue from other funds is $51.5 million, unchanged from the Plan projection.

FY12 General Fund Revenue Projections ($ in Millions)			
Category	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Change from Plan to Actual**
Taxes	$2,539.5	$2,507.8	($31.7)
Locally-Generated Non-Tax	260.0	258.0	(2.0)
Revenue from Other Governments	651.8	688.6	36.8
Revenue from Other Funds	51.5	51.5	--
Total	**3,502.7**	**3,505.8**	**3.1**

FY12 Projection: Tax Revenue

- The QCMR for the first quarter projects FY12 wage and earnings tax revenue at $1,166.8 million, a decline of $21.8 million from the FY12-FY16 Plan projection. The QCMR projection for the sales tax is lower than Plan by $7.9 million, and the amusement tax projection in the QCMR is $2.0 million below Plan. All other tax revenue projections are unchanged from the Plan.
- The lower projections of wage and earnings and sales tax revenue reflect FY11 unaudited actual collections that were lower than anticipated, as well as a reduction in the estimated base growth rate for FY12 based on lower-than-anticipated collections to date. The Plan projection assumed a base growth rate of 3.4 percent for the wage and earnings tax in FY12, while the QCMR projects base growth of 2.4 percent. Similarly, the base growth rate for the sales tax was estimated at 3.5 percent at the time of the Plan projection, and has been lowered to 1.6 percent in the first quarter QCMR projection.

FY12 General Fund Tax Revenue Projections ($ in Millions)			
Tax	FY12-16 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Wage and Earnings	$1,188.6	$1,166.8	($21.8)
Real Estate	486.7	486.7	--
Business Privilege	369.3	369.3	--
Net Profits	17.5	17.5	--
Sales	256.5	248.6	(7.9)
Real Estate Transfer	120.9	120.9	--
Parking	74.3	74.3	--
Amusement	21.6	19.6	(2.0)
Other	4.1	4.1	--
Total	**2,539.5**	**2,507.8**	**(31.7)**

FY12 Projection: Locally-Generated Non-Tax Revenue

- The first quarter QCMR projects total locally-generated non-tax revenue at $258.0 million, a decline of $2.0 million from the FY12-FY16 Plan projection. This decline reflects changes in three revenue line items listed under two agencies. The QCMR projections of all other categories of locally-generated non-tax revenue are unchanged from the Plan projection.
- Within the Revenue Department, non-profit contribution program revenue is projected at $2.2 million in the QCMR, a decline of $1.0 million from Plan. In addition, the QCMR projects $2.0 million in FY12 revenue from casino settlement agreement payments, a new revenue source that was not included in the FY12-FY16 Plan. Overall FY12 Revenue Department locally-generated non-tax revenue is projected at $4.7 million, an increase of $1.0 million from Plan.
- Within the City Treasurer's Office, interest earnings are projected in the QCMR at a level $3.0 million below Plan, reflecting lower interest rates.

FY12 General Fund Locally-Generated Non-Tax Revenue Projections ($ in Millions)			
Agency Source	FY12-16 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Revenue	$3.7	$4.7	$1.0
City Treasurer	6.8	3.8	(3.0)
Other	249.4	249.4	--
Total	**260.0**	**258.0**	**(2.0)**

FY12 Projection: Revenue from Other Governments

- The FY12 projection of General Fund revenue from other governments in the first quarter QCMR is $688.6 million, an increase of $36.8 million from Plan. Significant changes include a reduction of $2.0 million in projected State reimbursement for Police training, an increase of $35.0 million in State pension aid due to a reimbursement for prior year under-payments, a decline of $5.5 million in the projected local share of gaming revenues, a decline of $0.4 million in the projected revenues from the City's share of the State utility tax, and an unanticipated $7.5 million PICA grant due to a legal settlement between JP Morgan Chase and federal and State agencies related to the cost of past bond issues which resulted in a one-time payment to PICA that was passed through to the City.

