CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

CITY OF PHILADELPHIA

FORECASTED GENERAL FUND STATEMENTS OF OPERATIONS

FISCAL YEARS 2016 – 2020

City Controller
ALAN BUTKOVITZ

CONTENTS

CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

INDEPENDENT ACCOUNTANT'S REPORT

To the Chair and Board Members of the
Pennsylvania Intergovermental Cooperation Authority

We have examined the accompanying Forecasted General Fund Statements of Operations for the fiscal years ending June 30, 2016 through June 30, 2020 (the forecasted statements). Management of the City of Philadelphia's Office of the Director of Finance is responsible for the forecasted statements. Our responsibility is to express an opinion on the forecasted statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by the City of Philadelphia's Office of the Director of Finance management and the preparation and presentation of the forecasted statements. We believe that our examination provides a reasonable basis for our opinion.

As described in the Summary of Significant Forecast Assumptions Note C.1., the City of Philadelphia's Office of the Director of Finance management employs a number of approaches to developing significant assumptions for its forecasts of tax revenues. These approaches yield overly optimistic revenue amounts in fiscal years 2016 and 2017 of the forecasted statements and consequently significantly inflate fund balance amounts for these and the remaining years presented in the statements.

In our opinion, the accompanying forecasted statements are not presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants because the City of Philadelphia's Office of Director of Finance management's assumptions, as discussed in the preceding paragraph, do not provide a reasonable basis for management's forecasted statements. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Gerald V. Micciulla

GERALD V. MICCIULLA, CPA
Deputy City Controller
Philadelphia, Pennsylvania
July 9, 2015

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2016 through June 30, 2020

Prepared by:

Office of Budget and Program Evaluation
Office of the Director of Finance

City of Philadelphia - Office of the Director of Finance
Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2016 through June 30, 2020

(Amounts in thousands)

NO.	ITEM	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	2,912,279	2,994,335	3,081,798	3,137,626	3,193,540
2	Locally Generated Non-Tax Revenues	275,807	275,361	275,986	276,394	276,975
3	Revenue from Other Governments	651,815	668,604	695,399	720,442	737,099
4	Sub-Total (1)+(2)+(3)	**3,839,901**	**3,938,300**	**4,053,184**	**4,134,462**	**4,207,613**
5	Revenue from Other Funds of City	65,240	65,809	66,297	66,804	67,331
6	Total - Revenue (4)+(5)	**3,905,141**	**4,004,109**	**4,119,481**	**4,201,266**	**4,274,944**
7	Other	0	0	0	0	0
8	**Total Revenue and Other Sources (6)+(7)**	**3,905,141**	**4,004,109**	**4,119,481**	**4,201,266**	**4,274,944**
	OBLIGATIONS/APPROPRIATIONS					
9	Personal Services	1,534,426	1,556,356	1,562,834	1,562,834	1,562,834
10	Personal Services-Pensions	611,701	621,303	626,400	635,253	642,298
11	Personal Services-Add'l Pensions (Sales Tax)	0	3,457	8,026	27,031	31,442
12	Personal Services-Other Employee Benefits	560,482	581,989	604,270	627,731	649,699
13	**Sub-Total Employee Compensation**	**2,706,609**	**2,763,105**	**2,801,530**	**2,852,849**	**2,886,273**
14	Purchase of Services	832,668	833,962	849,380	826,385	824,638
15	Materials, Supplies and Equipment	97,082	96,588	96,944	96,944	96,944
16	Contributions, Indemnities, and Taxes	187,631	182,817	184,141	183,481	185,310
17	Debt Service	141,398	150,739	160,299	178,555	178,873
18	Advances & Misc. Pmts. / Labor Obligations	0	0	0	0	0
19	Sub-Total (13 thru 18)	3,965,388	4,027,211	4,092,294	4,138,214	4,172,038
20	Payments to Other Funds	32,715	34,372	36,120	37,964	39,909
21	Payment to Budget Stabilization Reserve Fund	0	0	0	0	26,029
22	**Total - Obligations (19+20+21)**	**3,998,103**	**4,061,583**	**4,128,414**	**4,176,178**	**4,237,976**
23	Oper.Surplus (Deficit) for Fiscal Year (8-22)	(92,962)	(57,474)	(8,933)	25,088	36,968
24	**Prior Year Adjustments:**					
25	Revenue Adjustments	0	0	0	0	0
26	Other Adjustments	22,885	22,138	22,138	22,138	22,138
27	Total Prior Year Adjustments	22,885	22,138	22,138	22,138	22,138
28	**Adjusted Oper. Surplus/ (Deficit) (23+27)**	**(70,077)**	**(35,336)**	**13,205**	**47,226**	**59,106**
	OPERATIONS IN RESPECT TO					
	PRIOR FISCAL YEARS					
	Fund Balance Available for Appropriation					
29	June 30 of Prior Fiscal Year	139,401	69,324	33,988	47,193	94,419
30	Residual Equity Transfer	0	0	0	0	0
31	Fund Balance Available for Appropriation June 30 (28+29+30)	**69,324**	**33,988**	**47,193**	**94,419**	**153,525**

