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

Submitted to PICA on May 15, 2012

June 11, 2012

Introduction: PICA Staff Report on the City of Philadelphia's Quarterly City Managers Report for the Third 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 March 31, 2012, the third 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 third 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 each quarter of FY12. The report also discusses key City finance and management issues.
- 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 QCMRs issued through the third quarter of FY12.

FY12 Projection

- Overview
- Revenue
- Obligations

FY12 Projection: Overview

- The QCMR for the third quarter projects FY12 General Fund revenues at $3,531.7 million, an increase of $14.4 million over the previous quarterly report and $28.9 million over the FY12-FY16 Plan projection. FY12 obligations are projected at $3,487.5 million, an increase of $13.4 million from the previous QCMR, and $17.4 million from the Plan projection. The QCMR projects an FY12 operating surplus of $44.2 million and prior year adjustments of $22.7 million.
- The sum of the projected FY12 operating surplus, prior year adjustments, and FY11 fund balance is the currently projected end-of-year fund balance for FY12, which is $66.9 million. This is an increase of $7.2 million from the previous QCMR projection, and an increase of $6.3 million from the Plan.

FY12 General Fund Projections ($ in Millions)						
Category	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Change from Q2 to Q3 QCMR**	**Change from Plan to Q3 QCMR**
Revenues	$3,502.7	$3,505.8	$3,517.2	$3,531.7	$14.4	$28.9
Obligations	3,470.1	3,479.6	3,474.1	3,487.5	13.4	17.4
Operating Surplus/(Deficit)	32.6	26.2	43.2	44.2	1.0	11.6
Prior Year Adjustments	24.5	24.5	16.5	22.7	6.2	(1.9)
Prior Year Fund Balance/(Deficit)	3.5	0.1	0.1	0.1	--	(3.4)
Year-End Fund Balance	60.6	50.8	59.7	66.9	7.2	6.3

FY12 Projection: Revenue

- The third quarter QCMR projects FY12 General Fund revenues of $3,531.7 million, an increase of $14.4 million from the previous QCMR and $28.9 million from the Plan projection.
- The increase in projected revenues from the previous QCMR reflects a decline in locally-generated non-tax revenue ($17.0 million), offset by an increase in revenue from other governments ($23.4 million) and revenue from other funds ($7.9 million). The changes in locally-generated non-tax revenue and revenue from other governments are detailed below. The $7.9 million increase in revenue from other funds represents a reimbursement from the Grants Revenue Fund for Office of Innovation and Technology expenditures to maintain the 911 system.

FY12 General Fund Revenue Projections ($ in Millions)						
Category	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Change from Q2 to Q3 QCMR	Change from Plan to Q3 QCMR
Taxes	$2,539.5	$2,507.8	$2,521.5	$2,521.6	$0.1	($17.8)
Locally-Generated Non-Tax	260.0	258.0	265.3	248.2	(17.0)	(11.7)
Revenue from Other Governments	651.8	688.6	685.2	708.6	23.4	56.8
Revenue from Other Funds	51.5	51.5	45.3	53.2	7.9	1.7
Total	**3,502.7**	**3,505.8**	**3,517.2**	**3,531.7**	**14.4**	**28.9**

FY12 Projection: Locally-Generated Non-Tax Revenue

- The second quarter QCMR projects total locally-generated non-tax revenue at $248.2 million, a decrease of $17.0 million from the previous QCMR. Revenue received by the Finance Department is projected $11.0 million below the previous QCMR estimate due to reclassification of a $12.5 million payment from a Center City parking garage, offset by a $1.5 million increase in fines and reimbursement revenue. Fire Department revenues are projected to be $2.0 million lower due to lower EMS fee revenue. Office of the Sheriff revenues are projected $2.0 million lower due to lower interest earnings and commission fees. Streets Department revenues are projected $2.0 million lower than the previous estimate, due to lower receipts from commercial trash collection fees.

