Pennsylvania Intergovernmental Cooperation Authority

Staff Report
on the
City of Philadelphia's
Quarterly City Managers Report
for the Period Ending December 31, 2013

PICA
PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

May 2, 2014

Introduction

- The Pennsylvania Intergovernmental Cooperation Authority ("PICA") Act (Act of June 5, 1991, P. L. 9, No. 6), Section 209(i), requires the City of Philadelphia 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.

- The City fulfills this requirement by publishing a *Quarterly City Managers Report* ("QCMR") after the end of each fiscal quarter. The QCMR details actual-to-date and projected revenues and expenditures for the current fiscal year for the General Fund, Water Fund, and Aviation Fund, and information on personnel, leave usage, performance, and cash flow.

- This PICA staff report analyzes the most recent QCMR covering the second quarter of FY14.[1] It compares estimates of FY14 revenues and expenditures in the initially-approved FY14-FY18 *Five-Year Financial Plan* with the estimates in the QCMRs for the first and second quarters of FY14.[2] The report also highlights finance and management issues that impact City financial results.

- The report also discusses the relationship between the estimate of FY13 revenues and expenditures in the approved FY13-FY17 *Five-Year Financial Plan*, subsequent estimates in the QCMRs issued for FY13, and actual amounts.[3]

- Unless otherwise noted, information in this report is drawn from City Five-Year Financial Plans and QCMRs.

Notes:

[1] The QCMR is available at http://www.phila.gov/finance//reports-Quarterly.html

[2] The initially-approved FY14-FY18 Plan was submitted to PICA on September 10, 2013 and approved on September 17. Subsequently, revisions to the FY14-Fy18 Plan were approved on November 15, 2013 and March 18, 2014. The revisions were required under the PICA Act due to finalization of labor contracts that were not compliant with the previously approved Plan. All references to the "FY14-FY18 Plan" in this report are to the version approved on September 17.

[3] The approved FY13-FY17 Plan was submitted to PICA on August 9, 2012 and approved on September 5.

FY13 Actual Financial Results in Relation to Projections

- Overview
- Revenue
- Obligations

FY13 Actual: Overview

- The actual year-end fund balance of $256.9 million was $175.6 million higher than the year-end surplus projected in the FY13-17 Plan. The size of the projected surplus generally increased with each successive projection (with the exception of a decline between the first and second QCMR projection). The actual FY13 surplus was also higher than the final projection in the fourth quarter QCMR. This trend primarily reflected increasing revenue projections during the year.
- Actual General Fund revenues for FY13 were $3,698.0 million, an increase of $1.3 million from the Q4 QCMR estimate and $130.3 million from the FY13-17 Plan. Actual obligations were $3,613.3 million, a decrease of $24.0 million from the Q4 QCMR estimate and an increase of $9.4 million from the Plan. The operating surplus was $84.7 million, compared to a projected operating deficit of $36.1 million in the Plan. The actual FY13 fund balance was also higher than projected due to better than anticipated results in FY12; the actual FY12 fund balance was $146.8 million, $47.8 million above the FY13-17 Plan projection.

FY13 General Fund Revenues, Obligations, and Fund Balance Projections and Actual ($ in Millions)

Category	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
Revenues	$3,567.7	$3,591.3	$3,618.4	$3,675.6	$3,696.7	$3,698.0	$130.3
Obligations	3,603.9	3,638.7	3,668.8	3,699.1	3,637.3	3,613.3	9.4
Operating Surplus/(Deficit)	(36.1)	(47.4)	(50.3)	(23.6)	59.4	84.7	120.9
Prior Year Adjustments	18.5	18.5	17.7	17.7	17.7	25.4	6.9
Prior Year Fund Balance/(Deficit)	99.0	146.8	146.8	146.8	146.8	146.8	47.8
Year-End Fund Balance	81.3	117.9	114.1	140.9	223.9	256.9	175.6

FY13 Actual: Revenue

- Actual FY13 General Fund revenues were $3,698.0 million, an increase of $130.3 million from the FY13-FY17 *Five-Year Financial Plan* estimate.
- The increase from the Plan estimate reflected tax revenues that were $119.1 million above Plan, and locally-generated non-tax revenue that was $19.9 million higher than Plan. These increases were offset by lower than projected revenue from other governments and revenue from other funds.
- The projection of tax revenues increased gradually throughout the year. Projected revenue from locally-generated non-tax also generally increased as the year progressed.

FY13 General Fund Revenue Projections and Actual ($ in Millions)							
Category	**FY13-17 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Actual**	**Change from Plan to Actual**
Taxes	$2,614.4	$2,626.6	$2,658.7	$2,707.5	$2,736.8	$2,733.5	$119.1
Locally-Generated Non-Tax	246.3	251.0	254.4	258.6	267.2	266.2	19.9
Revenue from Other Governments	653.8	660.5	650.9	650.9	647.4	651.5	(8.1)
Revenue from Other Funds	53.3	53.3	54.5	58.6	45.3	46.8	(6.4)
Total	**3,567.7**	**3,591.3**	**3,618.4**	**3,675.6**	**3,696.7**	**3,698.0**	**130.3**

FY13 Actual: Tax Revenue

- Actual FY13 tax revenue was $2,733.5 million, a decline of $3.4 million from the Q4 QCMR estimate and an increase of $119.1 million from the Plan estimate.
- Compared to the original FY13-FY17 Plan estimate, actual tax revenues increased for every major tax except sales, parking and amusement. The increases were particularly significant for the business income and receipts tax, which increased 14.2 percent from the Plan estimate, and the net profits tax, which increased 55.9 percent. Revenue from these sources reflect business activity and profits, which are more volatile than other tax bases, and subject to larger forecast errors. Actual real estate transfer tax revenue was 18.8 percent above the Plan projection, indicating a more rapid than expected recovery in the real estate market.