FY12 General Fund Revenue from Other Governments Projections ($ in Millions)			
Agency Source	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Change from Plan to Q1 QCMR**
Police	$2.4	$0.4	($2.0)
Director of Finance	157.1	186.6	29.5
City Treasurer	5.2	12.3	7.1
First Judicial District	15.4	16.1	0.7
All Other	471.7	473.2	1.5
Total	**651.8**	**688.6**	**36.8**

FY12 Projection: Obligations

- The first quarter QCMR projects FY12 General Fund obligations at $3,479.6 million, an increase of $9.5 million from Plan. The increase reflects $2.0 million in additional Fire Department costs due to higher than expected overtime resulting from a delay in hiring and increased Heart and Lung Act disability payments, an increase of $2.5 million in Police overtime associated with Occupy Philadelphia, a $3.0 million increase in Prisons overtime associated with a higher-than-anticipated census and lower than projected staffing, and $2.0 million in additional costs in the Office of the Sheriff due to wage increases required under a recent arbitration award. The first quarter QCMR projection also reflects a shift of $2 million in projected obligations from the Department of Human Services to the Office of Supportive Housing. This change was made as part of the FY12 target budget to compensate for a reduction in State funding.

FY12 General Fund Obligations Projections ($ in Millions)

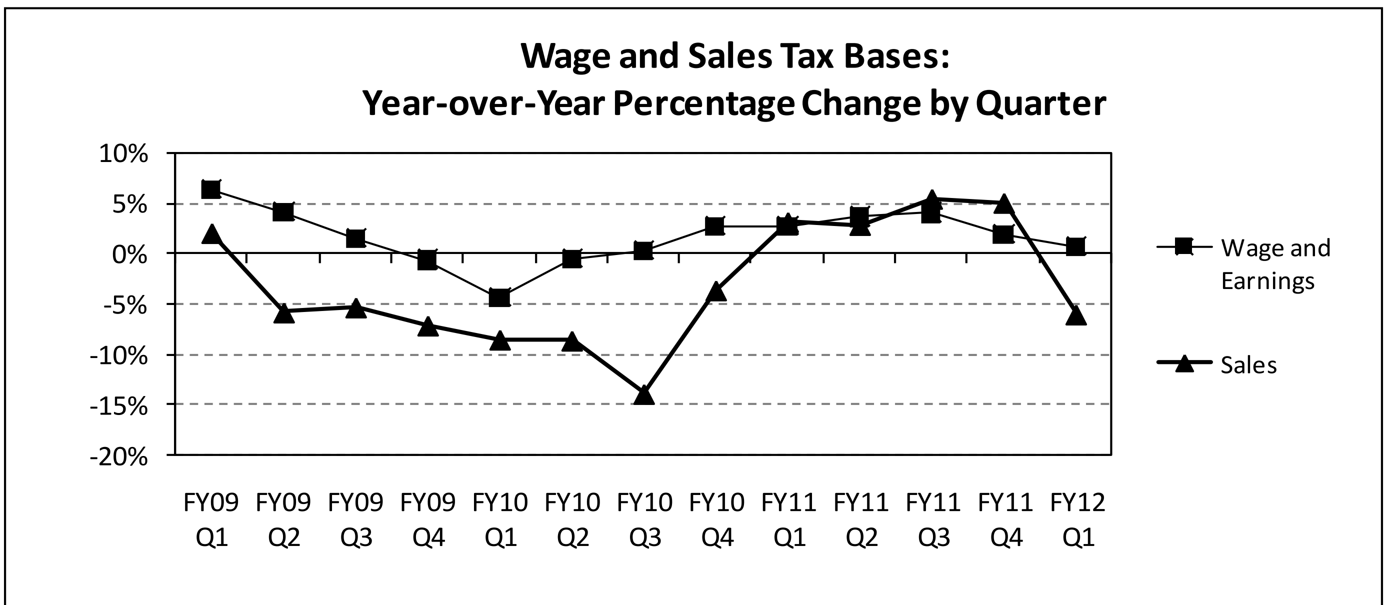
Agency or Cost Center	FY12-16 Five-Year Plan	Q1 QCMR	Change from Plan to Q1 QCMR
Fire	$190.0	$192.0	$2.0
Human Services	111.9	109.9	(2.0)
Police	550.7	553.2	2.5
Prisons	227.2	230.2	3.0
Sheriff	13.1	15.1	2.0
Supportive Housing	36.5	38.5	2.0
All Other	2,340.7	2,340.7	--
Total	**3,470.1**	**3,479.6**	**9.5**

