Pennsylvania Intergovernmental Cooperation Authority

Staff Report
on the
City of Philadelphia's
Quarterly City Managers Report
for the Period Ending September 30, 2014

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

January 8, 2015

Introduction

- This PICA Staff Report analyzes the City of Philadelphia's *Quarterly City Managers Report* (QCMR) for the first quarter of Fiscal Year 2015, the period ending September 30, 2014. The QCMR, which was submitted to PICA on November 17, 2014, contains information on projected General Fund revenues and expenditures for FY15, unaudited actual revenues and expenditures for FY14, agency performance, personnel levels, leave usage, and cash flow.
- The focus of this report is the current projections of FY15 General Fund revenues and expenditures by category, deviations from previous projections, and financial and management issues such as labor contracts, pension reform, performance measures, staffing and overtime. The report also analyzes the FY14 unaudited actual revenues and expenditures in relation to previous projections. The QCMR for the first quarter of FY15 is the first to present information on FY14 actual financial results.
- The report is organized as follows:
  - Background
  - Fiscal Year 2014 Unaudited Actual Revenues and Expenditures
  - Fiscal Year 2015 Projected Revenues and Expenditures
  - Key Financial and Management Issues

Background

- 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 first quarter of FY15 (the "Q1 QCMR").[1] It compares the Q1 QCMR estimates of FY15 revenues and expenditures with estimates in the initially-approved FY15-FY19 *Five-Year Financial Plan*.[2] Because the Q1 QCMR also includes FY14 unaudited actual revenues and expenditures, the report also compares these FY14 actual results to previous estimates in the FY14 QCMRs and the initially-approved FY14-FY18 *Five Year Financial Plan*.[3] The report also highlights finance and management issues.
- Unless otherwise noted, information is drawn from City Five-Year Financial Plans and QCMRs.

Notes:

[1] The QCMR is available at http://www.picapa.org/resources/city-of-philadelphias-quarterly-city-managers-report/

[2] The initially approved FY15-FY19 Plan was submitted to PICA on June 26, 2014 and approved on July 21, 2014. Subsequently, a revised FY15-FY19 Plan was approved on October 14, 2014. All references to the "FY15-FY19 Plan" in this report are to the version approved on July 21.

[3] The initially-approved FY14-FY18 Plan was submitted to PICA on September 10, 2013 and approved on September 17, 2013. Subsequently, revisions to the FY14-FY18 Plan were approved on November 15, 2013 and March 18, 2014. All references to the "FY14-FY18 Plan" in this report are to the version approved on September 17, 2013.

FY14 Results

- Overview
- Revenue
- Obligations

FY14 Results: Overview

- Unaudited actual FY14 General Fund revenues are $3,805.6 million, an increase of $75.7 million from the initial FY14-18 *Five-Year Financial Plan* estimate. Obligations are $3,886.6 million, a decrease of $8.2 million from the Plan. The FY14 actual operating deficit was $80.9 million, a decrease from the $164.8 million 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 actual operating deficit, prior year adjustments, and prior year fund balance is the actual FY14 fund balance of $202.1 million. The actual fund balance was $123.7 million higher than projected in the Plan.

FY14 General Fund Summary: Projections and Unaudited Actual ($ in Millions)

Category	FY14-18 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Revenues	$3,729.9	$3,778.5	$3,822.8	$3,837.0	$3,818.0	$3,805.6	$75.7
Obligations	3,894.7	3,940.5	3,997.6	3,993.5	3,916.6	3,886.6	(8.2)
Operating Surplus/(Deficit)	(164.8)	(162.0)	(174.8)	(156.5)	(98.6)	(80.9)	83.9
Prior Year Adjustments	19.4	19.4	19.4	19.4	26.4	26.1	6.8
Prior Year Fund Balance/(Deficit)	223.9	256.9	256.9	256.9	256.9	256.9	33.1
Year-End Fund Balance	78.4	114.3	101.5	119.8	184.7	202.1	123.7

FY14 Results: Revenue

- The unaudited actual FY14 General Fund revenue was $3,805.6 million, an increase of $75.7 million from the initial FY14-FY18 Plan estimate.
- The increase reflects higher than projected tax revenue ($35.1 million), locally-generated non-tax revenue ($28.4 million), and revenue from other governments ($37.4 million), offset by a $25.2 million decline in revenue from other funds.

FY14 General Fund Revenue: Projections and Unaudited Actual ($ in Millions)

Category	FY14-18 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Taxes	$2,760.8	$2,760.8	$2,777.3	$2,788.7	$2,801.4	$2,795.9	$35.1
Locally-Generated Non-Tax	273.3	273.3	309.0	308.0	300.8	301.8	28.4
Revenue from Other Governments	628.6	677.1	669.6	673.3	669.5	666.0	37.4
Revenue from Other Funds	67.2	67.2	66.9	66.9	46.3	42.0	(25.2)
Total	**3,729.9**	**3,778.5**	**3,822.8**	**3,837.0**	**3,818.0**	**3,805.6**	**75.7**

FY14 Results: Tax Revenue

- Unaudited actual FY14 tax revenue was $2,795.9 million, an increase of $35.1 million from the initial Plan estimate. The overall increase reflected increases for business income and receipts tax ($51.7), real estate transfer tax ($10.4 million), and net profits tax ($3.5 million), offset by reductions in wage and earnings tax ($12.5 million), real estate tax ($10.2 million), and sales tax ($7.7 million).
- The most significant deviation from Plan was $51.7 million in increased revenue from the business income and receipts tax (BIRT). The increase reflected stronger-than-anticipated FY13 collections. Actual FY13 BIRT revenue was $51.0 million above the initial FY13 estimate which formed the basis of the FY14 estimate in the FY14-18 Plan. The FY14 estimate was later increased in light of actual FY13 collections.

