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

Submitted to PICA on February 15, 2012

February 29, 2012

Introduction: PICA Staff Report on the City of Philadelphia's Quarterly City Managers Report for the Second 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 and comparing them to budgeted levels 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.

- The most recent QCMR submitted by the City to PICA covers the period ending December 31, 2011, the second quarter of fiscal year 2012 (FY12), and is available from the City's website at http://www.phila.gov/finance/reports-Quarterly.html

- This report is PICA staff's analysis of the QCMR for the second quarter of FY12. It compares the initial estimates of FY12 revenues and expenditures in the FY12-FY16 Five-Year Financial Plan and subsequent estimates in the QCMRs for the first and second quarters of FY12. The report also discusses key City finance and management issues based on information in the second quarter QCMR.
- Unless otherwise noted, financial information in this report is drawn from the City's *Five-Year Financial Plan* for Fiscal Year 2012 through Fiscal Year 2016 and Quarterly City Managers Reports issued through the second quarter of FY12.

FY12 Projection

- Overview
- Revenue
- Obligations

FY12 Projection: Overview

- The QCMR for the second quarter projects FY12 General Fund revenues at $3,517.2 million, an increase of $11.4 million over the previous quarterly report and $14.5 million over the FY12-FY16 Plan projection. The second quarter QCMR projects FY12 obligations at $3,474.1 million, a decline of $5.5 million from the previous QCMR, but an increase of $4.0 million from the Plan. The second quarter QCMR projects the FY12 operating surplus at $43.2 million and prior year adjustments at $16.5 million. The unaudited actual FY11 fund balance is $0.1 million.
- The sum of operating surplus, prior year adjustments, and prior year fund balance is the currently projected fund balance for the end of FY12, which is $59.7 million. This is an increase of $9.0 million from the fund balance projected in the first quarter QCMR, and a $0.8 million decline from the FY12-16 Plan projection.

FY12 General Fund Projections ($ in Millions)

Category	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Q1 to Q2 QCMR	Change from Plan to Q2 QCMR
Revenues	$3,502.7	$3,505.8	$3,517.2	$11.4	$14.5
Obligations	3,470.1	3,479.6	3,474.1	(5.5)	4.0
Operating Surplus/(Deficit)	32.6	26.2	43.2	17.0	10.5
Prior Year Adjustments	24.5	24.5	16.5	(8.0)	(8.0)
Prior Year Fund Balance/(Deficit)	3.5	0.1	0.1	--	(3.4)
Year-End Fund Balance	60.6	50.8	59.7	9.0	(0.8)

FY12 Projection: Revenue

- The QCMR for the second quarter of FY12 projects General Fund revenues of $3,517.2 million, an increase of $11.4 million from the first quarter QCMR and $14.5 million from the FY12-FY16 Plan projection.
- The increase in projected revenues from the previous quarterly report reflects increases in projected tax revenue ($13.7 million) and locally-generated non-tax revenue ($7.3 million), offset by reductions in projected revenue from other governments ($3.4 million) and revenue from other funds ($6.2 million).

FY12 General Fund Revenue Projections ($ in Millions)					
Category	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Q1 to Q2 QCMR	Change from Plan to Q2 QCMR
Taxes	$2,539.5	$2,507.8	$2,521.5	$13.7	($17.9)
Locally-Generated Non-Tax	260.0	258.0	265.3	7.3	5.3
Revenue from Other Governments	651.8	688.6	685.2	(3.4)	33.4
Revenue from Other Funds	51.5	51.5	45.3	(6.2)	(6.2)
Total	**3,502.7**	**3,505.8**	**3,517.2**	**11.4**	**14.5**

FY12 Projection: Tax Revenue

- General Fund tax revenue is projected at $2,521.5 million in the second quarter QCMR, an increase of $13.7 million from the first quarter QCMR, and a decline of $17.9 million from the FY12-16 Plan.
- Business income and receipts (formerly business privilege) tax revenue is projected at $386.4 million in the second quarter QCMR, an increase of $17.1 million from the first quarter QCMR projection, due to revised economic projections. The second quarter QCMR projects real estate tax revenue at $491.5 million, an increase of $4.7 million from the first quarterly report, due to an increase in certified assessed values. Net profits tax revenue is projected at $12.1 million, $5.4 million below the first quarter QCMR, due to a revised estimate of the allocation of the tax between the City and PICA. Sales tax revenue is projected $1.6 million higher than the first quarter QCMR projection due to strong second quarter collections. Real estate transfer tax revenue is projected $5.0 million below from the first quarter projection, due to weaker than anticipated collections.