FY13 General Fund Tax Revenue Projections and Actual ($ in Millions)

Tax	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
Wage and Earnings	$1,207.8	$1,218.8	$1,231.7	$1,231.7	$1,228.7	$1,221.5	$13.7
Real Estate	514.9	514.9	526.3	535.1	540.1	540.5	25.6
Business Income and Receipts	394.9	398.0	400.0	435.0	453.0	450.9	56.0
Net Profits	12.3	12.4	12.5	12.5	15.5	19.2	6.9
Sales	259.3	259.3	259.3	259.3	257.6	257.6	(1.8)
Real Estate Transfer	124.5	124.5	131.3	138.3	146.8	148.0	23.4
Parking	75.1	73.2	73.2	73.2	73.2	73.3	(1.9)
Amusement	22.1	22.1	21.1	19.1	18.6	19.1	(3.0)
Other	3.4	3.4	3.4	3.4	3.4	3.5	0.1
Total	**2,614.4**	**2,626.6**	**2,658.7**	**2,707.5**	**2,736.8**	**2,733.5**	**119.1**

FY13 Actual: Locally-Generated Non-Tax Revenue

- Actual FY13 locally generated non-tax revenue was $266.2 million, an increase of $1.0 million from the Q4 QCMR estimate and $19.9 million from the Plan.
- The increase from the Plan estimate reflects: an increase in Finance ($3.8 million) due to higher than expected reimbursements; an increase in Licenses and Inspections ($10.5 million) due to higher than estimated license fees; a decline in Fire ($3.7 million) due to lower than projected emergency medical services fee collections; a decline in First Judicial District ($3.7 million) due to lower than projected fees and charges; and an increase in Streets ($2.3 million) due to higher than projected revenue from commercial property collection fees and street permits.

FY13 General Fund Locally-Generated Non-Tax Revenue Projections and Actual ($ in Millions)

Agency Source	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
Finance	$13.8	$16.3	$17.0	$17.0	$17.5	$17.5	$3.8
Fire	37.4	33.4	33.4	33.4	33.4	33.7	(3.7)
First Judicial District	32.8	32.8	32.8	32.8	30.2	29.1	(3.7)
First Judicial District – Traffic Court	7.8	7.8	7.8	7.8	7.4	7.3	(0.4)
Licenses and Inspections	44.3	44.3	46.8	49.8	54.8	54.8	10.5
Records	17.4	16.9	16.9	16.9	17.3	17.3	(0.1)
Streets	19.1	19.1	20.2	20.2	21.4	21.5	2.3
Other	73.7	80.4	79.4	80.7	85.2	84.9	11.2
Total	**246.3**	**251.0**	**254.4**	**258.6**	**267.2**	**266.2**	**19.9**

FY13 Actual: Revenue from Other Governments

- Actual FY13 revenue from other governments was $651.5 million, an increase of $4.2 million from the Q4 QCMR estimate and a decline of $2.3 million from the FY13-FY17 Plan estimate.
- The decline from the Plan projection reflected: a reduction in City Treasurer ($7.0 million) due to the elimination of budgeted PICA funding for the Police Department headquarters project; an increase in Finance ($11.3 million) reflecting higher than expected state pension aid and an unanticipated reimbursement from the Philadelphia Housing Authority; a decline in Human Services ($18.9 million) reflecting lower than expected state and federal reimbursements of prior year costs; an increase in PICA City Account ($12.2 million) due to higher than anticipated PICA tax revenue and lower than expected PICA debt service costs.

FY13 General Fund Revenue from Other Governments Projections and Actual ($ in Millions)

Agency Source	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
City Treasurer	$13.7	$13.9	$6.7	$6.7	$6.7	$6.7	($7.0)
Finance	153.9	158.4	165.5	165.5	165.5	165.2	11.3
Human Services	49.9	44.9	31.7	31.7	31.7	31.0	(18.9)
PICA City Account	301.8	307.7	311.6	311.6	311.6	314.0	12.2
Public Health	59.0	58.0	58.0	58.0	54.5	58.6	(0.3)
All Other	75.6	77.6	77.3	77.3	77.3	76.0	0.4
Total	**653.8**	**660.5**	**650.9**	**650.9**	**647.4**	**651.5**	**(2.3)**

FY13 Actual: Obligations

- FY13 actual obligations were $3,613.9 million, a decrease of $24.0 million from the Q4 QCMR estimate and an increase of $9.4 million from Plan. The most significant changes are shown below and described on the next two pages.

FY13 General Fund Obligations
Projections and Actual ($ in Millions)

Agency or Cost Center	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
City Council	$35.5	$15.5	$15.6	$15.6	$14.1	$13.4	($22.1)
Debt Service	222.5	222.5	215.5	215.5	210.0	209.8	(12.6)
Employee Benefits	1,118.3	1,120.8	1,124.6	1,124.6	1,124.6	1,119.1	0.8
Fire	189.3	191.3	196.5	198.5	200.1	200.0	10.7
First Judicial District	101.4	101.4	108.3	108.3	108.3	110.7	9.3
Fleet Management	44.9	49.9	50.0	50.0	50.0	49.8	4.9
Human Services	111.0	102.8	101.7	101.7	101.7	90.4	(20.6)
Innovation and Technology	70.0	71.0	71.2	71.2	63.3	63.2	(6.8)
Police	556.8	556.8	571.7	571.7	571.7	571.9	15.1
Prisons	227.9	236.9	239.7	241.7	241.7	241.5	13.6
Public Property	65.0	66.0	55.8	55.8	59.4	55.9	(9.1)
School District Contribution	49.0	69.0	69.0	69.0	69.0	69.0	20.0
Non-Rep Compensation	--	3.4	--	--	--	--	--
Labor Contract Provision	--	--	11.6	43.0	--	--	--
All Other	812.2	831.4	837.6	832.6	823.5	818.5	6.3
Total	**3,603.9**	**3,638.7**	**3,668.8**	**3,699.1**	**3,637.3**	**3,613.3**	**9.4**

FY13 Actual: Obligations

- Significant changes in FY13 obligations between the FY13-17 Plan estimate and actual obligations are as follows:
  - **City Council** ($22.1 million decrease): Shift of additional $20 million appropriation to the School District of Philadelphia to Finance
  - **Debt Service** ($12.6 million decrease): Lower costs for short-term borrowing and variable rate debt
  - **Employee Benefits** ($0.8 million increase): Lower overall costs for pensions (including debt service on pension obligation bonds), offset by lower than projected workforce savings (details provided on page 10)
  - **Fire** ($10.7 million increase): Increased uniform overtime and higher costs for equipment
  - **First Judicial District** ($9.3 million increase): Increased obligations reflecting revenue sharing agreements between the City and First Judicial District and salary increases for non-represented employees
  - **Fleet Management** ($4.9 million increase): Increased fuel costs
  - **Human Services** ($20.6 million decrease): Lower than anticipated child welfare program costs
  - **Innovation and Technology** ($6.8 million decrease): Lower than anticipated expenditures for 911 system
  - **Police** ($15.1 million increase): Increased personnel costs due to 3 percent wage increase under arbitration award reopener
  - **Prisons** ($13.6 million increase): Increased overtime and outside housing costs due to higher than anticipated census
  - **Public Property** ($9.1 million decrease): Elimination of design costs related to new Police headquarters
  - **School District Contribution** ($20.0 million increase): Shift of additional $20 million in funding from City Council appropriation to Finance