FY12 General Fund Locally-Generated Non-Tax Revenue Projections ($ in Millions)						
Agency Source	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Change from Q2 to Q3 QCMR**	**Change from Plan to Q3 QCMR**
City Treasurer	$6.8	$3.8	$2.8	$2.8	$0.0	($4.0)
Finance	13.4	13.4	25.9	14.9	(11.0)	1.5
Fire	37.2	37.2	37.2	35.2	(2.0)	(2.0)
First Judicial District – Traffic Court	9.8	9.8	7.8	7.8	--	(2.0)
Public Health	12.2	12.2	13.0	13.0	--	0.8
Revenue	3.7	4.7	4.7	5.7	1.0	2.1
Sheriff	9.1	9.1	8.1	6.1	(2.0)	(3.0)
Streets	24.0	24.0	23.7	21.7	(2.0)	(2.3)
Other	143.8	143.8	142.1	141.1	(1.0)	(2.8)
Total	**260.0**	**258.0**	**265.3**	**248.2**	**(17.0)**	**(11.7)**

FY12 Projection: Revenue from Other Governments

- The QCMR for the third quarter projects FY12 revenue from other governments at $708.6 million, an increase of $23.4 million from the previous QCMR and $56.8 million from the Plan. The most significant changes from the previous QCMR include increases of $12.5 million in the Finance Department and $11 million in the Department of Revenue. The Finance Department increase reflects a reclassification of a payment received from a Center City parking garage. The Revenue Department increase reflects a $11 million payment from the Philadelphia Parking Authority that represents the City's share of the operating surplus generated by a City-owned, PPA-operated parking garage at JFK Plaza/Love Park.

FY12 General Fund Revenue from Other Governments Projections ($ in Millions)						
Agency Source	**FY12-16 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Change from Q2 to Q3 QCMR**	**Change from Plan to Q3 QCMR**
City Treasurer	$5.2	$12.3	$12.2	$12.2	$0.0	$7.0
Finance	157.1	186.6	186.3	198.9	12.5	41.7
First Judicial District	15.4	16.1	16.1	16.1	--	0.7
Human Services	59.8	59.8	57.1	57.1	--	(2.8)
PICA City Account	290.9	290.9	289.8	289.7	(0.1)	(1.2)
Police	2.4	0.4	0.3	0.3	--	(2.1)
Public Health	58.8	58.8	60.9	60.9	--	2.1
Revenue	32.0	32.0	32.0	43.0	11.0	11.0
All Other	30.2	31.7	30.5	30.5	--	0.3
Total	**651.8**	**688.6**	**685.2**	**708.6**	**23.4**	**56.8**

FY12 Projection: Obligations

- The QCMR for the third quarter projects FY12 General Fund obligations at $3,487.5 million, an increase of $13.4 million from the most recent QCMR and $17.4 million from the Plan projection. The most significant changes are shown below.

FY12 General Fund Obligations Projections ($ in Millions)						
Agency or Cost Center	FY12-16 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Change from Q2 to Q3 QCMR	Change from Plan to Q3 QCMR
Debt Service	$223.9	$223.9	$216.9	$216.9	$0.0	($7.0)
Employee Benefits	1,022.7	1,022.7	1,027.9	1,027.9	--	5.2
Fire	190.0	192.0	194.0	194.0	--	4.0
First Judicial District	110.8	110.8	110.8	117.0	6.2	6.2
Fleet Management	53.7	53.7	56.2	56.2	--	2.5
Human Services	111.9	109.9	110.1	110.1	--	(1.8)
Indemnities	33.1	33.1	32.5	34.0	1.5	0.8
Innovation and Technology	63.9	63.9	63.0	70.9	7.9	7.0
Law	13.1	13.1	12.9	14.9	2.0	1.7
Police	550.7	553.2	553.2	553.2	--	2.5
Prisons	227.2	230.2	230.2	231.3	1.1	4.1
Property Assessment	11.7	11.7	11.5	9.1	(2.4)	(2.6)
Sheriff	13.1	15.1	15.6	15.6	--	2.5
Streets	121.4	121.4	119.8	115.8	(4.0)	(5.6)
Supportive Housing	36.5	38.5	38.5	38.5	--	2.0
All Other	686.4	686.4	681.1	682.2	1.1	(4.1)
Total	**3,470.1**	**3,479.6**	**3,474.1**	**3,487.5**	**13.4**	**17.4**