FY12 General Fund Tax Revenue Projections ($ in Millions)					
Tax	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Change from Q1 to Q2 QCMR**	**Change from Plan to Q2 QCMR**
Wage and Earnings	$1,188.6	$1,166.8	$1,168.4	$1.6	(20.1)
Real Estate	486.7	486.7	491.5	4.7	4.7
Business Income and Receipts	369.3	369.3	386.4	17.1	17.1
Net Profits	17.5	17.5	12.1	(5.4)	(5.4)
Sales	256.5	248.6	250.2	1.6	(6.3)
Real Estate Transfer	120.9	120.9	115.9	(5.0)	(5.0)
Parking	74.3	74.3	74.3	--	--
Amusement	21.6	19.6	19.6	--	(2.0)
Other	4.1	4.1	3.3	(0.9)	(0.9)
Total	**2,539.5**	**2,507.8**	**2,521.5**	**13.7**	**(17.9)**

FY12 Projection: Locally-Generated Non-Tax Revenue

- The second quarter QCMR projects total locally-generated non-tax revenue at $265.3 million, an increase of $7.3 million from the first quarter QCMR projection.
- City Treasurer revenues are projected at $2.8 million, a decline of $1.0 million from the most recent projection due to lower than anticipated interest earnings. Finance Department revenues are projected at $25.9 million, an increase of $12.5 million due to an unanticipated reimbursement for prior year debt service associated with bonds issued on behalf of a Center City parking garage that were secured by the City. Revenues from Traffic Court within the First Judicial District are projected at $7.8 million, a decline of $2.0 million from the most recent projection due to lower moving violation fine collections. Department of Public Health revenue is projected at $13.0 million, an increase of $0.8 million due to accelerated billing for patient services.

FY12 General Fund Locally-Generated Non-Tax Revenue Projections ($ in Millions)

Agency Source	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Q1 to Q2 QCMR	Change from Plan to Q2 QCMR
City Treasurer	$6.8	$3.8	$2.8	($1.0)	($4.0)
Finance	13.4	13.4	25.9	12.5	12.5
First Judicial District – Traffic Court	9.8	9.8	7.8	(2.0)	(2.0)
Public Health	12.2	12.2	13.0	0.8	0.8
Revenue	3.7	4.7	4.7	0.1	1.1
Other	214.1	214.1	211.0	(3.1)	(3.1)
Total	**260.0**	**258.0**	**265.3**	**7.3**	**5.3**

FY12 Projection: Revenue from Other Governments

- The second quarter QCMR projects revenue from other governments at $685.2 million, a decline of $3.4 million from the first quarter QCMR and an increase of $33.4 million from Plan. Office of the Director of Finance revenues are projected $29.2 million above Plan due to an increase of $35 million in State pension aid (reflecting a reimbursement for prior year underpayments), offset by a $5.5 million decline in local share assessment revenue from casino gaming. City Treasurer revenues are projected $7.0 million above Plan, due to 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. Department of Human Services revenues are projected $2.8 million below Plan due to the timing of State reimbursements, and Department of Public Health revenues are projected $2.1 million over Plan reflecting higher than anticipated Medical Assistance reimbursements for district health center and nursing home services.

FY12 General Fund Revenue from Other Governments Projections ($ in Millions)

Agency Source	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Q1 to Q2 QCMR	Change from Plan to Q2 QCMR
City Treasurer	$5.2	$12.3	$12.2	($0.1)	$7.0
Finance	157.1	186.6	186.3	(0.3)	29.2
First Judicial District	15.4	16.1	16.1	--	0.7
Human Services	59.8	59.8	57.1	(2.8)	(2.8)
PICA City Account	290.9	290.9	289.8	(1.1)	(1.1)
Police	2.4	0.4	0.3	(0.1)	(2.1)
Public Health	58.8	58.8	60.9	2.1	2.1
All Other	62.2	63.7	62.5	(1.2)	0.3
Total	**651.8**	**688.6**	**685.2**	**(3.4)**	**33.4**

FY12 Projection: Obligations

- The second quarter QCMR projects FY12 General Fund obligations at $3,474.1 million, a decrease of $5.5 million from the first quarter QCMR and an increase of $4.0 million from Plan.