See accompanying summaries of significant accounting policies and assumptions and accountant's report.

A. Nature of the Forecast

The City of Philadelphia Office of Budget and Program Evaluation (OBPE) is responsible for providing revenue and obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the FY2016 budget and the FY2016 to 2020 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 19, 2015. These financial forecasts present, to the best of management's knowledge and belief, the City's expected results of operations for the forecast periods. Accordingly, the forecasts reflect the City's judgment as of June 19, 2015, the date of these forecasts, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There may be differences between the forecasted and actual results because events and circumstances frequently do not occur as forecasted or expected and these differences may be material.

B. Summary of Significant Accounting Policies

The Forecasted General Fund Statements of Operations are presented on the budgetary basis of accounting. The budgetary basis of accounting differs from the modified accrual (Generally Accepted Accounting Principles) basis used in the preparation of the city's governmental fund financial statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as a reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

C. Summary of Significant Forecast Assumptions

1. Approach to Revenue Forecasting

The city's estimated general fund revenues for FY2016 total $3.9 billion. Approximately 75% of the city's budget comes from local taxes, and 17% comes from other governments. Locally generated non-tax revenues, which include fees, fines and permits, account for 7% of revenues.

OBPE provides forecasts of the six major taxes, totaling $2.9 billion in the adopted FY16 budget, as well as $275.8 million of Locally Generated Non-Tax revenues, and $651.8 million in Revenue from Other Governments. These three sources comprise 98% of the revenues anticipated for the FY2016 budget.

OBPE employs a number of approaches to developing its forecasts of local revenues. These include:

a. Forecasts of economic activity provided by several sources including the Congressional Budget Office and the Blue Chip Economic Indicators;

b. Continuous evaluation of national and local economic data on employment, inflation, interest rates, and economic growth;

c. Ongoing examination of the city's current tax receipts;

d. Economic forecasting of tax revenues provided by a revenue forecasting consultant;

e. Discussions with economists at the Federal Reserve Bank of Philadelphia; and

f. The extensive experience of its staff.

OPBE's tax forecasts for the FYP were developed in conjunction with a revenue forecasting consultant, IHS Global Insight, Inc (IHS). IHS created econometric models which included variables such as wage and salary disbursements in the metropolitan statistical area (MSA) and the county, personal income in the county, the unemployment rate, home prices in the county, real estate transaction growth, and national corporate profits. These models, together with their forecast of the Philadelphia economy, were used by IHS to project tax revenues for the City. IHS focused on six taxes – Wage and Earnings Tax, Net Profits Tax, Business Income and Receipts Tax, Real Property Tax, Real Estate Transfer Tax, and Sales Tax. These projections were refined by OBPE after discussions with leading economists at the Federal Reserve Bank of Philadelphia.