FY12 Projection: Obligations

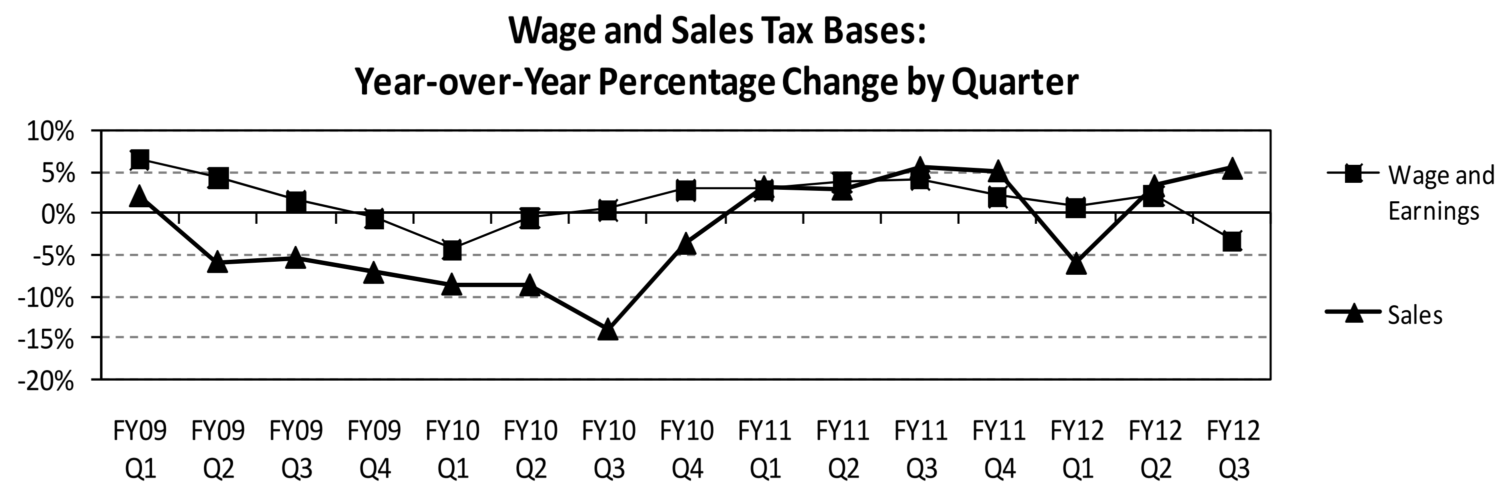
- Changes in obligation projections between the second and third quarter QCMRs include:
  - **First Judicial District** ($6.2 million increase): Increased obligations consistent with revenue sharing agreements between the City and First Judicial District
  - **Indemnities** ($1.5 million increase): Higher than anticipated legal settlement costs
  - **Innovation and Technology** ($7.9 million increase): Costs for 911 system improvements that are funded through user fee revenue (shown as an increase in Revenue from Other Funds)
  - **Law** ($2.0 million increase) and **Property Assessment** ($2.4 million decrease): Transfer of appropriation from Office of Property Assessment to Law Department for costs related to assessment appeals
  - **Prisons** ($1.1 million increase): Employee bonus payments required under an arbitration award, offset by lower than projected overtime
  - **Streets** ($4.0 million decrease): Lower than anticipated snow removal costs.
- Changes in obligation projections between the FY12-16 Plan and the third quarter QCMR include:
  - **Debt Service** ($7.0 million decrease): Later than anticipated debt issuance and reduced interest rates.
  - **Employee Benefits** ($5.2 million increase): Payroll taxes and unemployment compensation
  - **Fire** ($4.0 million increase): Overtime resulting from unfilled positions and injuries
  - **Fleet Management** ($2.5 million increase): Increased in fuel costs, offset by reduced vehicle purchases
  - **Human Services** ($1.8 million decrease): Funding shifted to the Office of Supportive Housing ($2.0 million) offset by increased costs in the Juvenile Justice Services Division ($0.2 million)
  - **Police** ($2.5 million increase): Personnel costs
  - **Prisons** ($4.1 million increase): Overtime due to a higher prison census, and employee bonus payments
  - **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