FY12 General Fund Obligations Projections ($ in Millions)					
Agency or Cost Center	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Change from Q1 to Q2 QCMR**	**Change from Plan to Q2 QCMR**
Debt Service	$223.9	$223.9	$216.9	($7.0)	($7.0)
Employee Benefits	1,022.7	1,022.7	1,027.9	5.2	5.2
Fire	190.0	192.0	194.0	2.0	4.0
Fleet Management	53.7	53.7	56.2	2.5	2.5
Human Services	111.9	109.9	110.1	0.2	(1.8)
Police	550.7	553.2	553.2	--	2.5
Prisons	227.2	230.2	230.2	--	3.0
Sheriff	13.1	15.1	15.6	0.5	2.5
Streets	121.4	121.4	119.8	(1.6)	(1.6)
Supportive Housing	36.5	38.5	38.5	--	2.0
All Other	919.1	919.1	911.8	(7.3)	(7.3)
Total	**3,470.1**	**3,479.6**	**3,474.1**	**(5.5)**	**4.0**

FY12 Projection: Obligations

- Significant changes in obligation projections between the first and second quarter QCMRs include:
  - **Debt Service** ($7.0 million decrease): Later than anticipated issuance of short term debt and lower than anticipated interest rates.
  - **Employee Benefits** ($5.2 million increase): Payroll taxes and unemployment compensation
  - **Fire** ($2.0 million increase): Overtime resulting from a delay in hiring new firefighters and increased numbers of firefighters injured on duty
  - **Fleet Management** ($2.5 million increase): Increase in fuel costs ($4.8 million), offset by reduced vehicle purchase costs ($2.2 million)
  - **Streets** ($1.6 million decrease): Decreased costs for street lighting and waste disposal
  - **Other Agencies** ($7.3 million decrease): Target budget cost reductions

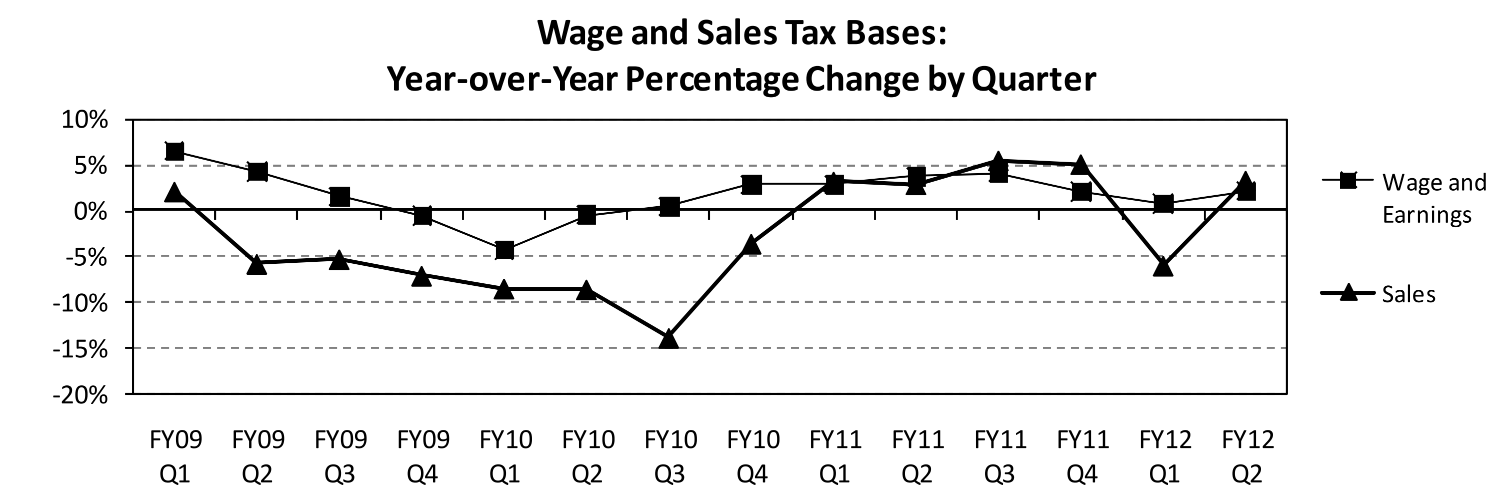
- Significant changes in obligation projections between the FY12-16 Plan and the second quarter QCMR include:
  - **Fire** ($4.0 million increase): Overtime resulting from a delay in hiring new firefighters and increased numbers of firefighters injured on duty
  - **Human Services** ($1.8 million decrease): Funding shifted to the Office of Supportive Housing to compensate for reduced State funding.
  - **Police** ($2.5 million increase): Personnel costs associated with Occupy Philadelphia and Operation Pressure Point
  - **Prisons** ($3.0 million increase): Overtime due to a higher census and lower than projected staffing
  - **Sheriff** ($2.5 million increase): Higher personnel costs, in part due to wage increases for Deputy Sheriffs required under a recent arbitration award
  - **Supportive Housing** ($2.0 million increase): City funding shifted from the Department of Human Services to compensate for a reduction in State funding.

