City of Philadelphia

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Winter 2012 Meeting of the Mayors' Innovation Project

January 20, 2012
Agenda

1. Introduction
2. Mayor’s Goals
3. Understanding the City’s Budget
4. Budget Actions Taken Over the Last Few Years
5. FY2012 Budget
6. Continued Challenges
7. Questions and Comments
The Mayor has set forth ambitious goals for the City:

1. Philadelphia becomes one of the safest cities in America
2. The education and health of Philadelphians improves
3. Philadelphia is a place of choice
4. Philadelphia becomes the greenest and most sustainable city in America
5. Philadelphia government works efficiently and effectively, with integrity and responsiveness

• These goals help to focus departmental spending on those activities that best achieve these priorities.
Understanding the City’s Budget
Budgeting Process

- The budget forms the basis of the City’s Five Year Plan, which must be approved by the Pennsylvania Intergovernmental Cooperation Authority ("PICA").

- PICA was created on June 5, 1991 by the Pennsylvania Intergovernmental Cooperation Authority Act for cities of the First Class (the "PICA Act"). PICA was established to provide financial assistance to Philadelphia and it has financial and oversight functions.

- If PICA does not approve the budget, the Commonwealth can withhold millions of dollars until a Plan is approved.
Setting the Context

- **Our demographics:**
  - Poverty – poorest city, both in terms of family and individual poverty rates, out of top 10 largest cities
  - Education – lowest population over 25 with a bachelor’s degree out of top 10 largest cities
  - Unemployment rate – as of November 2011, the unemployment rate was 10.8%, compared with 7.9% statewide, and 8.7% nationally

- These demographics impact the City’s budget in several ways – firstly, there is a lower tax base on which our revenues are based, and secondly, more residents are dependent on the services we provide.

- Philadelphia is a County as well as a City – other cities have a (usually) wealthier county that can absorb some of the functions such as prisons, courts, DHS, health, etc...

- The City has a low fund balance compared to other cities of its size.
Our Revenues

- Philadelphia has a $3.5 billion operating budget
- Tax revenues account for more than 2/3 of the City’s revenues, and any drop significantly affects budgetary decisions

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Taxes</td>
<td>72%</td>
</tr>
<tr>
<td>Locally Generated Non-Tax</td>
<td>7%</td>
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<tr>
<td>Revenue from Other Governments</td>
<td>19%</td>
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<tr>
<td>Revenue from Other City Funds</td>
<td>1%</td>
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</table>
Where do we spend our revenues?

• Most of our expenses (67%) are on the employees that run the programs and services that the City provides.
Which departments cost us the most?

These departments alone account for over half of our expenses:

- Police: 28%
- Prisons: 10%
- Fire: 9%
- Public Health: 6%
- Streets: 5%
- Courts: 4%

Debt Service is another big expense at 4%.

- This leaves approx. 34% to pay for EVERYTHING ELSE, such as Parks and Recreation, Human Services, Libraries, Licenses and Inspections, Commerce, District Attorney, Public Property, and back office functions like:
  - Finance, Procurement, HR, IT, Fleet, Law, as well as Property management, etc.
Limited Flexibility in the Budget:
2/5 of the Budget is under the Mayor’s full control

Millions

3,500
3,000
2,500
2,000
1,500
1,000
500
0

Not under the Full Control of the Mayor

Under the Control of the Mayor
What is not under the Mayor’s control?

- Independently elected officials (such as the First Judicial District) control their own budgets – totaling $185.8 million annually.
- Independent agencies (such as the Defender’s Association) also do not report to the Mayor – totaling $38.2 million annually.
- Another $413.1 million is required annually either through State law (such as the contribution to the School District) or is legally required (such as Debt Service).
- Long term contracts such as leases add up to another $118.7 million annually.
- $71 million is reimbursed annually for expenses in the Departments of Human Services and Public Health.
- Another $1.2 billion annually is dependent on outside factors that the Mayor cannot fully control, such as employee pensions and the prison census.
Tight squeeze

• When cuts are needed, the Mayor can only “demand” reductions from the 2/5 of the budget that remains – 53% of which pays for police and fire costs alone
Budget Actions Taken Over the Last Few Years
Budget Cuts for Long-Term Problems

“Make no mistake, this will be a mid-year revision of epic proportions, and because this recession may linger beyond next year. We can’t look for brief, one-time changes.”