FY14 General Fund Tax Revenue
Projections and Unaudited Actual ($ in Millions)

Tax	FY14-18 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Wage and Earnings	$1,274.1	$1,274.1	$1,238.1	$1,250.5	$1,265.5	$1,261.6	($12.5)
Real Estate	536.6	536.6	533.2	533.2	530.2	526.4	(10.2)
Business Income and Receipts	410.0	410.0	461.3	461.3	458.3	461.7	51.7
Net Profits	12.8	12.8	19.4	19.4	18.4	16.3	3.5
Sales	270.8	270.8	265.9	264.9	263.1	263.1	(7.7)
Real Estate Transfer	157.6	157.6	160.5	160.5	167.5	168.1	10.4
Parking	75.0	75.0	75.0	75.0	75.0	75.2	0.2
Amusement	20.5	20.5	20.5	20.5	20.0	20.0	(0.5)
Other	3.4	3.4	3.4	3.4	3.4	3.7	0.3
Total	**2,760.8**	**2,760.8**	**2,777.3**	**2,788.7**	**2,801.4**	**2,795.9**	**35.1**

FY14 Results: Locally-Generated Non-Tax Revenue

- Unaudited actual FY14 locally-generated non-tax revenue was $301.8 million, an increase of $28.4 million from Plan. The overall increase reflects the following changes:
  - **Public Property** ($26.4 million increase): $28.1 million in unanticipated revenue from the sale of the Love Park garage
  - **Streets** ($5.6 million increase): Higher commercial property collection fees and revenue from street permits, offset by lower recycling revenue
  - **License and Inspections** ($3.2 million increase): Higher fee revenue
  - **First Judicial District** ($6.8 million decrease): Lower court and bail fees
  - **Finance** ($3.2 million increase): Higher employee health benefit charges and medical reimbursements.

FY14 General Fund Locally-Generated Non-Tax Revenue Projections and Unaudited Actual ($ in Millions)							
Agency Source	**FY14-18 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
Finance	$20.3	$20.3	$21.0	$22.2	$23.2	$23.4	$3.2
Fire	37.9	37.9	36.9	36.9	36.9	36.6	(1.3)
Innovation and Technology	21.3	21.3	22.6	22.6	23.1	23.4	2.1
Licenses and Inspections	48.2	48.2	48.2	48.2	51.2	51.4	3.2
Public Property	9.6	9.6	37.5	37.2	36.0	36.0	26.4
Records	17.4	17.4	17.8	16.8	15.9	15.9	(1.5)
Sheriff	8.0	8.0	9.5	9.5	9.3	9.2	1.2
Streets	23.4	23.4	29.1	29.1	29.1	29.0	5.6
First Judicial District – Traffic Court	7.8	7.8	7.8	7.3	7.3	7.1	(0.7)
First Judicial District	32.8	32.8	32.8	32.8	26.2	26.0	(6.8)
Other	46.7	46.7	45.8	45.3	42.6	43.8	(2.8)
Total	**273.3**	**273.3**	**309.0**	**308.0**	**300.8**	**301.8**	**28.4**

FY14 Results: Revenue from Other Governments

- Unaudited actual FY14 revenue from other governments was $666.0 million, an increase of $67.4 million from the FY14-18 Plan estimate. The most significant change from Plan is a $47.4 million increase in Finance due to higher than projected state pension aid and an unanticipated $45 million State grant to the School District of Philadelphia (SDP) that was received by the City and transferred to SDP. PICA City Account revenue was $6.4 million below Plan due a revised estimate of city resident earned income which reduced PICA tax revenue.

FY14 General Fund Revenue from Other Governments Projections and Unaudited Actual ($ in Millions)							
Agency Source	**FY14-18 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
Finance	$160.0	$208.6	$207.9	$207.9	$207.9	$207.4	$47.4
PICA City Account	325.1	325.1	319.7	323.4	318.1	318.7	(6.4)
Revenue	39.2	39.2	37.5	37.5	39.0	40.3	1.0
Other	104.2	104.2	104.4	104.5	104.5	99.6	(4.6)
Total	**628.6**	**677.1**	**669.6**	**673.3**	**669.5**	**666.0**	**37.4**

FY14 Results: Obligations

- Unaudited actual FY14 General Fund obligations are $3,886.6 million, a decrease of $8.2 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

FY14 General Fund Obligations Projections and Unaudited Actual ($ in Millions)							
Agency or Cost Center	**FY14-18 Plan**	**Q1 QCMR**	**Q2 QCMR**	**Q3 QCMR**	**Q4 QCMR**	**Unaudited Actual**	**Change from Plan to Unaudited Actual**
City Council	$15.8	$15.8	$16.2	$16.2	$14.8	$14.5	($1.3)
Civil Service Commission	84.9	37.4	37.4	38.9	0.2	0.2	(84.7)
Contribution to School District	69.1	114.1	114.1	114.1	114.1	114.1	45.0
Debt Service	226.3	226.3	222.8	216.8	216.0	215.9	(10.3)
Division of Technology	85.0	85.0	84.6	84.6	65.1	64.1	(20.9)
Employee Benefits	1,226.6	1,226.6	1,226.6	1,226.6	1,215.9	1,194.4	(32.5)
Fire	197.2	244.7	244.7	246.7	247.3	248.0	50.8
Fleet Management	56.4	56.4	62.3	62.3	62.4	62.6	6.2
Indemnities	32.5	32.5	41.0	41.0	41.0	0	(32.5)
Licenses and Inspections	22.6	22.6	25.6	25.6	25.4	25.7	3.1
Supportive Housing	43.6	43.6	45.1	45.1	45.2	45.2	1.5
Police	595.6	595.6	595.6	585.6	588.3	607.1	11.5
Prisons	238.8	238.8	243.5	245.2	245.0	245.8	7.0
Public Property	57.5	57.5	87.3	87.3	76.6	75.6	18.2
Sheriff	14.7	15.5	17.2	18.0	18.0	18.3	3.7
Streets	115.6	115.6	117.1	121.9	124.6	138.0	22.4
Other	812.7	812.7	816.7	817.7	816.8	817.5	4.8
Total	**3,894.7**	**3,940.5**	**3,997.6**	**3,993.5**	**3,916.6**	**3,886.6**	**(8.2)**