Key Financial Issues

- Tax Collections
- Labor Contracts

Key Financial Issues: Tax Collections

- Tax base growth for two of the City's major taxes – the wage and earnings tax and sales tax – in the second quarter increased from the first quarter. The wage and earnings tax base increased at an annual rate of 2.1 percent in the second quarter compared to 0.7 percent in the first quarter. The sales tax base increased 3.3 percent in the second quarter compared to a decline of 6.0 percent in the first quarter. The real estate transfer tax base declined 4.4 percent in the second quarter compared to a decline of 10.2 percent in the previous quarter.
- While tax base growth generally improved between the first and second quarters of FY12, overall rates of growth through the first two quarters are still below those currently projected for FY12. For the wage and earnings tax, collections through December increased 1.4 percent, compared to projected growth of 2.4 percent for FY12 in the QCMR. For the sales tax, collections through the first two quarters declined 1.6 percent, while the second quarter QCMR projects a 2.3 percent increase for FY12. Collections for these taxes will have to continue at a relatively strong pace through June to meet the City's current projections.



Source: *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue, various months

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 FY12 and beyond.
- In October 2010, an arbitration panel awarded a contract to the IAFF covering the FY10-FY13 period. 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. The City's appeal was upheld in November 2011, and the matter returned to the arbitration panel. A new round of hearings is expected to begin in the coming months.
- 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**: Through the first two quarters of FY12, an estimated 165 homicides occurred, an increase from 160 during the same period in FY11. Estimated Part 1 violent crime incidents declined from 9,806 in the first two quarters of FY11 to 9,510 in the first two quarters of FY12. The clearance rate for homicides through the first two quarters declined from 76.3 percent in FY11 to 58.1 percent in FY12, while the clearance rate for other violent crime increased from 46.5 percent to 47.1 percent over the same period.
- **Fire Department**: Average fire response times increased slightly from 4:54 in the first two quarters of FY11 to 4:56 in the first two quarters of FY12, while the number of structural fires increased from 1,480 to 1,492 over this period. In the first two quarters of FY12, seven fire deaths were reported, compared to 16 over the same period in FY11.
- **Prison System**: Through the first two quarters of FY12, 76 percent of sentenced inmates were given the opportunity to participate in education, training or treatment, compared to 77 percent during the same period in FY11. Through the first two quarters of FY11 and FY12, all inmates were processed and housed within 24 hours of admission.

Performance Measures: Public Safety

Agency	Measure	FY10 Total	FY11 Total	FY11 through Q2	FY12 through Q2
Police[1]	Homicides	305	318	160	165
	Part 1 Violent Crime	17,740	18,446	9,806	9,510
	Homicide Clearance Rate	72.2%	67.9%	76.3%	58.1%
	Other Violent Crime Clearance Rate	51.2%	49.8%	46.5%	47.1%
Fire	Fire Average Response Time	4:46	4:57	4:54	4:56
	Structural Fires[2]	1,362	3,041	1,480	1,492
	Fire Deaths	32	41	16	7
Prisons	Percent of Sentenced Inmates with Opportunity to Participate in Education, Training, or Treatment	75%	77%	77%	76%
	Inmates Processed and Housed within 24 Hours of Admission	100%	100%	100%	100%

[1] Figures for FY12 are based on actual figures through November and an estimate for December.