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the city since tax revenues, which are directly tied to the economy's strength, account for 75% of the city's General Fund revenue. The national economic recovery has shown signs of improvement after the recession, albeit slower and more unevenly than economists had expected. The Blue Chip consensus forecast for U.S. Real Gross Domestic Product (GDP) which provides a forecast based on combining multiple leading separate economic forecasts, shows projected growth of 2.2% for 2015, slightly lower than the 2.4% growth seen in 2014. Growth is expected to accelerate in 2016 to 2.8%. The consensus forecast projects pre-tax corporate profits to grow 1.4% in 2015 and 4.4% in 2016, compared to -0.8% in 2014.[1]

Households are starting to show more confidence through spending; personal consumption expenditures are estimated to grow 2.9% in 2015 and 2.8% in 2016, higher than the 2.5% growth in 2014. Unemployment is expected to decline from 6.2% in 2014 to 5.4% in 2015 and then to 4.9% in 2016.[2]

Like the nation, Philadelphia's economy continues to recover from the deep recession of 2007-2009. The number of people employed dropped from 595,236 in January 2009 to a low of 579,933 in December 2009, rebounding to 636,762 in March 2015. Unemployment had a sizable increase, from 5.4% in April 2007 to a high of 11.9% in July 2013 and has improved significantly to 7.1% in March 2015. Employment levels are particularly important for Philadelphia's budget because it is heavily reliant on the Wage Tax.[3]

3. The City's Major Taxes

The city receives revenue to fund its services and programs from six major taxes which are budgeted to contribute 74% of the expected General Fund revenue in FY2016. These include:

1. Wage and Earnings and Net Profit Tax (Wage),
2. Real Property Tax,
3. Business Income and Receipts Tax (BIRT),
4. Real Estate Transfer Tax (RTT),
5. Sales Tax, and
6. Parking Tax.

The remaining taxes, including the amusement tax, are budgeted to provide less than 1% of General Fund revenue. Philadelphia's reliance on the Wage Tax (35% of the General Fund) and the BIRT

[1] Blue Chip Economic Indicators June 10, 2015.
[2] Blue Chip Economic Indicators June 10, 2015.
[3] Source :http://data.bls.gov/timeseries

(12%) places the city at risk from economic trends and employment fluctuations of the local economy. Other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

a. Wage Tax

The largest tax revenue source (comprising 48% of tax revenues) is the Wage Tax. The Wage Tax is collected from all employees working within city limits, and all city residents regardless of work location. In FY2016, the Wage Tax rate has been reduced from 3.9200% to 3.9102% for residents and from 3.4915% to 3.4828% for non-residents. The resident rate includes 1.5% that is reserved for the Pennsylvania Intergovernmental Cooperation Authority (PICA). PICA has overseen the city's finances since 1992, when it was first established. The PICA statute permits the Authority a "first dollar" claim on its portion of Wage Tax proceeds, which is used to pay debt service on bonds issued by PICA for the benefit of the city. After the payment of debt service, the remaining PICA wage tax is sent to the City. In FY2016, these revenues are estimated to total $353 million and are accounted for as Revenue from Other Governments. Excluding the PICA portion, the Wage Tax is projected to bring in $1.37 billion in FY2016. This projection includes a 4.1% base growth rate in the Wage Tax. [4]

The city resumed cuts to the Wage Tax in FY2014 that were suspended in FY2010 and plans to continue Wage Tax cuts in each year of the FYP assuming that the city's fund balance remains consistent with or higher than those in the FYP. The level of cuts to the Wage Tax rates increase over the course of the plan as the economy is projected to recover. By FY2020, the Wage Tax rates in the FYP are 3.7366% for residents and 3.3282% for non-residents.

b. Real Property Tax

The Real Property Tax (Property) is the city's second largest source of tax revenue (20%), estimated to contribute $581.1million of the FY2016 tax revenues. This tax is levied on the assessed value of residential and commercial property in the city. The Adopted FY16 Budget has a combined city/School District property tax rate for FY16 of 1.3998%, a 4.5% increase from FY2015. The city portion of the tax is 0.6317% and the School District portion is 0.7681%. The property tax increase on both the city and the School District sides are to benefit the School

[4] Growth rates referenced throughout these notes are applied to the current portion of the tax base.