FY13 Actual: Employee Benefit Obligations

- FY13 actual obligations for employee benefits were $1,119.1 million, a decrease of $5.5 million from the Q4 QCMR estimate and an increase of $0.8 million from Plan.
- Payments to the Pension Fund were $422.3 million, a decline of $99.7 million from the Plan projection. This reflected debt issuance to fund the City's obligation to repay deferred contributions from FY10 and FY11. Payments for pension-related debt were $196.6 million, an increase of $89.5 million from the Plan estimate. Actual pension-related debt payments included $107.1 million for debt service on pension obligation bonds and $89.5 million related to debt issued to finance repayment of deferred amounts. Overall pension costs (including direct payments to the Pension Fund and debt service) declined $10.2 million from the Plan, primarily as a result of the savings due to the refinancing of the City's deferred payments.
- Actual non-pension employee benefit costs were generally close to Plan estimates.

FY13 General Fund Employee Benefits Obligations Projections and Actual ($ in Millions)

Category	FY13-17 Five-Year Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Actual	Change from Plan to Actual
Pension Contribution	$522.0	$512.2	$512.2	$512.2	$512.2	$422.3	($99.7)
Pension Related Debt	107.1	107.1	107.1	107.1	107.1	196.6	89.5
Health Benefits	357.4	369.8	368.5	368.5	368.5	363.2	5.7
Employee Disability	58.3	58.3	58.3	58.3	58.3	57.4	(0.9)
FICA	64.9	64.9	64.9	64.9	64.9	64.7	(0.2)
Unemployment Compensation	5.6	5.6	5.6	5.6	5.6	3.5	(2.1)
Group Life	7.8	7.8	7.8	7.8	7.8	6.8	(1.0)
Group Legal	4.1	4.1	4.1	4.1	4.1	3.8	(0.3)
Flex Cash/Tool Allowance	1.1	1.1	1.1	1.1	1.1	0.8	(0.3)
Anticipated Savings	(10.1)	(10.1)	(5.0)	(5.0)	(5.0)	--	10.1
Total	**1,118.3**	**1,120.8**	**1,124.6**	**1,124.6**	**1,124.6**	**1,119.1**	**0.8**

FY14 Projection

- Overview
- Revenue
- Obligations

FY14 Projection: Overview

- The Q2 QCMR projects FY14 General Fund revenues at $3,822.8 million, an increase of $92.9 million from the FY14-18 *Five-Year Financial Plan* estimate. Obligations are projected at $3,997.6 million, an increase of $102.8 million from the Plan. The operating deficit is projected at $174.8 million, an increase from the $164.8 million operating deficit projected in the Plan. The Plan projected the FY13 year-end fund balance at $223.9 million, while the actual fund balance was $256.9 million, an increase of $33.1 million.
- The sum of the projected operating deficit, prior year adjustments, and prior year fund balance is the currently projected FY14 fund balance of $101.5 million. The Q2 QCMR projection of the fund balance is $23.1 million higher than the Plan projection.[1]

FY14 General Fund Projections ($ in Millions)

Category	FY14-18 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Plan to Q2 QCMR
Revenues	$3,729.9	$3,778.5	$3,822.8	$92.9
Obligations	3,894.7	3,940.5	3,997.6	102.8
Operating Surplus/(Deficit)	(164.8)	(162.0)	(174.8)	(10.0)
Prior Year Adjustments	19.4	19.4	19.4	--
Prior Year Fund Balance/(Deficit)	223.9	256.9	256.9	33.1
Year-End Fund Balance	78.4	114.3	101.5	23.1

Note:
[1] The Mayor's proposed FY15-FY19 *Five-Year Financial Plan*, issued on March 6, 2014, projects a FY14 fund balance of $107.2 million. The Plan contains small adjustments in revenues and obligations from the Q2 QCMR projections. The next official City projection will be contained in the QCMR for the third quarter of FY14, which will be issued on May 15.

FY14 Projection: Revenue

- The Q2 QCMR projects FY14 General Fund revenue of $3,822.8 million, an increase of $92.9 million from the FY14-18 Plan estimate.
- The increase reflects higher than projected tax revenue ($16.5 million), locally-generated non-tax revenue ($35.7 million), and revenue from other governments ($41.0 million).

FY14 General Fund Revenue Projections ($ in Millions)				
Category	**FY14-18 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Change from Plan to Q2 QCMR**
Taxes	$2,760.8	$2,760.8	$2,777.3	$16.5
Locally-Generated Non-Tax	273.3	273.3	309.0	35.7
Revenue from Other Governments	628.6	677.1	669.6	41.0
Revenue from Other Funds	67.2	67.2	66.9	(0.3)
Total	**3,729.9**	**3,778.5**	**3,822.8**	**92.9**

FY14 Projection: Tax Revenue

- FY14 General Fund tax revenue is projected at $2,777.3 million in the Q2 QCMR, an increase of $16.5 million from the FY14-18 *Five-Year Financial Plan* estimate.
- Wage and earnings tax revenue is projected at $1,238.1 million, a decline of $36.1 million from the Plan estimate. The lower projection reflects lower than anticipated revenue growth. Compared to FY13, the wage and earnings tax base increased 1.6 percent in the first quarter of FY14, and 2.0 percent in the second quarter. The Plan had estimated tax base growth of 3.59 percent for the full fiscal year.
- Business income and receipts tax (BIRT) revenue is projected at $461.3 million, an increase of $51.3 million from Plan. This increase reflects strong collections in FY13 and the City's decision to use FY13 revenue as the base for the FY14 projection. FY14 revenue is projected to increase 2.3 percent from the FY13 level. Similarly, the $6.7 million increase in projected net profits tax revenue reflects strong FY13 collections.
- Current projections of other major taxes have been adjusted slightly from the original Plan projections.