FY14 Results: Obligations

- Changes from the initial FY14-18 Plan estimate of FY14 obligations and the unaudited actual include:
  - **Civil Service Commission** ($84.7 million decrease): The Plan included $84.7 million to cover the costs of potential future labor contracts. This amount included amounts to cover costs related to contracts with DC33 ($20.8 million), DC47 ($12.3 million), and IAFF ($51.7 million). The IAFF amount included $47.5 million to cover retroactive and current costs related to the FY10-13 arbitration award, and $4.2 million related to a future award. These costs have been allocated to various departments, reflecting the City's decision in September 2013 to withdraw its appeal of the FY10-13 IAFF award, and the February 2014 contract agreement between the City and DC47 covering FY10 through FY16. Each of these contracts resulted in FY14 costs which have been allocated to appropriate departments in the unaudited actual amounts. Costs related to the July FOP arbitration award and the August 2014 agreement between the City and DC33 did not impact FY14 obligations.
  - **School District Contribution** ($45.0 million increase): Pass through of an unanticipated State grant to the School District of Philadelphia.
  - **Debt Service** ($10.3 million decrease): Lower borrowing costs
  - **Division of Technology** ($20.9 million decrease): Lower 911 system and payroll costs
  - **Fire** ($50.8 million increase): Reflects increased overtime and the transfer of wage costs required under the FY10-FY13 IAFF arbitration award from Civil Service Commission line item
  - **Indemnities** ($32.5 million decrease): Reflects allocation of costs to responsible departments. This allocation only occurs after the end of the fiscal year and is not reflected in Plan and QCMR projections.
  - **Police** ($11.5 million increase): Reflects allocation of $19.2 million in indemnity costs previously shown in indemnities line item, offset by lower payroll due to reduced hiring and overtime
  - **Public Property** ($18.2 million increase): Distribution of proceeds from sale of Love Park garage
  - **Streets** ($22.4 million increase): Reflects allocation of $13.9 million in indemnity costs previously shown in indemnities line item, and increased costs related to severe weather

FY14 Results: Employee Benefit Obligations

- Unaudited actual FY14 employee benefit obligations are $1,194.1 million, $32.5 million below the Plan.
- Pension-related debt service was $211.0 million, an increase of $105.7 million from Plan, while the Pension Fund contribution was $435.4 million, a decline of $126.8 million. These changes reflect debt service on bonds issued to finance repayment of deferred FY10 and FY11 Pension Fund contributions. This transaction resulted in net savings of $9.7 million in FY13 and FY14. The Pension Fund contribution was also reduced as a result of the year-end allocation of costs by operating fund based on actual payroll. The reallocation reduced the General Fund share of pension costs from the initial estimate.
- Savings of $7.3 million were achieved in the employee disability program due to efforts to promote workplace safety and manage City disability and workers' compensation programs. FICA costs increased $2.4 million from the Plan estimate due to unanticipated costs associated with new labor contracts.

FY14 General Fund Employee Benefits Obligations
Projections and Unaudited Actual ($ in Millions)

Category	FY14-18 Plan	Q1 QCMR	Q2 QCMR	Q3 QCMR	Q4 QCMR	Unaudited Actual	Change from Plan to Unaudited Actual
Pension Fund Contribution	$562.2	$562.2	$562.2	$452.2	$456.0	$435.4	($126.8)
Pension-Related Debt Service	105.4	105.4	105.4	215.3	211.5	211.0	105.7
Health Benefits	411.9	411.9	411.9	411.9	408.4	409.4	(2.5)
Employee Disability	63.3	63.3	63.3	63.3	57.5	56.0	(7.3)
FICA	65.0	65.0	65.0	65.0	67.5	67.5	2.4
Unemployment Compensation	5.6	5.6	5.6	5.6	2.9	2.9	(2.7)
Group Life	7.8	7.8	7.8	7.8	7.2	7.1	(0.6)
Group Legal	4.4	4.4	4.4	4.4	4.2	4.1	(0.3)
Flex Cash/Tool Allowance	1.1	1.1	1.1	1.1	0.7	0.7	(0.4)
Total	**1,226.6**	**1,226.6**	**1,226.6**	**1,226.6**	**1,215.9**	**1,194.1**	**(32.5)**

FY15 Projection

- Overview
- Revenue
- Obligations

FY15 Projection: Overview

- The Q1 QCMR projects FY15 General Fund revenues at $4,471.4 million, an increase of $45.7 million from the initial FY15-19 *Five-Year Financial Plan* estimate. Obligations are projected at $4,560.9 million, a decrease of $36.4 million from the Plan. The FY15 operating deficit is projected at $89.5 million, a decrease from the $98.8 million deficit projected in the Plan. The Plan projected the FY14 year-end fund balance at $146.8 million, while the unaudited actual FY14 fund balance was $202.1 million.
- The sum of the projected operating deficit, prior year adjustments, and prior year fund balance is the projected FY15 fund balance of $135.5 million. This projection is $67.1 million higher than the initial FY15-FY19 Plan projection.

FY15 General Fund Summary: Projections ($ in Millions)			
Category	**FY15-19 Plan**	**Q1 QCMR**	**Change from Plan to Unaudited Actual**
Revenues	$4,425.7	$4,471.4	$45.7
Obligations	4,524.6	4,560.9	36.4
Operating Surplus/(Deficit)	(98.8)	(89.5)	9.3
Prior Year Adjustments	20.4	22.9	2.5
Prior Year Fund Balance/(Deficit)	146.8	202.1	55.3
Year-End Fund Balance	68.4	135.5	67.1

FY15 Projection: Revenue

- The Q1 QCMR projects FY15 General Fund revenue at $4,471.4 million, an increase of $45.7 million from the initial FY15-FY19 Plan estimate.
- The increase reflects higher than projected tax revenue ($19.2 million) and locally-generated non-tax revenue ($27.0 million), offset by a $0.5 million decline in revenue from other governments.

FY15 General Fund Revenue: Projections ($ in Millions)			
Category	**FY15-19 Plan**	**Q1 QCMR**	**Change from Plan to Unaudited Actual**
Taxes	$2,748.2	$2,767.4	$19.2
Locally-Generated Non-Tax	970.7	997.7	27.0
Revenue from Other Governments	638.9	638.4	(0.5)
Revenue from Other Funds	67.9	67.9	--
Total	**4,425.7**	**4,471.4**	**45.7**

FY15 Projection: Tax Revenue

- FY15 General Fund tax revenue is projected at $2,767.4 million, an increase of $19.2 million from the initial Plan estimate. The overall increase reflected increases for wage and earnings tax ($15.5 million) and real estate transfer tax ($7.7 million), offset by declines in sales tax ($1.9 million), net profits tax ($1.6 million), and amusement tax ($0.5 million).
- The changes reflect differences between estimates of FY14 tax revenues made at the time of the initial FY15-FY19 Plan's submission in June and revised FY14 tax revenue estimates made in September. These revisions of FY14 tax revenues were the basis of revised FY15 revenues. The FY15 estimate applies previously estimated annual growth rates for each tax to the revised FY14 estimates.