District. The city portion is collected as city revenue and then granted to the School District. Each year in the FYP reflects this increase in tax revenue as well as the related expense to the School District; therefore this does not impact fund balance. The property tax projection takes into account the continuation of the homestead exemption of $30,000 for eligible property owners and relief measures with a cap of $20 million for the city and School District combined.

c. Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT, formerly the Business Privilege Tax) is projected to produce $453.9 million in FY2016, 16% of total tax revenue. The majority of the BIRT is derived from corporate profits which are volatile and dependent on economic conditions within the city. In FY2012, BIRT tax reform legislation was signed by the Mayor which incorporated several changes intended to help small and medium size businesses grow in Philadelphia. Under Bill 110548, business taxes for the first two years of operations for all new businesses that employ at least three employees in their first year and six in the second would be eliminated beginning in FY2013. This legislation also provides for across the board exclusions on the gross receipts portion for all businesses scaled in over a three year period beginning in FY2015 and reductions in the net income portion of the BIRT. When the exclusions are fully phased in, the first $100,000 of receipts will be excluded. Lastly, the bill calls for implementation of single sales factor apportionment. This enables businesses to pay BIRT solely on sales, not on property or payroll. By taxing property and payroll, the BIRT previously had provided disincentives to firms to locate in the city.

d. Real Estate Transfer Tax

While economic conditions negatively affected the Real Estate Transfer Tax (RTT) since the housing market decline began in 2007, the City is now seeing solid growth in this tax. The RTT is projected to provide $221.9 million in FY2016; a growth rate of 10.0% over FY2015 anticipated collections. A lower growth rate of 2.0% annually is projected from FY2017 to FY2020. Even with projected solid growth for transfer tax revenues, the $240.1 million the FYP includes for FY2020 is only slightly above the $234 million in transfer tax revenues collected in FY2006 and FY2019 would be the first year in which the tax surpassed its FY2006 level. The city imposes a 3% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4% total RTT.

e. Sales Tax

Sales Tax revenues are projected to generate $149.4 million in FY2016, 5% of tax revenues, down from 9% of tax revenues in FY2014 due largely to the portion of the local Sales Tax directed to the city's General Fund declining from 2% to 1%. As part of its response to projected budget deficits in 2009, the Commonwealth of Pennsylvania (the Commonwealth) provided authorization and the city passed legislation to temporarily increase the Sales Tax rate from 1% to 2% through the end of FY2014. This raised the total Sales Tax rate to 8%, with 6% going to the Commonwealth and 2% to the city. Starting in FY2015, 1% of the local Sales Tax is for the benefit of the School District of Philadelphia and the city's pension fund, whereby $120 million of the sales tax goes directly to the School District and remaining amounts flow through the city's General Fund to pay for debt service on a borrowing on behalf of the School District and for additional contributions to the Pension Fund.

f. Parking Tax

The Parking Tax is levied on the gross receipts from all parking transactions. Parking Tax revenue is projected to generate $88.6 million in FY2016. The rate was increased from 20% to 22.5% in FY2016 to benefit the School District. The additional $10 million will be collected as city revenue and then granted to the School District each year.