Key Financial Issues

- Tax Collections
- Labor Contracts

Key Financial Issues: Tax Collections

- Tax collections in the first quarter of FY12 indicate a slowdown in the rate of growth for two of the City's key tax bases. The wage and earnings tax base increased at an annual rate of 0.7 percent in the first quarter, the slowest growth since the third quarter of FY10. The sales tax base declined 6.0 percent in the first quarter, the first decline since the fourth quarter of FY10. While the performance of these tax bases was relatively weak in comparison with recent quarters, the real estate transfer tax declined 10.2 percent in the first quarter of FY12, a smaller decline than in the previous quarter.
- The deterioration in wage and earnings and sales tax base trends in the most recent two fiscal quarters poses a concern for the City's revenue projections in FY12 and beyond. The City has lowered its FY12 projections for the wage and earnings and sales taxes by a combined $29.7 million. However, additional reductions may be necessary if weakness relative to Plan projections persists. The QCMR currently projects wage tax base growth of 2.4 percent and sales tax base growth of 1.6 percent in FY12. The FY12-FY16 Plan projects annual wage and earnings and sales tax base growth rates ranging from 3.1 to 4.0 percent over the FY13-FY16 period.



Key Financial Issues: Labor Contracts

- Labor contracts between the City and three of its major unions covering periods beginning in FY10 remain unresolved. Arbitration between the City and the International Association of Firefighters (IAFF) is continuing, as is collective bargaining between the City and its two major non-uniformed unions, District Councils (DC) 33 and 47 of AFSCME. The FY12-FY16 Five-Year Plan projects $11.9 million in annual employee benefits savings resulting from new contracts with these unions. Implementation of a self-insurance model for the Fraternal Order of Police (FOP) and City-administered health plans contributed to an estimated $13.1 million in savings in FY11, and these savings are expected to recur in future years.
- In October 2010, an arbitration panel awarded a four year contract to the IAFF covering the period from FY10 to FY13. This award, other than the pension provisions, was appealed by the City in the Court of Common Pleas in November 2010. The City's petition argued that the award violated the PICA Act because it did not accord substantial weight to the City's Five-Year Plan or ability to pay for increased wages while maintaining service levels. In November 2011, the Court ruled in favor of the City, vacating all provisions of the 2010 arbitration award except those relating to pensions.
- The most recent FOP arbitration award was issued in December 2009 and covers the period through FY14. Determination of FOP wages for FY13 and FY14 will be subject to a "reopener" arbitration process in 2012.
- Resolution of the IAFF arbitration and collective bargaining between the City and DC 33 and 47 will determine whether the City can maintain financial stability and service levels, as the FY12-FY16 Plan projects. Addressing health care for all three unions, and pensions for DC 33 and 47, is critical. Reforms to the administration of health care benefits will allow the City to control the growth in benefit costs despite inflation. Restructuring of employee pensions, as initiated with the Police and Fire arbitration awards, is necessary to ensure the viability of the pension program and prevent unsustainable cost growth over the long term.