FY14 General Fund Tax Revenue Projections ($ in Millions)

Tax	FY14-18 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Plan to Q2 QCMR
Wage and Earnings	$1,274.1	$1,274.1	$1,238.1	($36.1)
Real Estate	536.6	536.6	533.2	(3.4)
Business Income and Receipts	410.0	410.0	461.3	51.3
Net Profits	12.8	12.8	19.4	6.7
Sales	270.8	270.8	265.9	(4.9)
Real Estate Transfer	157.6	157.6	160.5	2.9
Parking	75.0	75.0	75.0	--
Amusement	20.5	20.5	20.5	--
Other	3.4	3.4	3.4	--
Total	**2,760.8**	**2,760.8**	**2,777.3**	**16.5**

FY14 Projection: Locally-Generated Non-Tax Revenue

- The Q2 QCMR projects FY14 locally-generated non-tax revenue at $309.0 million, an increase of $35.7 million from the Plan.
- The overall increase reflects the following changes: an increase in Public Property ($27.9 million) due to an estimated $29.2 million received from the sale of the Love Park garage, offset by a decline in $1.3 million in revenue from other asset sales; an increase in Streets ($5.6 million) due to higher commercial property collection fees, offset by lower recycling revenue; an increase in Finance ($0.7 million) due to higher revenue from employee health benefit contributions and medical reimbursements; an increase in Innovation and Technology ($1.4 million) due to higher cable TV franchise fees; a decline in Fire ($1.0 million) due to lower emergency medical service fee collections; and an increase in Sheriff ($1.5 million) due to higher fee revenue.

FY14 General Fund Locally-Generated Non-Tax Revenue Projections ($ in Millions)				
Agency Source	**FY14-18 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Change from Plan to Q2 QCMR**
Finance	$20.3	$20.3	$21.0	$0.7
Fire	37.9	37.9	36.9	(1.0)
Innovation and Technology	21.3	21.3	22.6	1.4
Public Property	9.6	9.6	37.5	27.9
Records	17.4	17.4	17.8	0.4
Sheriff	8.0	8.0	9.5	1.5
Streets	23.4	23.4	29.1	5.6
Other	135.5	135.5	134.7	(0.8)
Total	**273.3**	**273.3**	**309.0**	**35.7**

FY14 Projection: Revenue from Other Governments

- The Q2 QCMR projects FY14 revenue from other governments at $669.6 million, an increase of $41.0 million from the FY14-18 Plan estimate.
- Department of Finance revenue is projected at $207.9 million, an increase of $47.9 million from the Plan due to higher than projected state pension aid, and the inclusion of a $45.0 million State grant to the School District of Philadelphia (SDP) that was received by the City and transferred to SDP. This grant was not included in the original Plan estimate. The impact of the grant is neutral to the City General Fund since it was transferred to SDP.
- PICA City Account revenue is projected at $319.7 million, a $5.5 million decline from the Plan due to lower than projected PICA tax revenue. Revenue Department collections are projected at $37.5 million, a decline of $1.7 million due to lower Philadelphia Parking Authority payments of revenue generated by on-street parking operations and the Love Park garage.

FY14 General Fund Revenue from Other Governments Projections ($ in Millions)

Agency Source	FY14-18 Five-Year Plan	Q1 QCMR	Q2 QCMR	Change from Plan to Q2 QCMR
Finance	$160.0	$208.6	$207.9	$47.9
PICA City Account	325.1	325.1	319.7	(5.5)
Revenue	39.2	39.2	37.5	(1.7)
All Other	104.2	104.2	104.4	0.3
Total	**628.6**	**677.1**	**669.6**	**41.0**

FY14 Projection: Obligations

- The Q2 QCMR projects FY14 General Fund obligations at $3,997.6 million, an increase of $102.8 million from the FY14-18 Plan estimate. The most significant changes are shown below and described on the next page.

FY14 General Fund Obligations Projections ($ in Millions)				
Agency or Cost Center	**FY14-18 Five-Year Plan**	**Q1 QCMR**	**Q2 QCMR**	**Change from Plan to Q2 QCMR**
Civil Service Commission	$84.9	$37.4	$37.4	($47.5)
Contribution to School District	69.1	114.1	114.1	45.0
Debt Service	226.3	226.3	222.8	(3.5)
Fire	197.2	244.7	244.7	47.5
Fleet Management	56.4	56.4	62.3	5.9
Indemnities	32.5	32.5	41.0	8.5
Licenses and Inspections	22.6	22.6	25.6	3.0
Supportive Housing	43.6	43.6	45.1	1.4
Prisons	238.8	238.8	243.5	4.7
Public Property	57.5	57.5	87.3	29.8
Sheriff	14.7	15.5	17.2	2.5
Streets	30.3	30.3	31.8	1.5
All Other	2,821.0	2,821.0	2,825.0	3.9
Total	**3,894.7**	**3,940.5**	**3,997.6**	**102.8**

FY14 Projection: Obligations

- Changes in FY14 obligation projections between the FY14-18 Plan and Q2 QCMR estimate include:
  - **Civil Service Commission** ($47.5 million decrease): The FY14-FY18 Plan included $47.5 million to cover retroactive and increased FY14 wages for uniformed firefighters required under a FY10-FY13 arbitration award. This amount was included under the Civil Service Commission line item in the Plan. The decrease reflects the shift of this appropriation to the Fire Department in the Q2 QCMR projection.
  - **School District Contribution** ($45.0 million increase): This reflects the pass through of a State grant that provided one-time aid to the School District of Philadelphia. This grant had not been included in the Plan.
  - **Debt Service** ($3.5 million decrease): Lower than anticipated short-term borrowing costs
  - **Fire** ($47.5 million increase): Reflects transfer of additional wage costs required under the FY10-FY13 arbitration award from Civil Service Commission to Fire Department
  - **Fleet Management** ($5.9 million increase): Increased fuel and vehicle purchase costs
  - **Indemnities** ($8.5 million increase): Increased cost of case settlements
  - **Licenses and Inspections** ($3.0 million increase): Increased allocation for demolitions
  - **Supportive Housing** ($1.4 million increase): Increased funding for domestic violence shelter and winter shelter
  - **Prisons** ($4.7 million increase): Increased overtime and higher cost for contracted correctional facility space
  - **Public Property** ($29.8 million): Distribution of proceeds from sale of Love Park garage and increased costs for facility maintenance
  - **Sheriff** ($2.5 million increase): Increase of 30 Sheriff deputies and higher overtime costs
  - **Streets** ($1.5 million increase): Increased overtime costs related to severe weather