[2] FY11 and FY12 figures are based on the National Fire Incident Reporting System (NFIRS) definition of structural fires, and not comparable to the FY10 figures, which are based on a less inclusive definition.

Key Management Issues: Performance Measures

- **Department of Human Services**: Reports of child abuse and neglect declined from 5,728 during the first two quarters of FY11 to 5,717 during the same period in FY12. Dependent children in placement outside the home declined from 4,362 at the end of the second quarter of FY11 to 4,115 at the end of the second quarter of FY12. Delinquent children in placement also declined over this period, from 1,713 to 1,305. Finalized adoptions declined from 305 in the first two quarters of FY11 to 213 in the same period in FY12. The average daily population at the Youth Study Center was 116 during the first two quarter of FY11, and 119 in the same period in FY12.
- **Department of Public Health**: Patient visits to the district health centers increased from 175,778 in the first two quarters of FY11 to 173,769 in the same period in FY12. Uninsured patients made up 50.7 percent of all visits in the first two quarters of FY11 and 52.1 percent of visits during the same period in FY12.

Performance Measures: Public Health and Human Services					
Agency	**Measure**	**FY10 Total**	**FY11 Total**	**FY11 through Q2**	**FY12 through Q2**
Human Services	Abuse and Neglect Reports	12,372	12,352	5,728	5,717
	Dependent Placements as of End of Period	4,762	4,186	4,362	4,115
	Delinquent Placements as of End of Period	1,774	1,539	1,713	1,305
	Adoptions Finalized	561	630	305	213
	Youth Study Center Average Daily Population	106	118	116	119
Public Health	Visits to District Health Centers	350,695	339,032	175,778	173,769
	Percent of Visits from Uninsured Patients	49.6%	49.6%	50.7%	52.1%

Key Management Issues: Performance Measures

- **Streets Department**: The recycling rate increased from 18 percent in the first two quarters of FY11 to 19 percent in the same period in FY12. The on-time trash collection rate declined from 98 to 92 percent over this period, and the on-time recycling rate decreased from 98 to 97 percent. Severe weather was partly responsible for the decline in on-time trash collection in the first two quarters 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 all but one standard, the percentage of time that the department met its standard increased or remained constant between the first two quarters of FY11 and the same period in FY12. Data for eight standards are shown below.

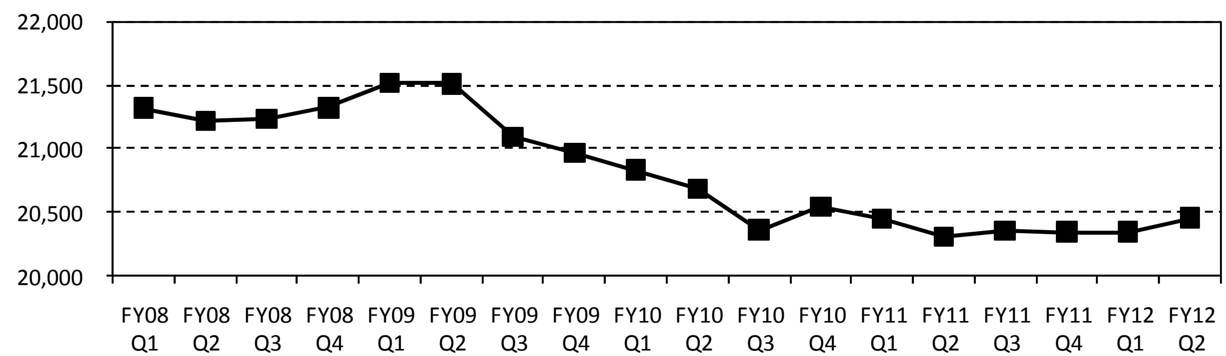
Performance Measures: Streets and Licenses and Inspections