Key Management Issues

- Performance Measures
- Staffing
- Overtime
- Leave Usage

Key Management Issues: Performance Measures

- **Police Department**: In the first quarter of FY12, an estimated 81 homicides occurred, a decline from 95 in the first quarter of FY11. The estimated number of Part 1 violent crime incidents also declined over this period, from 5,162 to 4,920. Estimated clearance rates for homicide and other violent crime increased between the first quarter of FY11 and the first quarter of FY12.
- **Fire Department**: Average fire response times increased from 4:49 in the first quarter of FY11 to 5:04 in the first quarter of FY12. The number of structural fires increased slightly over this period, from 656 to 663. In the first quarter of FY12, two fire deaths were reported, compared to four in the first quarter of FY11.
- **Prison System**: In the first quarter of FY12, 77 percent of sentenced inmates were given the opportunity to participate in education, training or treatment, and 100 percent of inmates were processed and housed within 24 hours of admission. These figures were unchanged from the first quarter of FY11.

Performance Measures: Public Safety					
Agency	Measure	FY10 Total	FY11 Total	FY11 through Q1	FY12 through Q1
Police[1]	Homicides	305	318	95	81
	Part 1 Violent Crime	17,740	18,446	5,162	4,920
	Homicide Clearance Rate	72.2%	67.9%	66.3%	70.9%
	Other Violent Crime Clearance Rate	51.2%	49.8%	45.5%	47.4%
Fire	Fire Average Response Time	4:46	4:57	4:49	5:04
	Structural Fires[2]	1,362	3,041	656	663
	Fire Deaths	32	41	4	2
Prisons	Percent of Sentenced Inmates with Opportunity to Participate in Education, Training, or Treatment	75%	77%	77%	77%
	Inmates Processed and Housed within 24 Hours of Admission	100%	100%	100%	100%

[1] Figures for the first quarter of FY12 are estimated.

[2] FY11 and FY12 figures are based on the National Fire Incident Reporting System (NFIRS) methodology, and not comparable to the FY10 figures.

Key Management Issues: Performance Measures

- **Department of Human Services**: Reports of child abuse and neglect declined from 2,800 in the first quarter of FY11 to 2,654 in the first quarter of FY12. Dependent children in placement outside the home declined from 4,585 at the end of the first quarter of FY11 to 4,080 at the end of the first quarter of FY12. The number of delinquent children in placement also declined over this period, from 1,762 to 1,455. Finalized adoptions declined from 142 in the first quarter of FY11 to 91 in the first quarter of FY12. The average daily population at the Youth Study Center was 126 in the first quarter of FY12, unchanged from the same period in FY11.
- **Department of Public Health**: Patient visits to the district health centers increased from 82,021 in the first quarter of FY11 to 85,638 in the first quarter of FY12. Uninsured patients made up 52.9 percent of all visits in the first quarter of FY12, a slight increase from the 52.4 percent of visits that were uninsured in the first quarter of FY11.

Performance Measures: Public Health and Human Services					
Agency	**Measure**	**FY10 Total**	**FY11 Total**	**FY11 through Q1**	**FY12 through Q1**
Human Services	Abuse and Neglect Reports	12,372	12,352	2,800	2,654
	Dependent Placements as of End of Period	4,762	4,186	4,585	4,080
	Delinquent Placements as of End of Period	1,774	1,539	1,762	1,455
	Adoptions Finalized	561	630	142	91
	Youth Study Center Average Daily Population	106	118	126	126
Public Health	Visits to District Health Centers	350,695	339,032	82,021	85,638
	Percent of Visits from Uninsured Patients	49.6%	49.6%	52.4%	52.9%