FY15 General Fund Tax Revenue: Projections ($ in Millions)

Tax	FY15-19 Plan	Q1 QCMR	Change from Plan to Unaudited Actual
Wage and Earnings	$1,294.7	$1,310.2	$15.5
Real Estate	547.4	547.4	--
Business Income and Receipts	453.2	453.2	--
Net Profits	20.5	18.9	(1.6)
Sales	154.6	152.7	(1.9)
Real Estate Transfer	176.6	184.3	7.7
Parking	76.9	76.9	--
Amusement	20.9	20.4	(0.5)
Other	3.5	3.5	--
Total	**2,748.2**	**2,767.4**	**19.2**

FY15 Projection: Locally-Generated Non-Tax Revenue

- FY15 locally-generated non-tax revenue is projected at $997.7 million, an increase of $27.0 million from the initial Plan estimate.
- The most significant change from the initial Plan estimate was an increase of $28.8 million in Finance, primarily due to the release of $28 million held in reserve for Law Enforcement Health Benefits (LEHB), which administers the health plan for Fraternal Order of Police members. The release of these funds was allowed under the FOP arbitration award issued in July. The reserve fund had previously been established to cover costs that could result if the self-insurance arrangement for FOP health benefits were terminated.

FY15 General Fund Locally-Generated Non-Tax Revenue: Projections ($ in Millions)

Agency Source	FY15-19 Plan	Q1 QCMR	Change from Plan to Unaudited Actual
Finance	16.7	45.4	28.8
Innovation and Technology	23.2	23.7	0.5
Licenses and Inspections	49.5	51.2	1.7
Public Property	708.4	709.0	0.6
Streets	24.1	22.3	(1.8)
First Judicial District	40.8	38.3	(2.5)
Other	108.1	107.8	(0.3)
Total	**970.7**	**997.7**	**27.0**

FY15 Projection: Revenue from Other Governments

- The Q1 QCMR projection of FY15 revenue from other governments is $638.4 million, a decline of $0.5 million from the initial Plan projection.
- PICA City Account revenue is projected at $332.6 million, a decline of $5.4 million from the Plan projection. The decline primarily reflects a revised estimate of resident earnings which decreased the share of wage, earnings, and net profits tax allocated to PICA.

FY15 General Fund Revenue from Other Governments: Projections ($ in Millions)			
Agency Source	**FY15-19 Plan**	**Q1 QCMR**	**Change from Plan to Unaudited Actual**
Finance	$161.4	$162.3	$0.9
PICA City Account	338.0	332.6	($5.4)
Revenue	35.0	35.0	--
Other	104.5	108.5	4.0
Total	**638.9**	**638.4**	**(0.5)**

FY15 Projection: Obligations

- The Q1 QCMR projects FY15 obligations at $4,560.9 million, an increase of $36.4 million from the initial Plan estimate. The most significant changes are shown below and described on the next page.

FY15 General Fund Obligations: Projections ($ in Millions)			
Agency or Cost Center	**FY15-19 Plan**	**Q1 QCMR**	**Change from Plan to Unaudited Actual**
Civil Service Commission	53.0	18.0	(35.0)
Employee Benefits	1,817.3	1,837.7	20.4
Fire	206.8	203.2	(3.6)
Police	592.5	613.3	20.8
Public Property	57.7	69.6	11.9
Streets	117.6	124.4	6.8
Other	1,679.6	1,694.7	15.1
Total	**4,524.6**	**4,560.9**	**36.4**

FY15 Projection: Obligations

- Changes from the initial FY15-19 Plan estimate of FY15 obligations and the Q1 QCMR estimate include:
  - **Civil Service Commission** ($35.0 million decline). The decline reflects the net impact of the following changes to the reserve for future labor obligations: allocation of DC33 cost reserve to appropriate agencies (decrease of $25.1 million); allocation of FOP cost reserve to the Police Department (decrease of $13.3 million); addition of reserves for three additional bargaining units, including correctional officers, Register of Wills employees and Sheriff's Office employees (increase of $3.4 million).
  - **Employee Benefits** ($20.4 million increase). The increase reflects an increased employee health benefit costs ($23.4 million) and group legal services benefits ($2.7 million) associated with new labor contracts, offset by reductions in employee disability ($4.8 million) and pension relief payments ($0.9 million). The lower pension costs reflect a reduction in projected sales tax revenue dedicated to pension relief.
  - **Fire** ($3.6 million decline). The decline reflects a projected reduction in personnel costs, primarily due to reductions in overtime costs.
  - **Police** ($20.8 million increase). The increase primarily reflects the costs of the new FOP contract covering the period from FY15 through FY17. The contract included a 3.0 percent wage increase effective July 1, 2014 and a $1,500 per member bonus.
  - **Public Property** ($11.9 million increase). The increase reflects expenditure of a portion of the proceeds from the sale of the Love Park parking garage.
  - **Streets** ($6.8 million increase). The increase reflects increased personnel costs associated with new labor contracts.

Key Financial and Management Issues

- Labor Contracts
- Pension Benefits
- Performance Measures
- Staffing
- Overtime
- Leave Usage

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 its major uniformed unions:
  - **Fraternal Order of Police** (FOP): In July 2014, an arbitration panel issued a contract award for the FOP covering the period FY15 through FY17. The award provides for wage increases of 3 percent in FY15, 3.25 percent in FY16, and 3.25 percent in FY17, increases the City's contributions to the union legal services fund, and increases the annual clothing allowance by $100 per member. The contract also makes other important non-economic changes. The City estimates the General Fund cost impact of the contract at $218.6 million over the FY15-FY19 period, $97.5 million higher than the amount reserved in the approved FY15-FY19 Plan. These additional costs, along with costs for new contracts with DC33 and DC47 Local 810, were included in a revised *Five-Year Financial Plan* that the City submitted to PICA, which was approved on October 14, 2014.
  - **International Association of Firefighters** (IAFF): The most recent IAFF contract expired at the end of FY13. IAFF employees are currently working without a contract. An ongoing arbitration process will determine a new IAFF contract covering the period beginning July 1, 2013. The approved FY15-FY19 Plan incorporates the cost of a 2.5 percent IAFF wage increase in FY14 and FY15. The Plan does not assume additional costs for IAFF wage increases after FY15 or health benefit cost increases after FY14. If the actual costs of a new IAFF contract exceed the level included in the approved Plan, the City will be required under the PICA Act to submit a Plan revision to PICA that includes the additional costs.