Agency	Measure	FY10 Total	FY11 Total	FY11 through Q2	FY12 through Q2
Streets	Recycling Rate	16%	19%	18%	19%
	On-Time Trash Collection	90%	94%	98%	92%
	On-Time Recycling Collection	94%	97%	98%	97%
Licenses and Inspections	Service License Customers Within 30 Minutes	92%	84%	89%	97%
	Service Zoning Customers Within 30 Minutes	NA	94%	92%	99%
	Service Building Customers Within 30 Minutes	NA	90%	85%	97%
	Review Residential Building Plans Within 15 Days	95%	90%	88%	91%
	Review Commercial Building Plans Within 20 Days	96%	95%	96%	97%
	Review Plumbing Plans Within 20 Days	NA	99%	97%	99%
	Review Electrical Plans Within 20 Days	NA	96%	98%	89%
	Review Zoning Plans Within 20 Days	NA	98%	98%	98%

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 second quarter of FY12, filled General Fund positions increased 145 (0.7 percent).[1] During this time period, the largest increases occurred in First Judicial District (79), Office of Supportive Housing (39), Streets (36), and Public Health (25), while the largest decreases occurred in Fire (28) and Prisons (47).[2]
- The QCMR projects that in FY12 employee wage and benefit costs will make up 68.1 percent of General Fund expenditures. Initiatives to increase labor productivity should ultimately result in freeing up resources for key economic and financial priorities such as addressing the unfunded pension liability, tax competitiveness, 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.

General Fund Filled Full-Time Positions, FY08-FY12

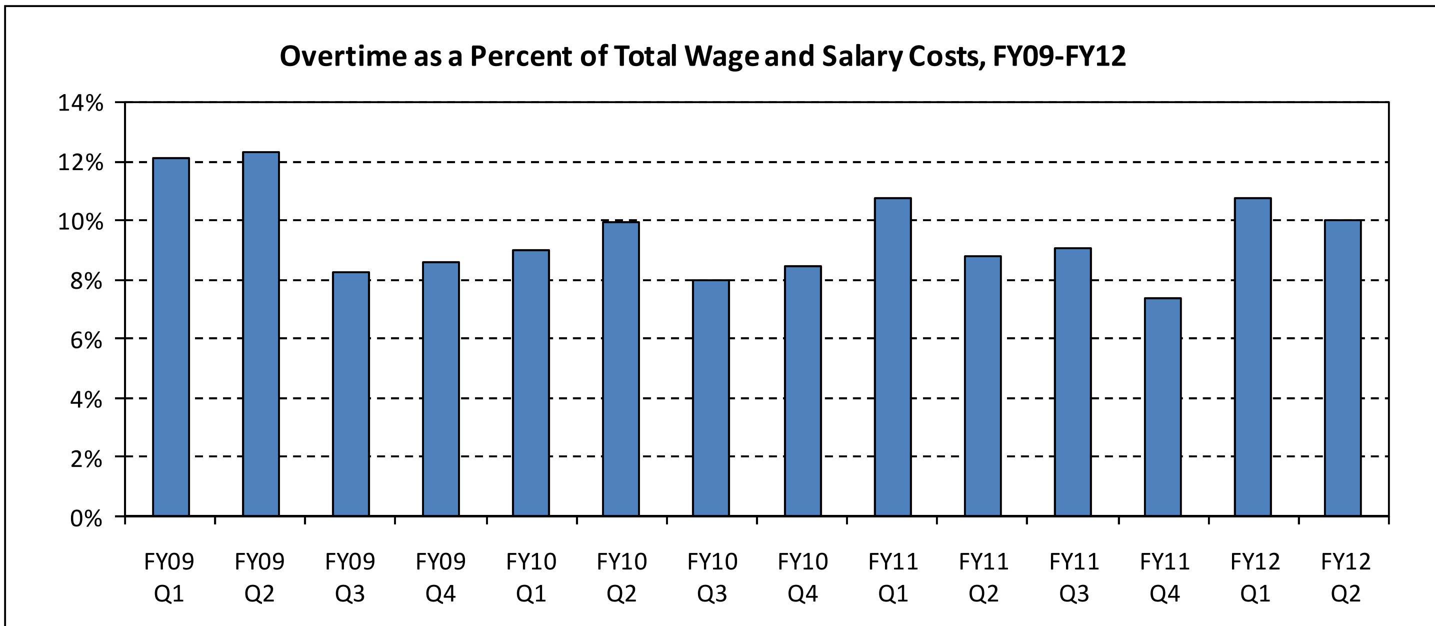


Note: Figures are as of the end of the fiscal quarter. Department of Human Services personnel are excluded to allow comparability.