Key Management Issues: Performance Measures

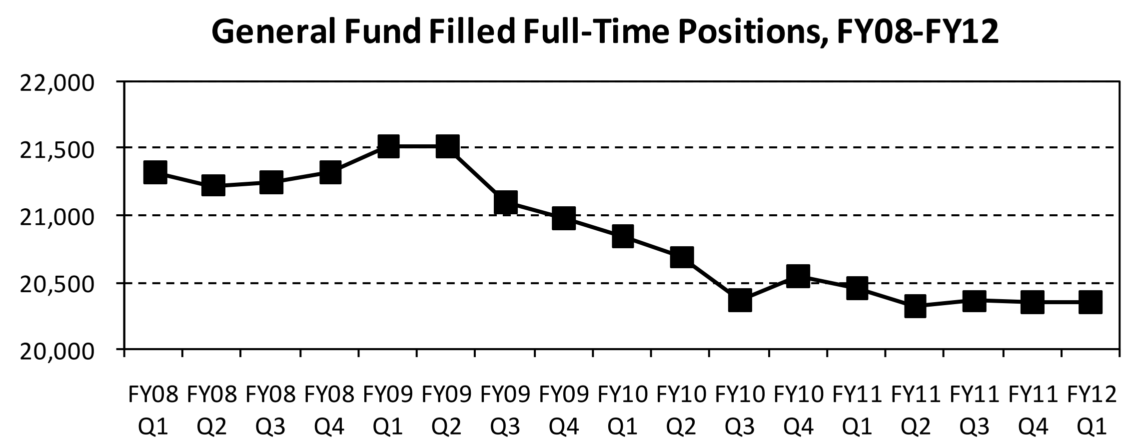
- **Streets Department**: The recycling rate increased from 17 percent in the first quarter of FY11 to 18 percent in the first quarter of FY12. The on-time trash collection rate declined from 98 to 91 percent over this period, while the on-time recycling rate increased from 96 to 97 percent. Severe weather was partly responsible for the decline in the rate of on-time trash collection in the first quarter of FY12.
- **Department of Licenses and Inspections**: The QCMR reports on performance with respect to twelve customer service standards relating to timeliness of service. For ten of the twelve standards, the percentage of time that the department met its standard increased or remained constant between the first quarter of FY11 and the first quarter of FY12. Data for eight standards are shown below.

Performance Measures: Streets and Licenses and Inspections

Agency	Measure	FY10 Total	FY11 Total	FY11 through Q1	FY12 through Q1
Streets	Recycling Rate	16%	19%	17%	18%
	On-Time Trash Collection	90%	94%	98%	91%
	On-Time Recycling Collection	94%	97%	96%	97%
Licenses and Inspections	Service License Customers Within 30 Minutes	92%	84%	89%	94%
	Service Zoning Customers Within 30 Minutes	NA	94%	92%	99%
	Service Building Customers Within 30 Minutes	NA	90%	82%	97%
	Review Residential Building Plans Within 15 Days	95%	90%	88%	91%
	Review Commercial Building Plans Within 20 Days	96%	95%	96%	98%
	Review Plumbing Plans Within 20 Days	NA	99%	98%	100%
	Review Electrical Plans Within 20 Days	NA	96%	98%	97%
	Review Zoning Plans Within 20 Days	NA	98%	97%	97%

Key Management Issues: Staffing

- General Fund filled full-time positions declined from 21,521 at the end of the first quarter of FY09 to 20,316 at the end of the second quarter of FY11, a reduction of 1,205 or 5.6 percent. From the end of the second quarter of FY11 to the end of the first quarter of FY12, General Fund position levels remained roughly constant, increasing by 35 (0.2 percent).[1]
- The QCMR projects that in FY12 employee wage and benefit costs will make up 67.9 percent of General Fund expenditures. Initiatives to increase labor productivity should ultimately result in freeing up additional resources for key economic and financial priorities such as addressing the unfunded pension liability, tax reduction, seeding a rainy day fund and pay-as-you-go investment in capital infrastructure. These types of initiatives are essential to the long-term fiscal health of the City.