City of Philadelphia
General Fund
FY 2016 - 2020 Five Year Financial Plan
Major Taxes ($ in Millions) with Percentage Change from Previous Year

Tax	Actual FY14	Projected FY15	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20
Wage & Net Profits - Current & Prior	1,277.9	1,342.9	1,389.1	1,440.0	1,485.4	1,497.7	1,510.0
% change from prior year	n.a.	5.1%	3.4%	3.7%	3.2%	0.8%	0.8%
Real Property - Current & Prior	526.4	527.9	581.1	589.2	605.3	621.1	635.9
% change from prior year	n.a.	0.3%	10.1%	1.4%	2.7%	2.6%	2.4%
Business Income & Receipts - Current & Prior	461.7	466.3	453.9	462.5	475.4	487.9	500.8
% change from prior year	n.a.	1.0%	-2.7%	1.9%	2.8%	2.6%	2.6%
Sales	263.1	143.8	149.4	156.9	166.1	174.1	182.9
% change from prior year	n.a.	-45.3%	3.9%	5.0%	5.8%	4.8%	5.1%
Real Property Transfer	168.1	201.7	221.8	226.3	230.8	235.4	240.1
% change from prior year	n.a.	20.0%	10.0%	2.0%	2.0%	2.0%	2.0%
Parking	75.2	76.9	88.6	90.9	93.1	95.5	97.8
% change from prior year	n.a.	2.3%	15.3%	2.5%	2.5%	2.5%	2.5%
Other Taxes	23.7	22.3	22.7	22.8	22.9	23.1	23.2
% change from prior year	n.a.	-5.7%	1.5%	0.6%	0.6%	0.6%	0.6%
Data Warehouse Project - Prior	0.0	0.0	5.7	5.8	2.9	2.8	2.8
% change from prior year	n.a.	n.a.	n.a.	1.8%	-50.0%	-3.4%	0.0%
Total Taxes	**2,795.9**	**2,781.9**	**2,912.3**	**2,994.3**	**3,081.8**	**3,137.6**	**3,193.5**
%Change from prior year	**n.a.**	**-0.5%**	**4.7%**	**2.8%**	**2.9%**	**1.8%**	**1.8%**

Note: Wage & Net Profits Taxes include rate reductions that resumed in FY14. Business Income & Receipts Tax incorporate rate reductions and changes in recently passed legislation that began in FY13. The reduced estimate for the Sales Tax in FY15 is the result of the reauthorization by the Commonwealth of the 1% increase but this revenue is dedicated to the School District. The increased estimate for the Real Estate Tax in FY16 is the result of a rate adjustment from 0.006018 to 0.006317, intended to provide the School District an additional City contribution of $25 million. Likewise, the increased estimate for Parking Tax in FY16 is the result of a rate adjustment from 20% to 22.5% with the aim of raising $10 million of revenue to be directed to the School District. Wage tax does not include the PICA tax.

4. Locally Generated Non-Tax Revenues

Locally Generated Non-Tax Revenues are forecasted based on historical trends, rate changes, and current collection patterns. Certain revenues such as interest earnings, licenses and permits and recording fees are subject to economic contractions and are forecasted accordingly.

5. Revenue from Other Governments

Revenue from Other Governments is forecasted based on historical trends and state and federal budget information. The PICA city account which represents 54% of Revenue from Other Governments is forecasted using Wage Tax variables.

6. Obligation Estimates

OBPE provided obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the revised annual FY2016 budget and FYP submitted by the Mayor to PICA on June 19, 2015. OBPE provides forecasts of all major expenditure categories. Budgeted expenditures in

FY2016 total $3.998 billion, an increase of $133 million due largely to the $35 million increase in payments to the School District, which are projected to be funded through the Real Property Tax and Parking Tax increases; $58 million from rising pension and health/medical costs; and $27 million due to arbitration award costs for the Police Department.

a. Labor Agreements

The city now has contracts in place with all of its largest unions. The Fraternal Order of Police (FOP) received a three-year arbitration award for uniformed Police Department employees in July 2014 covering the period of FY2015 to FY2017. An agreement was reached with District Council (DC) 33 in August 2014 covering the period FY2010 to FY2016 and in January 2015, an arbitration award was issued for the International Association of Fire Fighters (IAFF) covering the period FY2014 to FY2017. Awards were announced for DC 33 Local 159 in March 2015 and for the Deputy Sheriffs and Register of Wills in April 2015. An agreement was reached with DC 47, which was ratified in March 2014, for a contract covering the period FY2010 to FY2017. A separate agreement covering court employees represented by DC 47 for FY2015 to FY2016 was ratified in August 2014. Costs associated with all of these agreements are included in the FYP.