Key Financial Issues

- Labor Contracts
- Pension Benefits

Key Financial Issues: Labor Contracts

- The City's financial stability depends on its ability to manage the cost of labor contracts with its unions. The following is a description of the status of contracts with the four major unions:
  - **Fraternal Order of Police** (FOP): The FOP is currently in the final year of a contract covering the period FY10 through FY14. The City's proposed FY15-FY19 Plan incorporates the costs of 2.5 percent wage increases in FY15 and FY16. No additional costs for FY17 through FY19 are assumed. Any additional wage increases beyond these assumptions will require adjustments to maintain fiscal balance. The proposed FY15-FY19 Plan assumes that FOP health benefit costs will increase at annual rates ranging from 8.2 to 8.3 percent.
  - **International Association of Firefighters** (IAFF): IAFF employees are currently working without a contract. In September 2013, the City decided to end its appeal of an arbitration award covering FY10-FY13, resulting in substantial retroactive wage and health benefits payments. The proposed FY15-FY19 Plan incorporates the cost of a 2.5 percent IAFF wage increase in FY14 and FY15. The Plan does not incorporate potential costs for IAFF wage increases after FY15 or health benefit cost increases after FY14.
  - **District Council 33** (DC33): The last DC33 contract expired July 1, 2009. The City is seeking court approval to impose the terms of its final offer to the union made in January 2013. Under the terms of this offer, the union would receive a 2.5 percent wage increase retroactive to March 2013, and a 2.0 percent wage increase retroactive to January 2014. In addition, the City would make a lump sum payment of $15 million to the union health fund. The final offer would make other changes to overtime rules and pension benefits and contributions. The Plan incorporates the cost of the City's final offer.
  - **District Council 47** (DC47): In February 2014, the City executed a contract with DC47 covering FY10 through FY17. The contract provides for a 3.5 percent wage increase after ratification by the union, a 2.5 percent wage increase in FY16 and a 3 percent wage increase in FY17. The new contact also allows for adjustment of salaries to reflect step and longevity increases that were frozen when the previous contract expired in July 2009. The costs of the new contract are reflected in the proposed FY15-19 Plan.
- If actual labor contracts deviate from the assumptions in the proposed FY15-FY19 Plan, any increased costs that result will be incorporated into future Plans or Plan revisions. The City is required to demonstrate through the Plan that it can finance the cost of labor contracts while maintaining a positive General Fund balance.

Key Financial Issues: Pension Benefits

- The City has sought changes to its pension program to reduce costs and promote fiscal sustainability. Costs as a percentage of payroll have risen substantially in recent years. Moreover, there is a risk that costs could continue to escalate if the actuarial assumptions upon which the City bases its funding policy turn out to be inaccurate. The City has achieved some significant changes in the pension program as a result of arbitration awards and new labor agreements. The status of changes, by union, is as follows:
    - **FOP and IAFF.** Newly-hired employees are required to participate in Plan 10 (a hybrid defined contribution-defined benefit program), or in Plan 87 (a defined benefit plan) with an employee contribution of 6 percent of payroll.
    - **DC47 (Other than First Judicial District).** Current employee contributions will increase by 1 percent, and newly-hired employees are required to participate in Plan 10 or in Plan 87 with contributions 1 percent higher than current employees.
    - **Register of Wills and First Judicial District (DC47 Local 810).** Newly-hired employees are required to participate in Plan 10.
    - **Deputy Sheriffs.** Newly-hired employees are required to participate in Plan 10 or in Plan 87 with contributions equal to 50 percent of normal costs.
    - **Correctional Officers (DC33 Local 159).** Current employees are required to participate in Plan 10 or increase contributions, and newly-hired employees are required to participate in Plan 10. Implementation of these changes requires City Council legislation.
    - **DC33.** The City is seeking court approval to impose the terms of a "final" contract offer made in January 2013. Under these terms, current employees would be required to increase employee contributions similar to correctional officers represented by Local 159, and newly-hired employees would be required to participate in Plan 10.
    - **Non-Union.** Under a Nutter Administration proposal announced in September 2012, current employees would be required to increase contributions, and newly-hired employees would be required to participate in Plan 10. Bill 140205, currently under consideration in City Council, would implement these changes.
- The current status of pension plan participation and employee contributions is summarized on the next page.

Key Financial Issues: Pension Benefits

Current Status of Pension Programs, City of Philadelphia Employees		
Bargaining Unit/ Employee Category	Current Employees	Newly-Hired Employees
Police (FOP)	Plan 67 (employee contribution 6%) or Plan 87 (employee contribution 5%)	Plan 10 or Plan 87 (employee contribution 6%)
Firefighters (IAFF)	Plan 67 (employee contribution 6%) or Plan 87 (employee contribution 5%)	Plan 10 or Plan 87 (employee contribution 6%).
Deputy Sheriffs (FOP)	Plan 67 (employee contribution 3.75%) or Plan 87 (employee contribution 30% of normal cost)	Plan 10 or Plan 87 (employee contribution 50% of normal cost)
Register of Wills (FOP) and Courts (DC47 Local 810)	Plan 67 (employee contribution 3.75%) or Plan 87 (employee contribution 30% of normal cost).	Plan 10
Correctional Officers (DC33 Local 159)	Plan 67 (employee contribution 6% or 50% of normal cost, whichever is higher), Plan 87 (employee contribution 50% of normal cost), or Plan 10.	Plan 10
Other DC47	Plan 67 (employee contribution 3.75%, 4.25% January 2015, 4.75% January 2016) or Plan 87 (employee contribution 30% of normal cost, with additional 0.5% January 2015, and additional 1.0% January 2015)	Plan 10 or Plan 87 (employee contribution 1 percent higher than current employees)
Other DC33 and Non-Represented	Plan 67 (employee contribution 3.75%) or Plan 87 (employee contribution 30% of normal cost)	Plan 87 (employee contribution 30% of normal cost)

Key Management Issues

- Performance Measures
- Staffing
- Overtime
- Leave Usage

Key Management Issues: Performance Measures

- **Police Department**: Significant declines in homicide and total Part 1 violent crime occurred from FY11 to FY13. Data through the second quarter of FY14 suggest that the progress through FY13 will be maintained. Clearance rates for homicide increased from FY11 to FY13, although they have declined in the first six months of FY14.
- **Fire Department**: The number of fire deaths declined substantially from FY11 to FY13. Through the first six months of FY14, seven fire deaths have occurred. The percentage of EMS calls that have achieved a response time of 9 minutes or less was 66.0 percent in FY13, a decline from FY10.