- Sales and real estate transfer tax collections were relatively strong in the third quarter of FY12, while wage and earnings tax collections were relatively weak in relation to projections. As shown in the chart below, the sales tax base grew at an annual rate of 5.4 percent in the third quarter, consistent with generally strong growth in FY11 and FY12. The wage and earnings tax base, however, declined 3.3 percent in the third quarter, the first decline since the second quarter of FY10. While a portion of this decline was due to delayed payments of approximately $11 million, even after adjusting for this delay, the tax base declined in the third quarter of FY12 compared to the third quarter of FY11.
- Overall wage and earnings tax collections through the first three quarters of FY11 declined 0.3 percent compared to the same period in FY11. April wage tax collections, however, were relatively strong, indicating the potential for stronger growth in the fourth quarter. The third quarter QCMR projects wage and earnings tax growth of 2.2 percent from FY11 to FY12.



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

Key Financial Issues: Labor Contracts

- The City's financial stability depends on the outcome of ongoing labor contract arbitration processes with the International Association of Fire Fighters (IAFF) and Fraternal Order of Police (FOP), and collective bargaining with the City's two major non-uniformed unions, District Councils 33 and 47 of AFSCME. Labor contract provisions that will reduce the cost of employee health care and pensions are particularly important. The FY12-FY16 Five-Year Plan projects $11.9 million in annual employee benefit savings resulting from new labor contracts.
- Restructuring of employee pensions is necessary to ensure the viability of the pension program and prevent unsustainable cost growth over the long term. Some progress toward pension reform for some bargaining units has already occurred. Under recent arbitration awards, new Register of Wills employees and correctional officers will be required to participate in a "hybrid" pension plan that includes mandatory defined benefit and voluntary defined contribution components. New police officers, firefighters, and employees of the Sheriff's Office must either participate in a hybrid pension plan or make higher contributions to participate in a defined benefit plan.
- The City has achieved substantial health care savings through implementing self-insurance for employees covered under the City-administered and FOP health plans. Similar reforms for other employees are critical to controlling the cost of employee and retiree health care.
- 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. 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 by the court and a new round of arbitration hearings is underway.
- 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 is subject to a "reopener" arbitration process which will occur beginning later this month.

Key Management Issues

- Performance Measures
- Staffing
- Overtime
- Leave Usage

Key Management Issues: Performance Measures

- **Police Department**: Through the first three quarters of FY12, an estimated 220 homicides occurred, a decline from 245 during the same period in FY11. Estimated Part 1 violent crime incidents were 13,607 in the first three quarters of FY12, a slight decline from 13,614 in the same period in FY11. The clearance rate for homicides through the first three quarters declined from 70.8 percent in FY11 to 57.5 percent in FY12, while the clearance rate for other violent crime decreased from 49.0 percent to 46.9 percent over the same period.
- **Fire Department**: Average fire response times declined slightly from 4:59 in the first three quarters of FY11 to 4:57 in the same period in FY12. Structural fires increased from 2,328 to 2,348 over this period. In the first three quarters of FY12, 15 fire deaths were reported, compared to 32 over the same period in FY11.
- **Prison System**: Through the first three quarters of FY12, 75 percent of sentenced inmates were given the opportunity to participate in education, training or treatment, compared to 76 percent during the same period in FY11. Through the first three quarters of FY11 and FY12, all inmates were housed within 24 hours of admission.