The information below summarizes the arbitration awards that have been issued and contract settlements reached, as well as changes that have been made for exempt and non-represented employees.

F.O.P. Lodge 5

On July 30, 2014, an interest arbitration panel issued a three year award providing wage increases for bargaining unit employees and additional management tools. Members received a 3.0% wage increase on July 1, 2014 and will receive a 3.25% wage increase on July 1, 2015 and on July 1, 2016. Members will also receive a one-time cash accreditation bonus within 30 days of the Police Department being accredited by the Pennsylvania Chiefs of Police.

The previous FOP interest arbitration award, which covered FY2010 to FY2014, was the first City contract to introduce Plan 10, the hybrid pension plan with a defined benefit and 401(k) style element. Uniformed police employees hired after January 1, 2010 now choose to either participate in Plan 10 or pay an additional 1% of pay (from 5% to 6%) to remain in the pre-existing plan. In addition, the previous award ordered the FOP's health plan move to self-insurance in FY2011.

F.O.P. – Deputy Sheriffs and Register of Wills

A three-year interest arbitration award covering the unionized employees of the Sheriff's Office and Register of Wills was issued in April 2015 for the period of FY2015 to FY2017. The award included wage increases for the Sheriff's Office of 2.5% on July 1, 2014, 3.0% on July 1, 2015, and 3.25% on July 1, 2016. Register of Wills employees receive the same wage package as DC 33 employees, described below. Register of Wills employees also will receive what is negotiated with DC 33 for FY2017.

The previous award introduced the new hybrid pension plan – Plan 10. Employees of the Sheriff's Office hired after January 1, 2012 choose between entering into the pre-existing plan and increasing their contribution from 30% to 50% of normal cost or going into Plan 10. Register of Wills employees hired after January 1, 2012 must enter Plan 10.

American Federation of State, County, and Municipal Employees (AFSCME) District Council 33

On August 21, 2014, the city reached agreement with DC 33, which represents close to 8,000 blue collar employees, on a seven year contract from July 1, 2009 through June 30, 2016. The agreement provided for no retroactive pay increases, but members received a $2,800 lump sum ratification payment, a 3.5% wage increase in September 2014, and will receive a 2.5% increase on July 1, 2015. Step and longevity increments, which were frozen in July 2009 pending agreement on a new contract, were restored. On health care, the city made a one-time $20 million lump sum payment into the DC 33 Health Fund and the per member per month contribution to the Health Fund increased to $1,110 on September 15, 2014 and $1,194 effective July 1, 2015. On pensions, all employee pension contributions increased by 0.5% of pay on January 1, 2015 and will increase by an additional 0.5% of pay on January 1, 2016. Employees hired after September 9, 2014 may choose to participate in Plan 10 or contribute an additional 1% of pay on top of these increased contributions.

AFSCME District Council 33, Local 159

On March 23, 2015, a three year arbitration award with AFSCME District Council 33, Local 159 was issued to cover FY2015 through FY2017. The group covered by the award includes approximately 2,100 employees who work as Correctional Officers, Youth Detention Counselors, guards in the police detention unit and certain prison maintenance trades throughout facilities in the City's Prison System as well as in the Department of Human Services and the Police Administration Building. The award included a 3.0% increase for covered employees on July 1, 2014 and 3.25% wage increases on July 1, 2015 and July 1, 2016.

The previous arbitration award issued in 2012 required all new hires to enter into Plan 10 and increased the pension contributions for current employees, which took effect November 14, 2014. Contributions for members of Plan 87 increased from 30% of normal cost to 50% of normal cost. Members of Plan 67 also pay 50% of normal cost but no longer receive an offset while contributing towards FICA, which has the effect of increasing most contributions by 2.25% of pay. This award also excluded paid time off other than vacation from overtime eligibility.