Labor Contracts

- The following is a description of the status of contracts with the City's major non-uniformed unions:
  - **District Council 33** (DC33): In August 2014, the City announced a tentative contract agreement with DC33 covering the period FY10 through FY16. The contract was ratified by DC33 members on September 9. Major economic provisions of the new contract include: a lump sum ratification bonus of $2,800; wage increases of 3.5 percent effective September 2014 and 2.5 percent effective July 2015; prospective restoration of step and longevity wage increases that were frozen in July 2009; a $20 million lump sum payment to the union health care fund; and an increase in the City's ongoing contribution to the health fund, from $976 to $1,194 per member per month, effective September 2014, and $1,194 per member per month, effective July 2015.
  - **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 contract also allows for adjustment of salaries to reflect step and longevity increases that were frozen when the previous contract expired in July 2009.
- If the actual costs of any contracts between the City and municipal unions deviate from the projections in the *Five-Year Financial Plan*, any increased costs must be incorporated into future plans or plan revisions. As envisioned under the PICA statute, the Plan process requires the City to demonstrate that it can finance the cost of labor contracts while maintaining a positive General Fund balance over a five-year period.

Pension Benefits

- The City has sought changes to its pension program to reduce costs and promote fiscal sustainability. The most significant changes that have been achieved to date include increased employee contributions and creation of a hybrid defined benefit-defined contribution pension plan, known as Plan 10. This plan is mandatory for new correctional officers and employees of the Register of Wills, and voluntary for other employees and elected officials. The status of recent pension changes for each bargaining unit is as follows:
  - **FOP and IAFF.** Newly-hired employees are required to participate in Plan 10 or in Plan 87 (a defined benefit plan) with employee contributions equal to the greater of 6 percent of earnings or 30 percent of normal cost
  - **DC33 (Other than Correctional Officers), DC47, Non-Union Employees and Elected Officials.** Contributions for those previously hired or elected will increase by 0.5 percent in 2015 and 1 percent by 2016 and thereafter. Newly-hired employees and newly-elected officials are required to participate in Plan 10 or in Plan 87 with contributions 1 percent higher than current employees or officials.
  - **Correctional Officers (DC33 Local 159) and Register of Wills Employees.** 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.
- The current status of pension plan eligibility and participant contributions is summarized on the next two pages.

Pension Benefits

Status of City Pension Plan Eligibility and Participant Contribution Requirements		
Bargaining Unit/ Category	Previously-Hired Employees	Newly-Hired Employees[1]
Police (FOP) and Firefighters (IAFF)	Plan 67 (6%) or Plan 87 (5%, but not less than 30% or greater than 50% of normal cost)	Plan 87 (6% or 30% of normal cost, whichever is greater) or Plan 10 (5.5% for first 20 years of service)
DC33 (Other than correctional officers), DC47 and Non-Union[2]	Plan 67 (3.75% for compensation subject to Social Security tax and 6% for compensation above that level; with additional 0.5% beginning January 2015 and additional 1.0% beginning January 2016) or Plan 87 (30% of normal cost, with additional 0.5% beginning January 2015, and additional 1.0% beginning January 2016)	Plan 87 (previously-hired employee contribution plus 1.0%) or Plan 10 (50% of normal cost)
Deputy Sheriffs (FOP)	Plan 67 (6%) or Plan 87 (30% of normal cost)	Plan 87 (50% of normal cost) or Plan 10 (50% of normal cost)
Register of Wills (FOP)	Plan 67 (6%) or Plan 87 (30% of normal cost).	Plan 10 (50% of normal cost)

Notes:

[1] Newly-hired employees are those hired on or after the following dates: police, January 1, 2010; firefighters, October 15, 2010; DC33 (other than correctional officers), September 9, 2014; DC47, March 5, 2014; non-represented civil service, May 14, 2014; non-represented non-civil service, November 14, 2014; and Deputy Sheriffs and Register of Wills employees, January 1, 2012. Plan 10 contributions do not include voluntary DC plan contributions.

[2] Assumes employees are covered by Social Security.

Pension Benefits

Status of City Pension Plan Eligibility and Participant Contribution Requirements		
Bargaining Unit/ Category	Previously-Hired Employees and Previously-Elected Officials	Newly-Hired Employees and Newly-Elected Officials[1]
Correctional Officers (DC33 Local 159)[2, 3]	Plan 67 (3.75% of amount subject to Social Security tax and 6% percent of amount above that level, or 50% of normal cost, whichever is higher), or Plan 87 (50% of normal cost)	Plan 10 (50% of normal cost)
Elected Officials	Plan 87 (30 percent of normal cost for municipal plan, with additional 0.5% beginning January 2015, and additional 0.5% beginning January 2016, plus incremental normal cost for elected official plan over municipal plan)	Plan 87 (previously-elected official contribution plus 1%) or Plan 10 (50% of normal cost)

Notes:

[1] Newly-hired correctional officers are those hired on or after November 14, 2014. Newly-elected officials are those elected on or after November 14, 2014. Plan 10 contributions do not include voluntary DC plan contributions.

[2] Assumes employees are covered by Social Security.

[3] Amount shown is effective November 14, 2014.

Performance Measures: Public Safety

- **Police Department**: Preliminary data for FY15 suggest that homicide and total Part 1 violent crime declined from FY14 to FY15. Homicides declined 30 percent from FY12 to FY14, while Part 1 violent crime declined 11 percent from FY11 to FY14. The clearance rate for homicide declined substantially between FY13 and FY14, while it increased for other violent crime, such as robbery, rape, and aggravated assault.
- **Fire Department**: Seventy percent of EMS calls achieved a response time of 9 minutes or less so far in FY15. This proportion has declined since FY10. The QCMR notes that the Department is increasing staff and developing a EMS Community Risk Reduction Plan. This plan will involve public education on use of the 911 system and development of alternative medical resources for non-emergency incidents. In May, the Department instituted a new priority dispatch system.