Performance Measures: Public Safety

Agency	Measure	FY10 Total	FY11 Total	FY11 through Q3	FY12 through Q3
Police[1]	Homicides	305	318	245	220
	Part 1 Violent Crime	17,740	18,446	13,614	13,607
	Homicide Clearance Rate	72.2%	67.9%	70.8%	57.5%
	Other Violent Crime Clearance Rate	51.2%	49.8%	49.0%	46.9%
Fire	Fire Average Response Time	4:46	4:57	4:59	4:57
	Structural Fires[2]	1,362	3,041	2,328	2,348
	Fire Deaths	32	41	32	15
Prisons	Percent of Sentenced Inmates with Opportunity to Participate in Education, Training, or Treatment	75%	77%	76%	75%
	Inmates Processed and Housed within 24 Hours of Admission	100%	100%	100%	100%

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

[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 increased from 9,007 during the first three quarters of FY11 to 9,096 during the same period in FY12. Dependent children in placement declined from 4,345 at the end of the third quarter of FY11 to 4,112 at the end of the third quarter of FY12. Delinquent children in placement declined from 1,668 to 1,319 over this period. Finalized adoptions declined from 439 in the first three quarters of FY11 to 377 in the same period in FY12. The average daily population at the Youth Study Center increased slightly over this period.
- **Department of Public Health**: District health center visits increased from 255,000 in the first three quarters of FY11 to 261,000 in the same period in FY12. Uninsured patients made up 50.5 percent of all visits in the first three quarters of FY11 and 51.5 percent of visits during the same period in FY12.

Performance Measures: Public Health and Human Services					
Agency	**Measure**	**FY10 Total**	**FY11 Total**	**FY11 through Q3**	**FY12 through Q3**
Human Services	Abuse and Neglect Reports	12,372	12,352	9,007	9,096
	Dependent Placements as of End of Period	4,762	4,186	4,345	4,112
	Delinquent Placements as of End of Period	1,774	1,539	1,668	1,319
	Adoptions Finalized	561	630	439	377
	Youth Study Center Average Daily Population	106	118	117	119
Public Health	Visits to District Health Centers	350,695	339,032	254,883	261,232
	Percent of Visits from Uninsured Patients	49.6%	49.6%	50.5%	51.5%

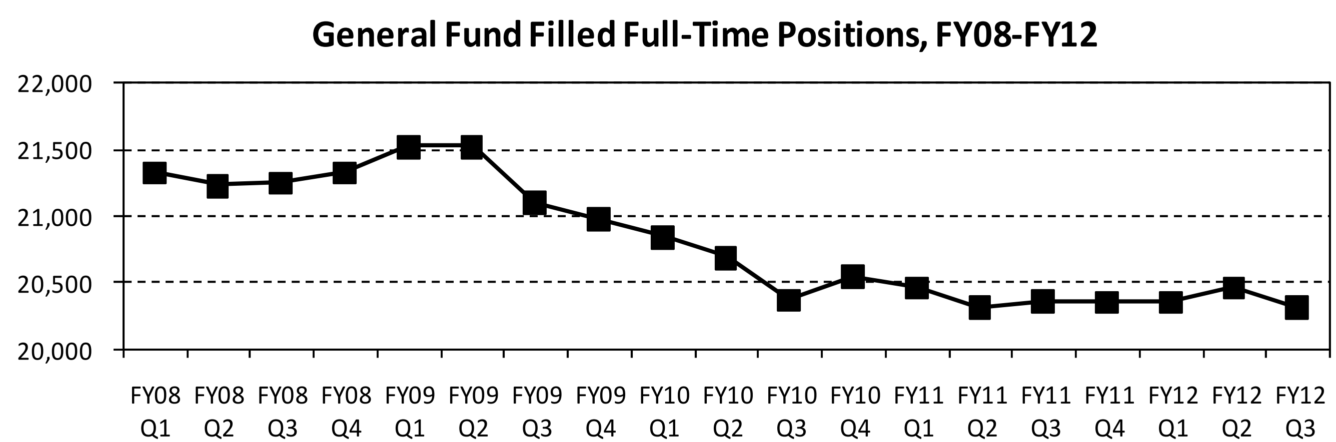
Key Management Issues: Performance Measures