Performance Measures: Public Safety						
Agency	**Measure**	**FY10 Total**	**FY11 Total**	**FY12 Total**	**FY13 Total**	**FY14 To Date**
Police[1]	Homicides	305	318	350	263	132
	Part 1 Violent Crime	17,740	18,446	18,224	17,384	8,824
	Homicide Clearance Rate	72.2%	67.9%	64.0%	73.0%	62.1%
	Other Violent Crime Clearance Rate	51.2%	49.8%	48.5%	50.4%	49.4%
Fire	Fire Average Response Time	4:46	4:57	4:57	4:54	4:52
	Structural Fires[2]	1,362	3,041	3,108	2,882	1,542
	Fire Deaths	32	41	24	25	7
	EMS Response Time (Percent Within 9 Minutes)	73.9%	68.5%	68.0%	66.0%	65.5%

[1] Figures for FY14 are based on actual figures through November and an estimate for December.
[2] Beginning in FY11, figures are based on the National Fire Incident Reporting System (NFIRS) definition, and not comparable to figures for FY10, which are based on a less inclusive definition.

Key Management Issues: Performance Measures

- **Department of Human Services**: The number of permanency discharges has declined in recent years, but the Department notes that in FY14, 58 percent of permanency discharges were to reunification, the most desired permanency outcome. After years of declines, the number of dependent placements increased in FY13 and has increased through the first two quarters of FY14. According to the Department, the increase reflects a larger number of incoming reports that has resulted from a change in definition of child abuse. Delinquent placements and the Juvenile Justice Services Center population have declined in recent years, which suggests, according to the Department, the effectiveness of diversion and prevention programs.
- **Department of Public Health**: The percentage of District Health Center visits by uninsured patients has increased since FY11.

Performance Measures: Public Health and Human Services					
Agency	**Measure**	**FY11 Total**	**FY12 Total**	**FY13 Total**	**FY14 To Date**
Human Services	Permanency Discharges Other than Adoptions	1,476	1,153	877	455
	Adoptions	654	480	352	194
	Dependent Placements as of End of Period	4,182	4,030	4,179	4,457
	Delinquent Placements as of End of Period	1,413	1,198	1,155	983
	Juvenile Justice Services Center Average Daily Population	118	119	105	97
Public Health	Visits to District Health Centers	339,032	348,472	NA	NA
	Percent of Visits from Uninsured Patients	49.6%	51.1%	52.9%	54.0%
	Newly Diagnosed HIV Case Reports	NA	792	704	315

Key Management Issues: Performance Measures

- **Office of Supportive Housing**: The number of households receiving homeless prevention services has declined in recent years. The decline has resulted from the September 2012 expiration of the Homeless Prevention and Rapid Re-Housing program funded through the federal Recovery Act. Prevention programs in FY13 and FY14 have been funded through the Emergency Solutions program and the Housing Trust Fund.
- **Office of Housing and Community Development**: The number of owner-occupied homes repaired and homebuyer grants have declined in recent years.

Performance Measures: Housing					
Agency	**Measure**	**FY11 Total**	**FY12 Total**	**FY13 Total**	**FY14 To Date**
Supportive Housing	Households Receiving Homeless Prevention Services	1,898	809	610	69
	New Permanent Supportive Housing Units[1]	120	179	180	NA
	Transitional Housing Placements	510	558	539	265
Housing and Community Development	Mortgage Foreclosures Diverted	1,647	1,423	1,754	597
	Owner-Occupied Homes Repaired[2]	8,232	7,129	5,409	2,619
	City Lots Greened and Cleaned[3]	8,417	8,500	9,238	8,766
	Homebuyer Grants Awarded	307	200	221	88

Notes
[1] Excludes Philadelphia Housing Authority units.
[2] Through Basic System Repair Program, Weatherization, or Heater Hotline.
[3] This measure represents the number of lots as of a point in time. Includes land stabilization and land maintenance.

Key Management Issues: Performance Measures

- **Department of Parks and Recreation**: The number of acres mowed has increased in recent years due to weather and increased frequency of mowing at athletic fields. The number of trees planted increased from FY11 to FY13, but has declined through the first two quarters of FY14 due to a reduction in funding.
- **Free Library of Philadelphia**: Total circulation declined by nearly one million from FY12 to FY13, in part due to the transfer of responsibility for audio tapes from the Library for the Blind to a Pittsburgh library. The number of hours open increased due to the ability of the Library to hire 18 part-time guards.

Performance Measures: Parks and Recreation and Libraries					
Agency	**Measure**	**FY11 Total**	**FY12 Total**	**FY13 Total**	**FY14 To Date**
Parks and Recreation	Programs Offered[1]	3,824	4,050	3,742	2,815
	Visits to Departmental Facilities and Sites (Millions)	6.57	6.60	7.30	3.89
	Acres Mowed[2] (Thousands)	37.5	36.0	40.3	24.5
	Trees Planted[3] (Thousands)	18.3	20.3	26.0	8.3
Free Library	Circulation of Materials (Millions)	7.21	7.50	6.58	3.33
	Visits (Millions)	6.10	5.96	5.85	2.97
	Hours Open (Thousands)	100.0	97.8	95.8	50.9

Notes
[1] Beginning in FY13, data reflect number of unique programs in the period in which the program first occurs.
[2] Includes athletic fields and neighborhood parks.
[3] Includes trees planted by the Department along streets and on Department sites and public land, and trees planted in partnership with other organizations.

Key Management Issues: Performance Measures

- **Streets Department**: The recycling rate increased from 19 percent in FY11 to 21 percent through the first two quarters of FY14.
- **Department of Licenses and Inspections**: The QCMR reports on performance with respect to twelve customer service standards relating to timeliness of service. For 7 out of 12 standards reported, the Department met its standard at least 99 percent of the time in the first two quarters of FY14. The number of demolitions declined in FY13 due to reduced grant funding. However, there has been an increasing number of complaints relating to the need for demolitions, with over 600 properties currently classified as imminently dangerous. The City has increased the Licenses and Inspections appropriation by $3 million in FY14 to address this need.