“We must batten down the hatches and prepare for the worst, and that means reshaping government for leaner times.”

Mayor Nutter
November 7, 2008

Source: The Philadelphia Inquirer, 11/7/08
What has been the impact of the Recession?

- Over the past three years, the City has solved for its budget woes by both cutting expenses and raising revenues – solving for $2.4 billion over six years
- During the 2007-2009 recession, the City saw significant drops in all the City’s tax revenues
Cutting Expenses

- Departments have endured some severe cuts to their expenses since FY08. When we compare actual expenses from FY08 to the FY12 budget, some of the biggest changes are the following:
  - The City Planning Commission has been cut by a third (33%)
  - The combined Commerce Department and City Representative (as they were combined in FY08) have been cut by almost 60%
  - The Finance Department has been cut by 39%
  - The Free Library has been reduced by 16%
  - The Department of Licenses and Inspections has been cut by 28%
  - The Mayor’s Office has been cut by 33%
  - The Department of Records has been cut by 48%

- The number of employees has declined significantly since 2008–2011, we have almost 1,200 fewer full-time, general fund positions than we had in FY2008.
Rebalancing of Fiscal Year 2009

• Beginning in August 2008, there was a significant deterioration in revenues due to the slowdown in the economy.
• The City took immediate steps to balance the budget:
  ▫ Personnel changes included:
    • Reduced number of general fund employees
    • Hiring freeze
    • Salary cuts to top level management
    • Furlough days for exempt employees
  ▫ City Council approved legislation in December 2008
    • Tax reductions suspended until FY14
      • Suspending rate reductions for Business Privilege and Wage taxes
    • Increased fines and fees
      • Licensing and inspection fees, false burglar alarm fees
The FY2010 and FY2011 Budget

• The FY2010 budget entailed State legislative changes:
  ▫ A temporary 1% increase to sales tax
    - Effective 10/2009 will sunset on June 30, 2014
  ▫ Changes to the pension system
    - Changes to the amortization period from 20 to 30
    - Lowering the interest rate assumption from 8.75% to 8.25%
    - Partial deferral of the City’s pension payment in FY10 ($150MM) and FY11 ($80MM) to be paid back by FY14

• In FY2011, significant cuts were made across City departments

• In FY2011, there was a property tax increase of 9.9%
FY 2012 Budget

- The City has fewer resources than it had before the economy collapsed.
- FY2012 City budget did not require painful cuts or revenue increases like it did over the past two years.
- The School District faced a large budget problem and asked for additional money from the Mayor and City Council to help resolve the budget gap.
- The City also saw cuts from the State and Federal governments that impacted this year’s Budget.
Impact of Federal and State cuts

- State and Federal funding supports many departmental activities. These dollars are especially important to sustain the safety net for our most vulnerable citizens.
- The State budget included cuts to the Office of Supportive Housing, DHS, Public Health and other City departments.
- The Federal budget decreased funding for the City by 15% on programs such as CDBG, HOME, Emergency Shelter Grant, Housing Opportunities for Persons with AIDS.
- The City handled these cuts by reducing spending in certain areas or shifting funds from one area to another.
Continued Challenges...
Update on FY2012

- On a national level, economists have adjusted growth expectations downward.
- Philadelphia is seeing the impact of the national slowdown.
- The City’s unemployment remains high, well above national and state levels.
- The City has seen weakness in the first quarter of FY12 for Wage and Sales taxes, this seems consistent with national economic trends.
  - Wage and Earnings Tax came in $5.4MM less than budgeted for the first quarter of FY2012 (0.7% growth from FY2011 to FY2012).
  - Sales Tax came in $6.2MM less than budgeted for the first quarter of FY2012 (down 6% from FY2011 to FY2012).
- The City added $12.4 MM of budgetary savings to the FY2012 budget.
- The City continues to monitor local economic conditions and its impact on tax revenues.
Questions and comments?