Performance Measures: Public Safety							
Agency	Measure	FY10	FY11	FY12	FY13	FY14	FY15
Police	Homicides	305	318	350	263	246	290
	Part 1 Violent Crime	17,740	18,446	18,224	17,384	16,502	4,214
	Homicide Clearance Rate	72.2%	67.9%	64.0%	73.0%	58.4%	50.9%
	Other Violent Crime Clearance Rate	51.2%	49.8%	48.5%	50.4%	51.7%	54.3%
Fire	Fire Engine Average Response Time[1]	4:46	4:57	4:57	4:54	4:57	4:46
	Structural Fires [2]	1,362	3,041	3,108	2,882	3,019	678
	Fire Deaths	32	41	24	25	23	8
	EMS Response Time (Percent Within 9 Minutes)	73.9%	68.5%	68.0%	66.0%	64.0%	70%

[1] Includes responses for fire and EMS incidents.
[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.

Performance Measures: Public Health and Human Services

- **Department of Human Services**: Dependent placements increased from 4,179 at the end of FY13 to 4,473 at the end of FY14 and have continued to increase to 4,704 into FY15 Q1. The increase reflects in part a more expansive definition of child abuse as well as new reporting requirements. Delinquent placements have been declining since FY11, indicating the success of diversion and prevention programs.
- **Department of Public Health**: The number of newly diagnosed HIV case reports declined from 704 in FY13 to 585 in FY14. In FY13, the Department began reporting on immunization rates. Child immunization increased from 75 percent in FY13 to 85 percent in FY15.

Performance Measures: Public Health and Human Services						
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
Human Services	Permanency Discharges	2,130	1,633	1,229	1,221	315
	Adoptions as Percent of Permanency Discharges	31%	29%	29%	31.8%	34.3%
	Dependent Placements as of End of Period	4,182	4,030	4,179	4,473	4,740
	Delinquent Placements as of End of Period	1,413	1,198	1,155	952	856
Public Health	Visits to District Health Centers	339,032	348,472	NA	NA	NA
	Percent of Visits from Uninsured Patients	49.6%	51.1%	52.9%	49.6%	50.4%
	Newly Diagnosed HIV Case Reports	NA	792	704	585	177
	Children with Complete Immunizations[1]	NA	NA	75%	78%	85%

[1]Defined as percentage of children of age 19 to 35 months with complete immunizations.

Performance Measures: Housing

- **Office of Supportive Housing**: Homeless prevention service levels have declined in recent years due to the 2012 expiration of the Homeless Prevention and Rapid Re-Housing program funded through the federal American Reinvestment and Recovery Act. Prevention programs in FY14 were funded through the Housing Trust Fund and the Community Services Block Grant. New permanent supportive housing units declined from 180 in FY13 to 59 in FY14 due to delays in grant and development funding. The impact in FY15 remains to be seen.
- **Office of Housing and Community Development**: Mortgage foreclosures diverted declined in FY14 in part due to a reduction in foreclosure filings, a trend that continues into FY15. In addition, the measure has been redefined to exclude forbearances. Trends in the number of owner-occupied homes repaired reflect the availability of funding. In FY13, the agency began reporting on the number of clients receiving counseling. This measure includes counseling for current and prospective homeowners.

Performance Measures: Housing						
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
Supportive Housing	Households Receiving Financial Assistance					
	For Homelessness Prevention	1,898	809	610	676	125
	For Ending Homelessness	NA	NA	291	135	34
	New Permanent Supportive Housing Units[1]	120	179	180	59	NA
	Transitional Housing Placements	510	558	539	509	128
Housing and Community Development	Mortgage Foreclosures Diverted	1,647	1,423	1,754	1,232	294
	Owner-Occupied Homes Repaired[2]	8,232	7,129	5,409	5,689	1,348
	City Lots Greened and Cleaned[3]	8,417	8,500	9,238	8,766	8,052
	Clients Receiving Counseling	NA	NA	12,463	12,398	3,297

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.

Performance Measures: Parks and Recreation and Free Library

- **Department of Parks and Recreation**: Visits to departmental sites declined in FY14 in part due to a mild summer that reduced the number of pool visits in early summer 2014; however, FY15 Q1 figures are above FY14 Q1 for visits. 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 declined in FY14 due to lower than expected contractor tree planting and the implementation of a new planning process. So far, no trees have been planted in FY15.
- **Free Library of Philadelphia**: Circulation stayed relatively static between FY13 and FY14, after declining 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 visits declined in FY14 in part due to the closing of the South Philadelphia branch for renovations and weather-related closings, however FY15 Q1 visits remain at the same level as the same time last year. Visits to the Free Library website increased from 7.3 million in FY13 to 8.2 million in FY14, and FY15 Q1 numbers are on par with FY14 Q1.

Performance Measures: Parks and Recreation and Free Library						
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
Parks and Recreation	Programs Offered[1]	3,824	4,050	3,742	3,603	2,332
	Visits to Departmental Facilities and Sites (Millions)	6.57	6.60	7.30	6.24	2.69
	Acres Mowed[2] (Thousands)	37.5	36.0	40.3	40.3	16.2
	Trees Planted[3] (Thousands)	18.3	20.3	26.0	18.3	0
Free Library	Circulation of Materials (Millions)	7.21	7.50	6.58	6.51	1.81
	Visits (Millions)	6.10	5.96	5.85	5.67	1.53
	Website Visits (Millions)	NA	NA	7.3	8.2	2.54
	Hours Open (Thousands)	100.0	97.8	95.8	99.8	26.3

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.