- **Streets Department**: The recycling rate was 19 percent in the first three quarters of FY12, unchanged from the prior fiscal year. The on-time trash collection rate was 93 percent in the first three quarters of FY12, also unchanged from the same period in FY11. The on-time recycling rate increased from 96 percent in the first three quarters of FY11 to 97 percent in the first three 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 three 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 Q3**	**FY12 through Q3**
Streets	Recycling Rate	16%	19%	19%	19%
	On-Time Trash Collection	90%	94%	93%	93%
	On-Time Recycling Collection	94%	97%	96%	97%
Licenses and Inspections	Service License Customers Within 30 Minutes	92%	84%	86%	96%
	Service Zoning Customers Within 30 Minutes	NA	94%	93%	98%
	Service Building Customers Within 30 Minutes	NA	90%	88%	96%
	Review Residential Building Plans Within 15 Days	95%	90%	88%	93%
	Review Commercial Building Plans Within 20 Days	96%	95%	95%	98%
	Review Plumbing Plans Within 20 Days	NA	99%	98%	99%
	Review Electrical Plans Within 20 Days	NA	96%	94%	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 third quarter of FY12, filled General Fund positions remained roughly constant (declining by 7 positions).[1] The QCMR projects that in FY12 employee wage and benefit costs will make up 68 percent of General Fund expenditures.