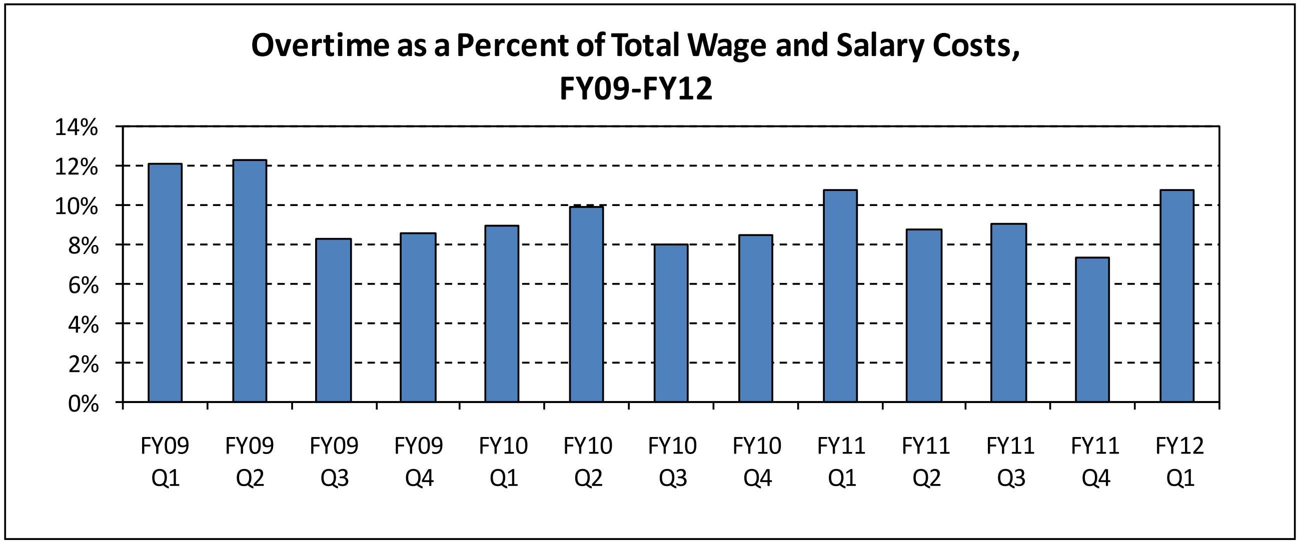


Note: Figures are as of the end of the fiscal quarter. Department of Human Services personnel are excluded to allow comparability.

[1] Department of Human Service (DHS) personnel are excluded to allow comparability. DHS personnel are reported in the Grants Revenue Fund beginning in FY12, due to an accounting change.