Performance Measures: Transportation and Regulation

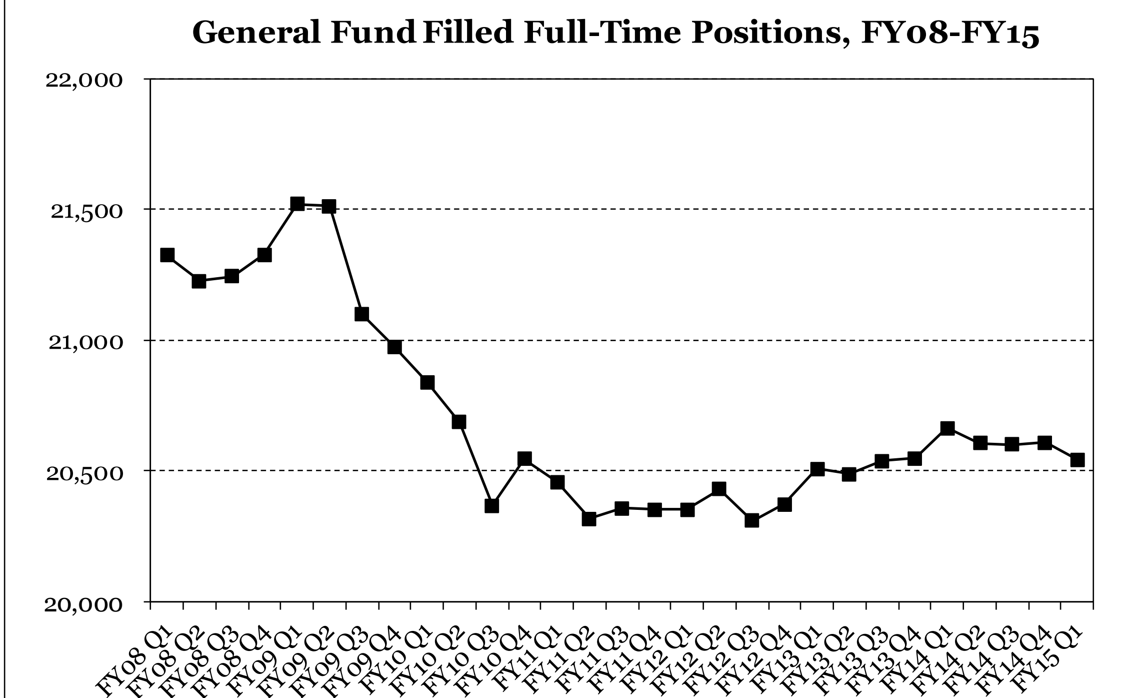
- **Streets Department**: On-time trash and recycling collection declined in FY14 due to severe winter weather, and fleet and staffing challenges. So far, FY15 on-time recycling collection has almost reached FY13 levels; however on-time trash collections remain at FY14 levels, down 11% from FY13.
- **Department of Licenses and Inspections**: The number of properties classified as imminently dangerous increased from 375 at the end of FY13 to 521 at the end of FY14. This in part reflected an increased number of complaints. FY15 Q1 figures are below those for FY14 Q1.
- **Mayor's Office of Transportation and Utilities:** Energy use at City facilities was 1.86 million BTUs for FY14. The City is working to improve operational practices and capital planning to reduce utilities expense.

Performance Measures: Transportation and Regulation						
Agency	**Measure**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
Streets	Recycling Rate	19%	19%	20%	21%	19%
	On-Time Trash Collection[1]	94%	94%	96%	85%	85%
	On-Time Recycling Collection[1]	96%	97%	97%	93%	96%
Licenses and Inspections	Residential Buildings Demolished	567	543	521	522	147
	Imminently Dangerous Properties	NA	NA	375	521	435
	Permits Issued[2] (Thousands)	NA	NA	35.7	35.4	10.1
Transportation and Utilities	Energy Consumption (Million BTUs)[3]	NA	NA	1.84	1.86	NA

Notes
[1] Percentage of collections completed by 3:00 PM.
[2] Includes building, electrical, and plumbing permits.
[3] Includes natural gas, electricity, steam, and fuel oil from General Fund funded City facilities and street lights. Vehicle fuel is excluded.

Staffing

- After declining by more than 1,100 from December 2008 through March 2010, General Fund employment levels stabilized through March 2012. Since March 2012, there has been a gradual increase of approximately 235 positions.[1]