I.A.F.F.

A four-year interest arbitration award with the IAFF was issued in January 2015. The award included wage increases of 3.0% of pay on July 1, 2013, 3.0% on July 1, 2014, and 3.25% on July 1, 2015. The award also includes a wage re-opener for FY2017. On health care, like the self-insurance structure put in place with the FOP in the FY2010 to FY2014 award, the City will pay the cost of benefits and administration after February 1, 2015 once the IAFF Health Fund has paid for the first $15 million of expenses. The award requires the implementation of a wellness and fitness program with comprehensive mandatory medical examinations in the workplace, plus aggressive wellness programs through the Health Fund, including a one-time financial incentive for completing wellness activities by December 31, 2015.

The previous IAFF interest arbitration award, which covered FY2010 to FY2013, introduced changes to pension provisions, including the Plan 10 option, mirroring those in the FY2010 to FY2014 award for Police.

AFSCME District Council 47

The city reached an eight year agreement with DC 47, Local 2187 on February 25, 2014 for a contract term from July 1, 2009 through June 30, 2017. DC 47 represents more than 3,450 white collar employees. The contract provides no retroactive pay increases, but members received ratification bonuses of $2,000 per person, a wage increase of 3.5% 30 days after ratification and wage increases of 2.5% effective July 1, 2015 and 3% effective July 1, 2016. Step and longevity increments, which were frozen in July 2009 pending agreement on a new contract, were restored but no retroactive increases were paid. On pensions, all employee pension contributions increased by 0.5% of pay on January 1, 2015 and will increase by an additional 0.5% of pay on January 1, 2016. Employees hired after March 5, 2014 may choose to participate in Plan 10 or contribute an additional 1% of pay on top of these increased contributions. Under the agreement, sick time will no longer be counted as hours worked when determining when overtime is due on a weekly basis. Effective January 1, 2015, the health fund moved to a self-insured arrangement similar to the contract with the FOP. Employees must contribute at least 9% of the health plan's costs.

AFSCME District Council 47, Local 810 Courts

On August 6, 2014, the city reached a two year agreement setting contract terms for nearly 500 employees of the First Judicial District, the majority of who are probation officers. The award provided wage increases of 2.5% on July 1, 2014 and on July 1, 2015. Employees continue to participate in the DC 47 health plan and are subject to the terms agreed upon by the City and DC47. Employees are subject to the pension reforms effective for DC 47. All employee pension contributions increased by 0.5% of pay on January 1, 2015 and will increase by an additional 0.5% of pay on January 1, 2016. Employees hired after November 14, 2014 choose to either participate in Plan 10 or contribution an additional 1% of pay (beyond the increased employee contributions for all employees).

b. Health / Medical

The Administration implemented a self-insured group health plan in 2010 for medical benefits for non-union employees. In FY2011, coverage for members of the Fraternal Order of Police (FOP), Lodge No. 5 also switched to self-insurance. Effective January 1, 2015, the DC47 health fund moved to a self-insured arrangement similar to the contract with the FOP and the IAFF members are now also self-insured.

For non-union employees as well as FOP employees, actual expenditures through the first half of FY2015 were used to determine cost estimates in the FYP. A small annual increase of 2% has been included in each year of the FYP to account for cost growth in the city administered health plan as the City can change the design of the health plan (increase co-pays and employee contributions for example) to keep cost inflation low. The City has made those types of changes in the past to control costs. For FOP employees, because the City has no control over the design of the FOP health plan, an increase of 7.5% per year based on medical cost trends has been included. Cost estimates for DC47 and the IAFF are based on historical expenses analyzed by Aon and include an 8% per year increase based on medical cost trend. Cost estimates for DC 33 are based on the increases in the per member per month costs described earlier to estimate the annual cost.

c. Pensions

As part of the effort to control major cost drivers and to improve the health of the pension fund, several changes have been made over the past few years. All labor contracts now either include requirements to choose between paying more into the existing pension plan or enter Plan 10, which contains both a defined benefit and voluntary defined contribution component, or require employees to enter into Plan 10.