[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.
[2] These calculations are net of the transfer of 36 positions from the Law Department's tax unit to the Department of Revenue.

Key Management Issues: Overtime

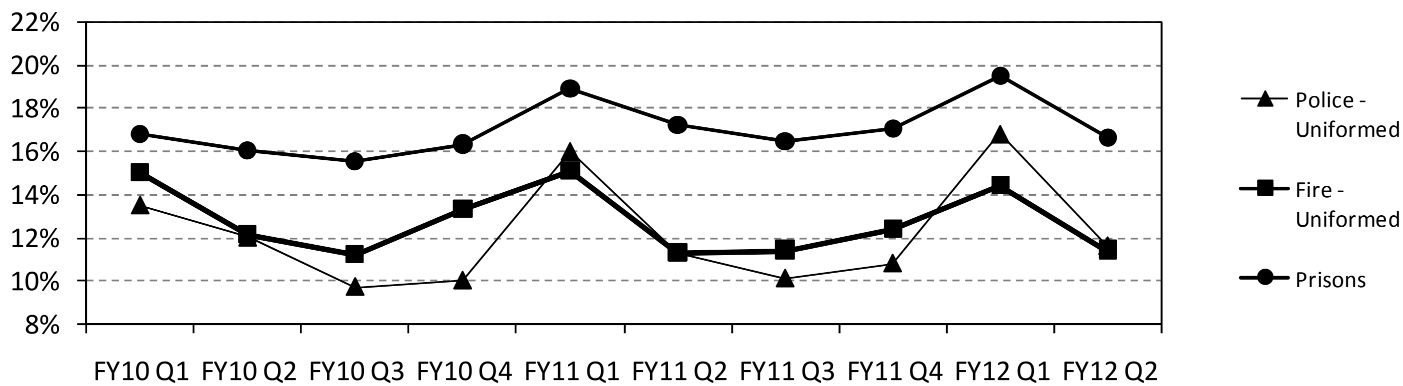
- Despite the reduction in filled General Fund positions since the first quarter of FY09, the City was successful in reducing overtime costs through the end of FY11. Total General Fund overtime costs declined from $132.9 million in FY09 to $117.5 million in FY11 (excluding $3.8 million due to an unusual legal settlement regarding overtime for emergency medical services personnel). Overtime costs as a percentage of payroll decreased from 9.5 percent in FY09 to 8.6 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 $14.4 million, due primarily to projected increases in the Fire Department ($3.9 million), Prisons System ($7.0 million), Office of the Sheriff ($1.6 million), and Streets Department ($1.1 million). If this projected increase occurs, overtime will increase to 9.1 percent of payroll in FY12.



Key Management Issues: Leave Usage

- For the median City agency, employees were absent from work on 14.7 percent of available work days in the second quarter of FY12. Leave usage varied from a high of 22.2 percent among Police Department civilians to 8.6 percent in the Managing Director’s Office.
- 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.