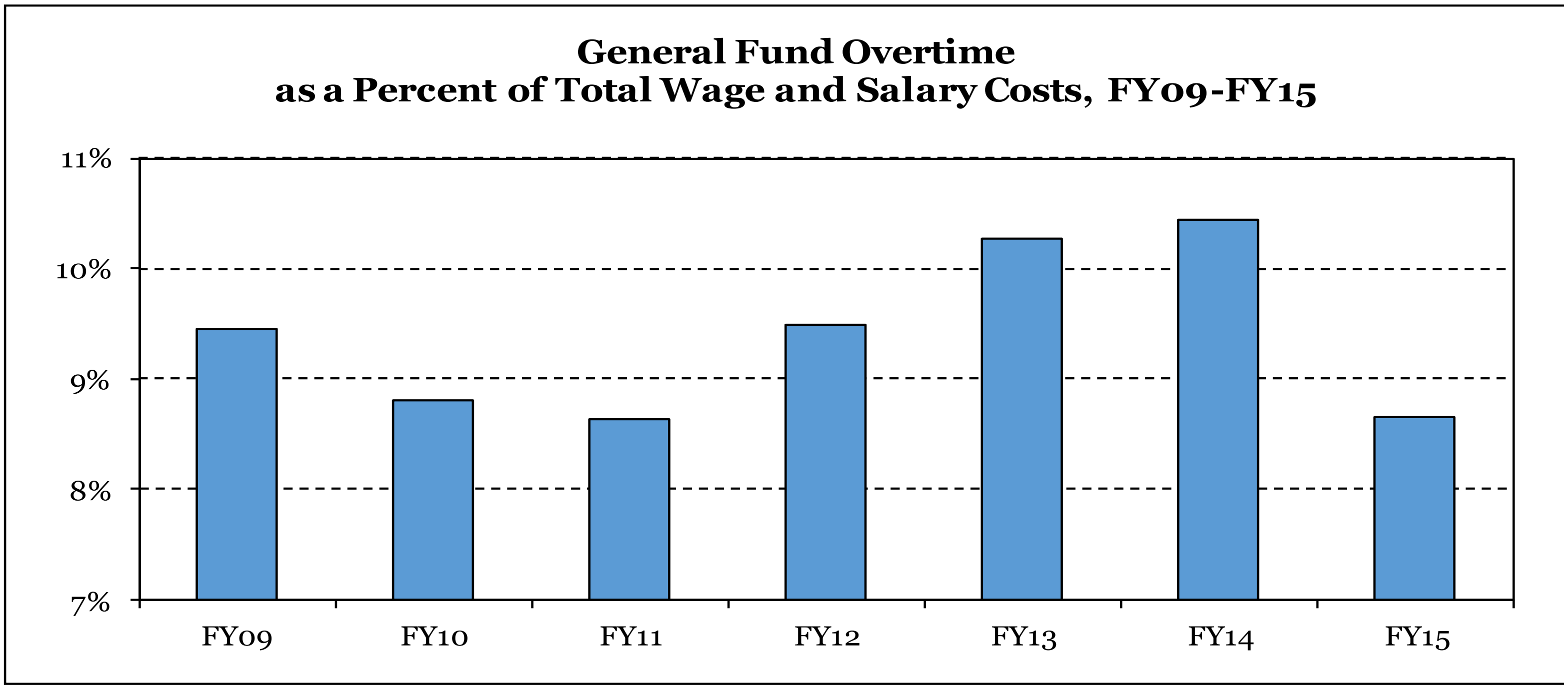


Note: Figures are as of the end of the fiscal quarter. Department of Human Services personnel are excluded.

[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.

Overtime

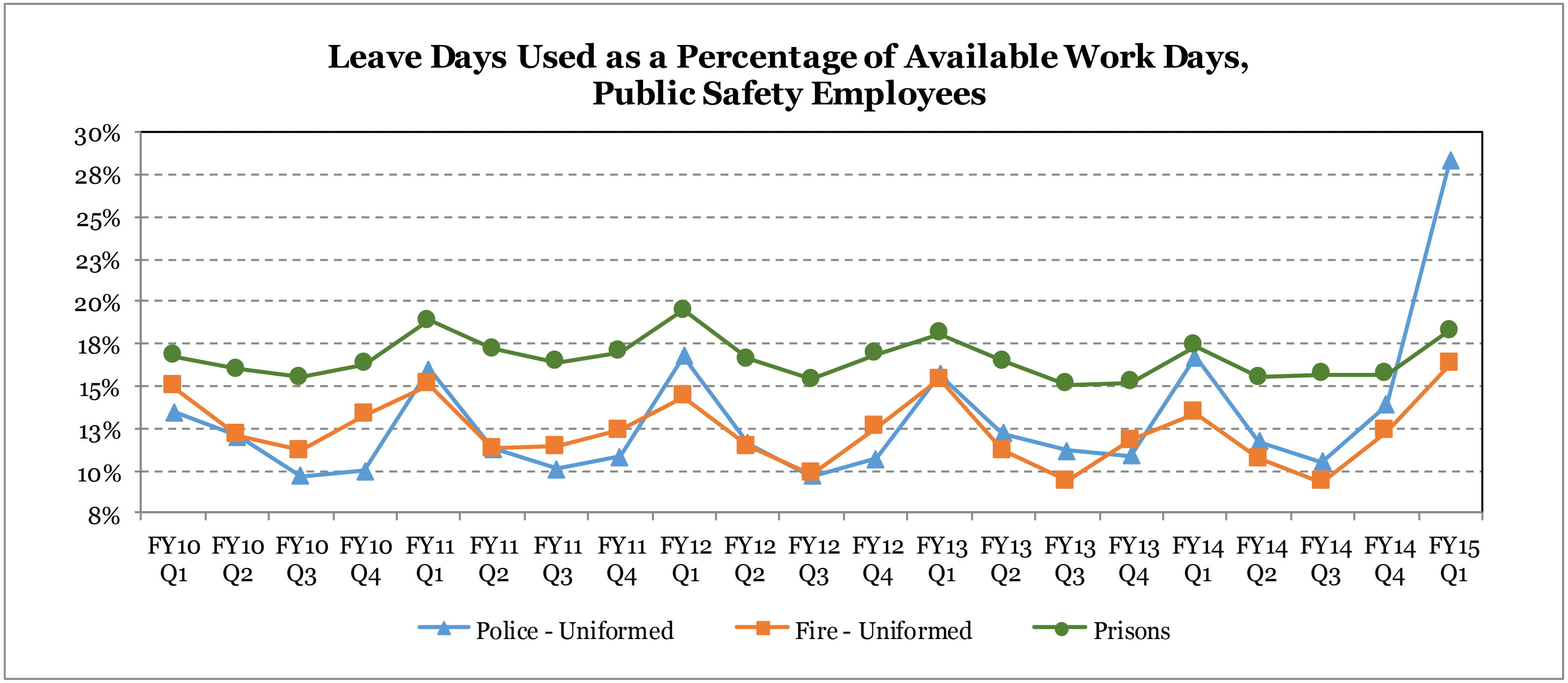
- FY14 General Fund overtime costs were $151.5 million, or 10.4 percent of total wages and salaries. Overtime as a percentage of wages and salaries declined from 9.5 percent in FY09 to 8.6 percent in FY11, and increased to 10.4 percent in FY14.[1] With total FY14 General Fund wages at $1.45 billion, a difference of one percentage point represents $14.5 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. The Q1 QCMR currently projects FY15 overtime costs at $127.4 million, or 8.4 percent of wages and salaries. The most significant reductions are projected in the Fire Department.



[1] The FY11 amount excludes $3.8 million in Fire Department overtime due to a one-time legal settlement related to overtime for emergency medical services personnel.

Leave Usage

- For the median City agency, employees were absent from work on 17 percent of available work days in the first quarter of FY15.[1] Leave usage varies from a high of 28.3 percent among uniformed Police Department employees to a low of 9.8 percent in the Managing Director's Office.[2] Seasonal variability in leave use has major cost implications, since overtime is often necessary to assure consistent staffing.



Notes:

[1] Prior to FY15, the calculation includes the following categories: vacation, annual, sick, funeral, unpaid, comp time, and "AWOL." Beginning in FY15, the following additional categories are included: injured-on-duty, Heart and Lung, military, excused, suspension, administrative, and strike.

[2] The increase in Police uniformed leave usage in the first quarter of FY15 reflects higher leave usage and the inclusion of additional leave categories.