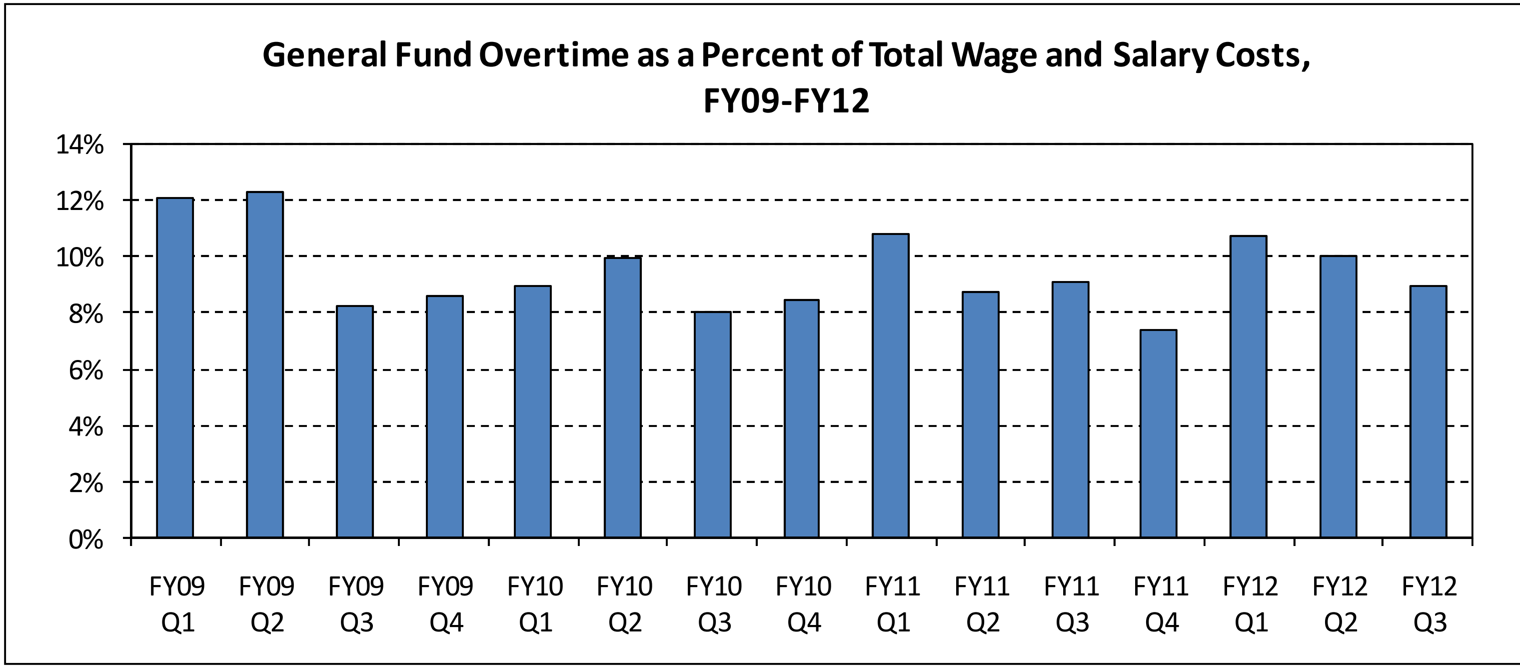


Note: Figures are as of the end of the fiscal quarter. Department of Human Services personnel are excluded to allow comparability.

[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

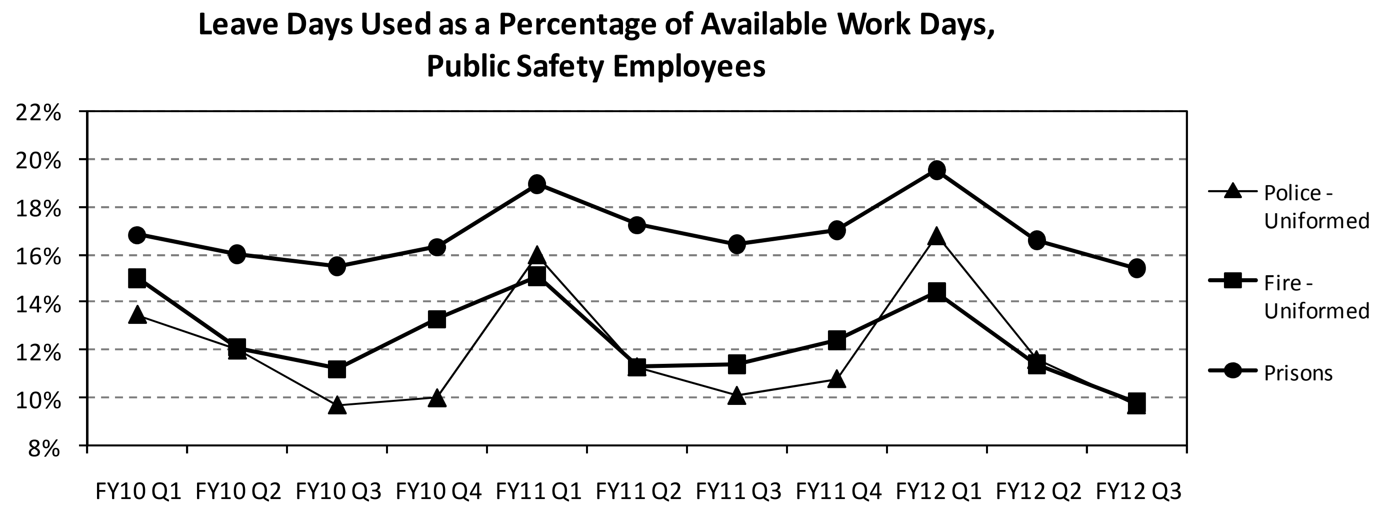
- Despite a reduction in filled positions since the first quarter of FY09, General Fund overtime costs were reduced through FY11 as a result of management initiatives. General Fund overtime costs declined from $132.9 million in FY09 (9.5 percent of payroll) to $117.5 million in FY11[1] (8.6 percent of payroll). The third quarter QCMR projects that FY12 overtime costs will increase to $127.4 million (9.5 percent of payroll), $15.0 million higher than the FY12-FY16 Plan projection. The increases are due primarily to projected increases in the Fire Department ($4.6 million), Prisons System ($6.6 million), Office of the Sheriff ($1.6 million), and Streets Department ($1.6 million).



[1] The FY11 amount excludes an unusual, $3.8 million legal settlement related to overtime for emergency medical services personnel.

Key Management Issues: Leave Usage

- For the median City agency, employees were absent from work on 12.9 percent of available work days in the third quarter of FY12. Leave usage varied from a high of 18.4 percent in the Office of City Commissioners to 6.0 percent in the Mayor'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.



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