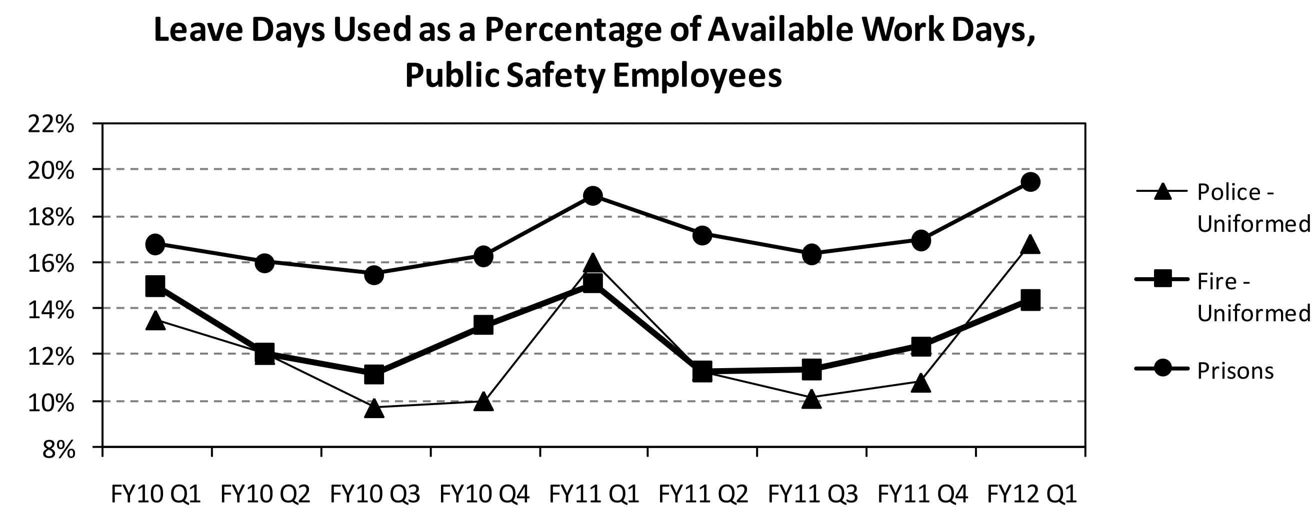
Key Management Issues: Overtime

- Despite the reduction in filled General Fund positions since the first quarter of FY09, the City was successful in reducing overtime costs through the end of FY11. Total General Fund overtime costs declined from $132.9 million in FY09 to $119.9 million in FY10 and $117.5 million in FY11 (excluding $3.8 million due to an unusual legal settlement regarding overtime for emergency medical services personnel). Overtime costs as a percentage of payroll decreased from 9.5 percent in FY09 to 8.8 percent in FY10 and 8.6 percent in FY11 (excluding the EMS overtime settlement). These reductions were the result of management initiatives.
- However, overtime costs in FY12 are projected to exceed the FY12-FY16 Plan projection by $15.1 million, due primarily to unanticipated increases in the Police and Fire departments, Prisons System, and Office of the Sheriff. If this projected increase occurs, overtime will increase to 9.2 percent of payroll in FY12.



Key Management Issues: Leave Usage

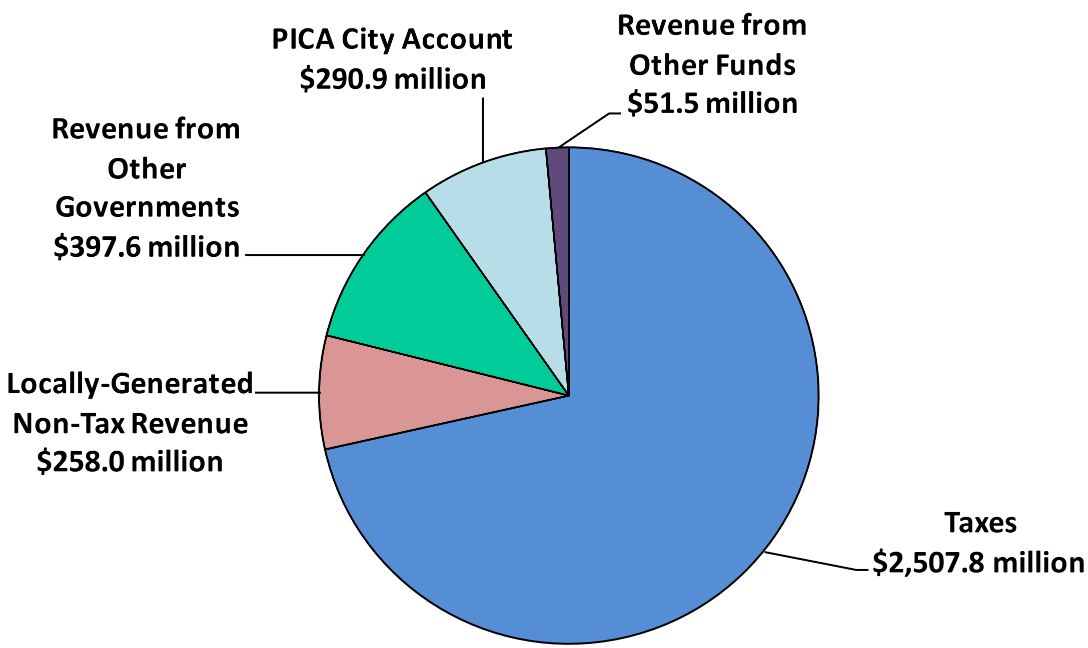
- For the median City agency, employees were absent from work on 17.1 percent of available work days in the first quarter of FY12. Among agencies, leave usage varied from a high of 24.6 percent in the Office of City Commissioners to a low of 9.6 percent in the Department of Commerce (excluding airport personnel).
- For agencies that require consistent workforce levels over the year, seasonal variability in leave use has major cost implications, since overtime is often necessary to assure consistent staffing. Contractual restrictions on the City's ability to manage leave use compound the problem. For instance, while the 2009 Fraternal Order of Police arbitration award allows the Police Department to limit new hires to one week of vacation during the summer for the first five years of employment, departmental management cannot impose these limits for the majority of its current workforce.