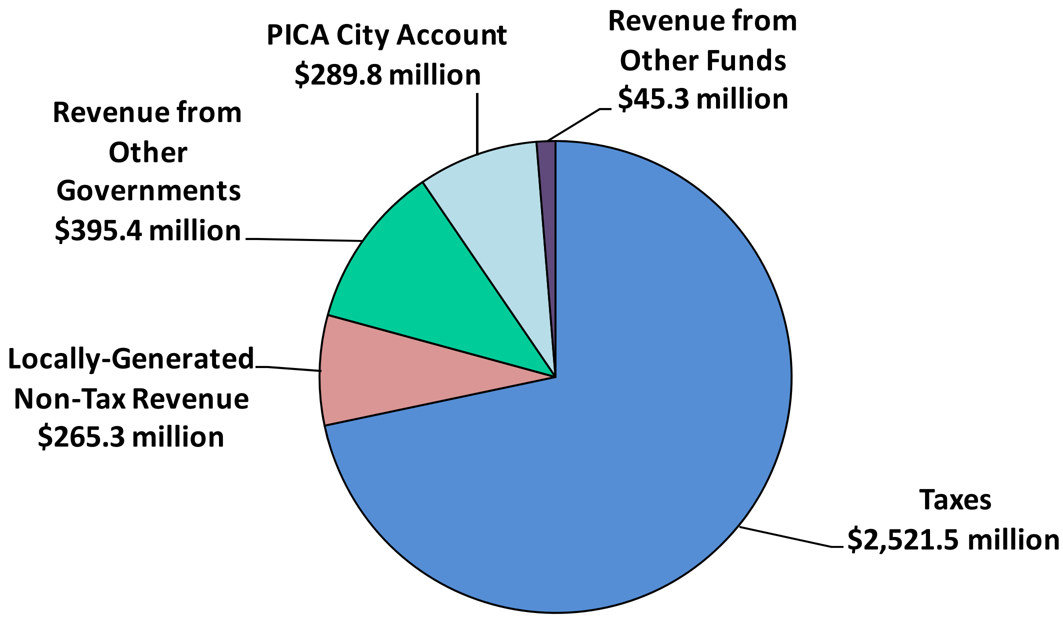
Leave Days Used as a Percentage of Available Work Days, Public Safety Employees



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

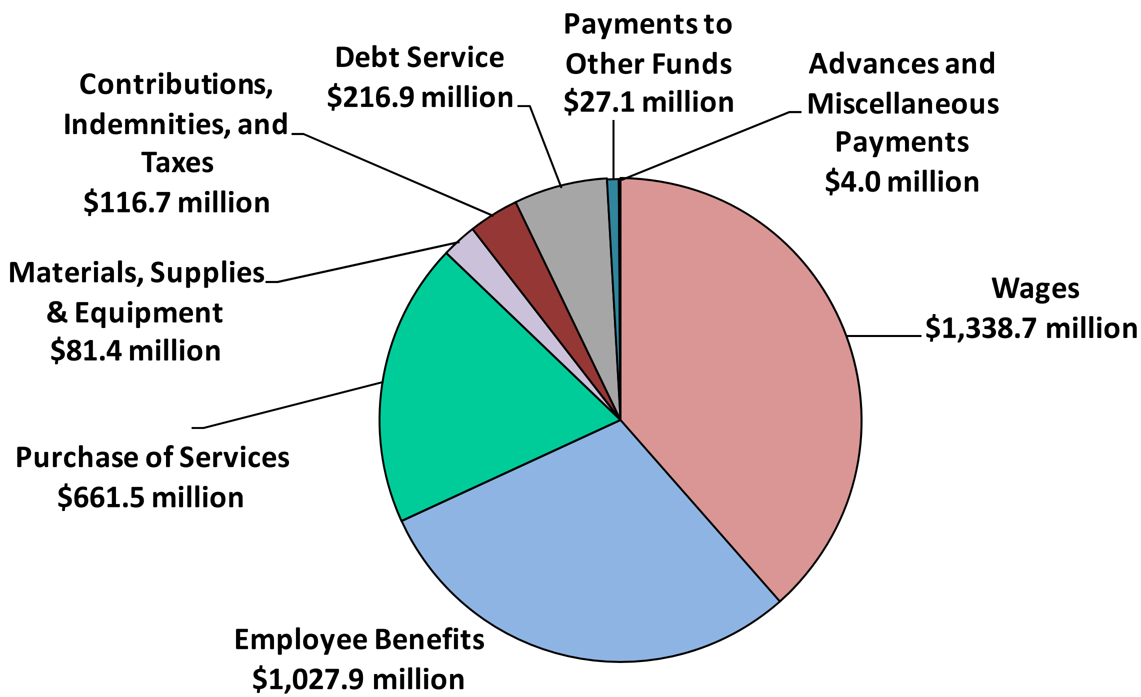
Key City Budget Characteristics

Distribution of FY12 General Fund Revenues
Total Projected Revenues: $3.517 Billion



Key City Budget Characteristics

Distribution of FY12 General Fund Obligations
Total Projected Obligations: $3.474 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.