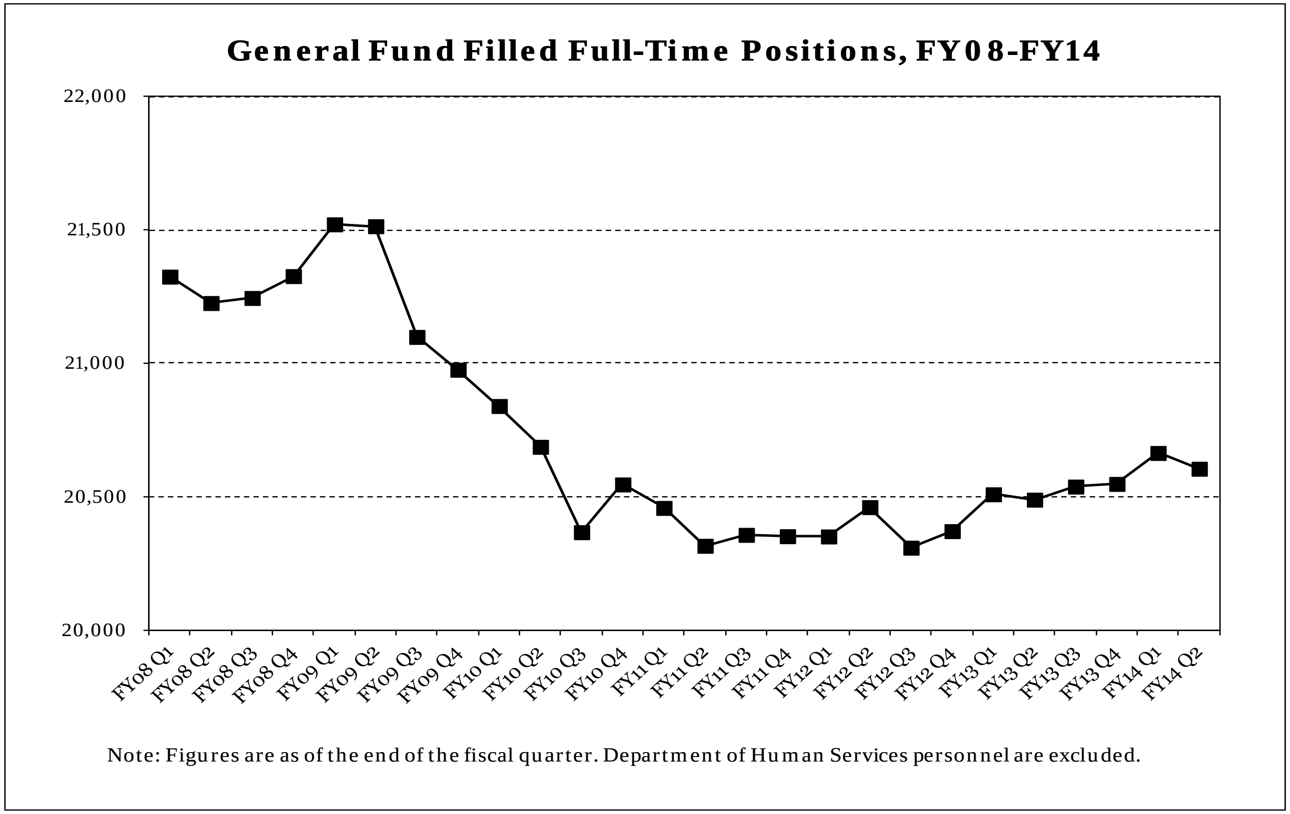
Performance Measures: Streets and Licenses and Inspections

Agency	Measure	FY11 Total	FY12 Total	FY13 Total	FY14 To Date
Streets	Recycling Rate	19%	19%	20%	21%
	On-Time Trash Collection[1]	94%	94%	96%	91%
	On-Time Recycling Collection[1]	96%	97%	97%	97%
Licenses and Inspections	Service License Customers Within 30 Minutes	84%	96%	99%	99%
	Service Zoning Customers Within 30 Minutes	94%	98%	100%	100%
	Service Building Customers Within 30 Minutes	90%	96%	100%	100%
	Properties Cleaned and Sealed	1,488	1,632	1,459	642
	Residential Buildings Demolished	567	543	521	251
	Building Permits Issued (Thousands)	16.4	16.7	17.3	9.1
	Operations Division Inspections (Thousands)	NA	85.9	76.2	36.9
	Development Division Inspections (Thousands)	NA	101.0	96.2	49.2

Notes
[1] Percentage of collections completed by 3:00 PM.

Key Management Issues: Staffing

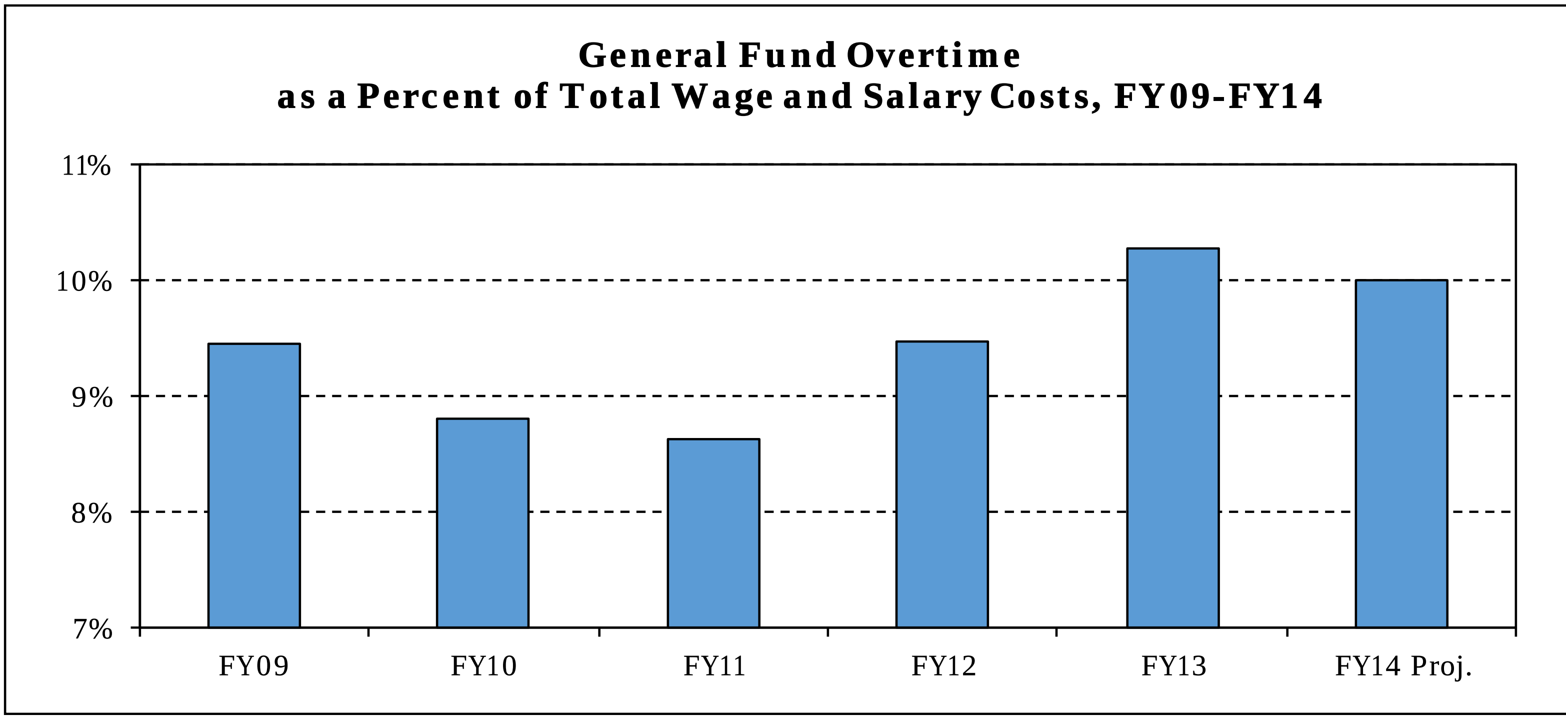
- After declining by more than 1,100 from December 2008 through March 2010, General Fund employment levels stabilized through the March 2012. Since March 2012, there has been a gradual increase of nearly 300 positions.[1]