The new Plan 10 hybrid plan for Uniform employees includes the following elements:

1) Employee Contribution: A 5.5 % employee contribution for the first 20 years of service, and no employee contribution thereafter.
2) Normal Retirement Benefit: A defined benefit equal to 1.75% multiplied by the average final compensation for the employee, multiplied by up to a maximum of 20 years of service.
3) Average Final Compensation: The average of the employee’s 5 highest annual compensations calculated for either five calendar years or 5 anniversary years.
4) After 20 years of credited service, employees will no longer earn credited service, will no longer make contributions to the pension fund and their average final compensation shall not increase.
5) Voluntary Defined Contribution Plan: Employees may make voluntary contributions to their accounts under the City’s 457(b) Plan. For each fiscal year, the city will make a contribution to a defined contribution plan individual account of 50 cents on the dollar for each dollar contributed by the employee to their 457(b) plan account, up to a maximum city contribution of 1.5% of compensation.

Municipal Plan 10 for Civilians is a hybrid plan with a mandatory defined benefit and a voluntary defined contribution component. Key elements of Plan 10 include:

1) Years of Credited Service: Only the first 20 years will be calculated.
2) Average Final Compensation: City will take the 5-year period in which the employee's compensation is greatest.
3) Multiplier: 1.25% multiplied by Years of Credited Service (up to 20) multiplied by Average Final Compensation.
4) Employees will contribute 50% of normal cost of the Plan toward the defined benefit.
5) Voluntary Defined Contribution Plan: the city will contribute $1 for every $2 the employee contributes up to 3% of the employee's compensation contributed to the Defined Contribution Plan. The City will contribute no more than 1.5% of eligible compensation.

Increasing employee pension contributions and introducing a hybrid pension plan are expected to reduce the costs to the City in the short and long term and help minimize the risk that the city faces from potential dramatic decreases in the stock market, like the ones suffered in FY2009.

In addition to the changes in pension benefits over the past few years as outlined above, the city's pension fund has undergone the following changes:

- Re-amortized the pension fund's unfunded actuarial accrued liability over a 30-year period using level-dollar amortization payments.
- Deferred payment of a portion of its Minimum Municipal Obligation (MMO) which was repaid by end of the fiscal year ending June 30, 2014 with 8.15% interest, which was the fund's earnings assumption rate when the state law enabling the deferrals was enacted. The city deferred about 20% of its pension costs, $150 million and $80 million for the fiscal years ending June 30, 2010, and June 30, 2011, respectively to be paid (including interest due annually as accrued on the outstanding deferral) over the period ending in FY2014; $106 million was budgeted to be paid back in FY2013 with the balance of $124 million in FY14. The City has applied the proceeds of certain bonds issued in October 2012, together with other available amounts, to repay the Municipal Pension Fund the entire outstanding $230.0 million of the deferred minimum municipal obligation payment and interest due on such deferred contributions. The change in amortization period and the partial deferral were approved by the Pennsylvania General Assembly as part of Act 44.
- Eliminated the eligibility of newly elected city officials to participate in Philadelphia's DROP.
- Reduced the pension fund's earnings assumption from 7.85% to 7.80%. Lower earnings assumptions allow funds to moderate the risk of their investments, which can also reduce the

likelihood of losses.

- Increased the smoothing period for actuarial losses and gain from five to ten years. Increasing the smoothing period reduces the impact that any particular year will have on the fund's funded status and on the City's required payments. This, in turn, reduces the volatility of pension payments.

The net impact of all of these changes to the city's pension benefits and fund was to moderate what would have been devastating increases in pension costs during the years following the deep recession. In addition, the changes increased the city's ability to fund existing liabilities over the long term. The pension amounts included in the FYP are provided by the city's actuary and are based on the amounts required to be paid under state law.