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

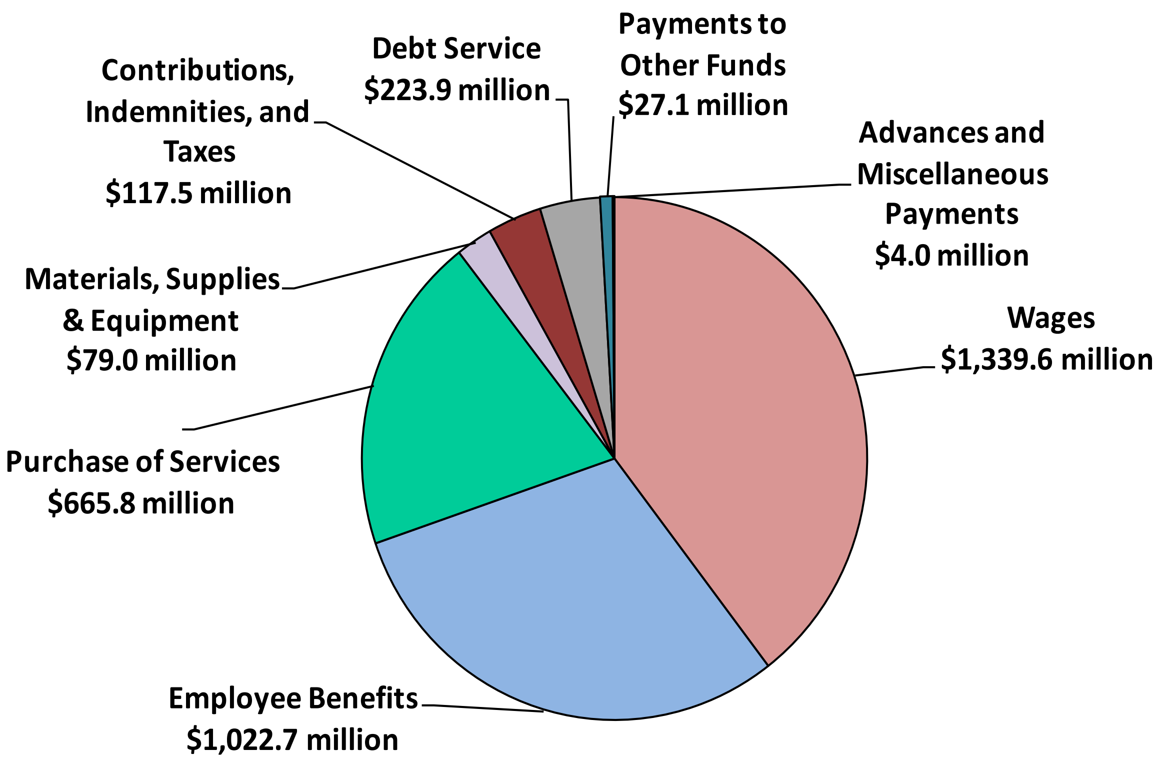
Key City Budget Characteristics

Distribution of FY12 General Fund Revenues
Total Projected Revenues: $3.506 Billion



Key City Budget Characteristics

Distribution of FY12 General Fund Obligations
Total Projected Obligations: $3.480 Billion



Note: Debt Service includes $93.2 million in debt service for lease-supported debt. This spending is classified in the Quarterly Report as purchase of services.