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

Key Management Issues: Overtime

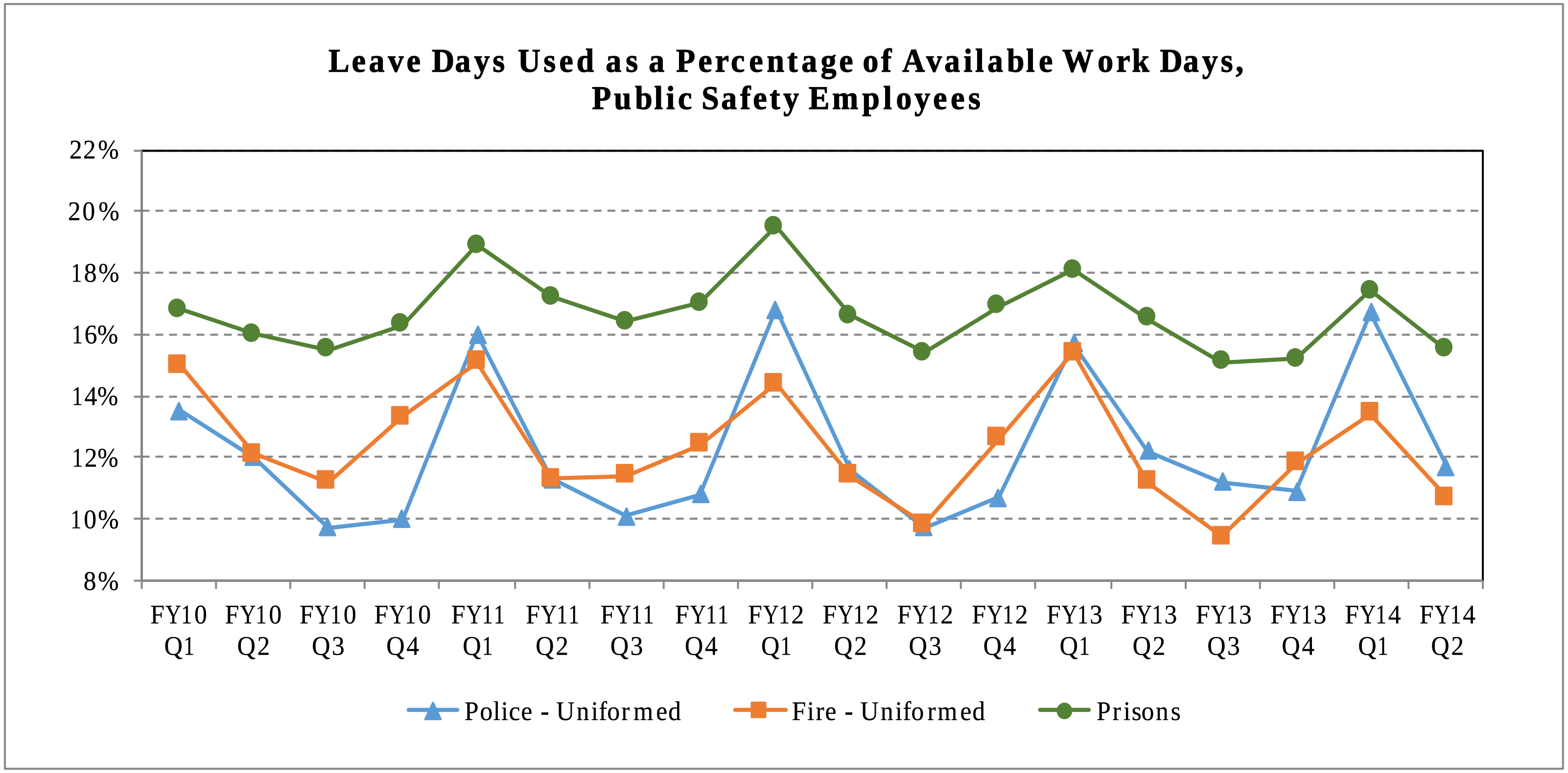
- The QCMR projects total FY14 General Fund overtime costs of $145.8 million, or 10.0 percent of total wages and salaries. Overtime as a percentage of wages and salaries declined from 9.5 percent in FY09 to 8.6 percent in FY11, and increased to 9.5 percent in FY12 and 10.3 percent in FY13.[1] With total projected FY14 General Fund wages at $1.46 billion, a difference of one percentage point represents $14.6 million. The decline in overtime costs during the City's greatest period of fiscal constraint after the recession and the increase since FY11 suggests that greater overtime control is possible.



[1] The FY11 amount excludes $3.8 million in Fire Department overtime due to an unusual 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 14.7 percent of available work days in the second quarter of FY14.[1] Leave usage varied from a high of 22.5 percent among civilians in the Police Department to a low of 9.5 percent in the Mayor's Office. 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.



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