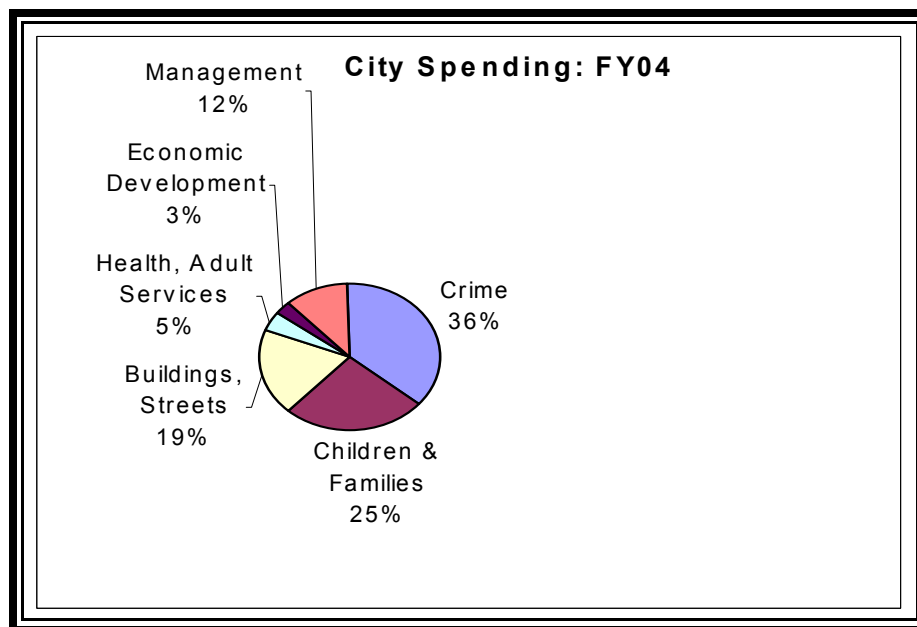


**A Neighborhood Guide to the City Budget**  
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## Introduction

On Tuesday, January 28<sup>th</sup>, Mayor John Street presented his annual budget for the fiscal year beginning July 1<sup>st</sup>, 2003 (FY04), to City Council and a sizeable audience of City employees and community representatives at the Kimmel Center.

Under the City Charter, the Mayor is required to present the budget at least ninety days before the new fiscal year, but both former Mayor Rendell and now Mayor Street have chosen to deliver their budgets ahead of the mandated schedule. This gives City Council and the general public a longer period to evaluate the budget and the administration itself more time to make adjustments to its five year plan once the legislative process is done. Given the broad debate surrounding City taxes and spending over the past two years, this extra time has proven to be more than necessary.

For most people who either live or work in Philadelphia, the annual budget raises two basic questions: a) Will the services upon which we depend increase, remain the same, or face cutbacks? b) Will we pay more, the same, or less taxes in the coming year? and

The FY04 budget focuses on hard times ahead. The main reasons are clear.

\*The sluggish economic recovery has slowed growth in the wage tax base to 1.6%—less than half the ten-year average annual wage tax base growth of 3.6% over the past ten years.

\*A 42% drop in the Standard & Poor's stock index between 2000 and 2002 produced an 11.2% loss in our pension fund over the past two years—as opposed to an 18% gain in revenues projected in the last five year plan.

\*An arbitration award to the Fraternal Order of Police raised health benefits by 37%—as opposed to 9% sought by the City.

These were all projected as risks in last year's five year plan. These risks have now become certainties. As a result, the Mayor warned that unless “corrective actions” were taken now, the City would end up with an \$834 million deficit by the end of FY08.

For the moment, however, it appears that most residents of Philadelphia will not be feeling the pain.

Given sizeable surpluses generated in past years by Philadelphia's economic recovery, the City has been able to deliver both tax reductions and improvements in services every year. With a \$116 million surplus projected for the current fiscal year ending in July, the FY04 budget presented by Mayor Street is no exception. Philadelphia residents will continue to receive an incremental .0375% cut in the wage tax passed last spring by City Council. The gross receipts tax on business will drop from .23% to .21% in FY04 as well, as recommended by the Mayor last year.

At the same time, the Mayor Street pledged continuation of the Safe Streets anti-drug campaign, the Neighborhood Transformation Initiative, and youth development programs initiated by the administration. While there were warnings that City facilities will have to be ‘consolidated’ in the future, for the moment so-called basic “resident services” will remain largely intact.

How, then, does the Street administration intend to close the projected \$834 million deficit by FY08?

The following is the list of changes in fiscal policy and savings proposed by the administration:

**Street Administration's Five-Year Deficit Reduction Strategy  
(In 000's)**

**Fiscal Policy**

Pay Minimum Municipal Obligation on Pension Bonds	245,218
Use Floating Rate Instead of Fixed rate for G.O. Debt in period	22,960
Intergovernmental Transfer	29,260
<b>Savings</b>	<b>\$297,438</b>

**City Workforce Reductions**

Replace only 50% of DROP Retirees	48,374
Outsource Custodial Services	2,559
Eliminate 20 Clerical Staff in L&I and Hire Additional Inspectors	2,024
Eliminate 50 Senior Administration Positions	17,500
Shift Two Prisons' Employees to Industries Fund	500
<b>Savings</b>	<b>\$70,957</b>

**Administrative Efficiencies**

Form administrative service centers	35,200
Modify policy for City take-home vehicles and cell phones	3,083
Consolidate facilities maintenance	4,400
Centralize Warehousing of supplies	3,957
Install Municipal Fiber Optic Network	2,191
Implement Strategic Marketing Initiative	11,710
<b>Savings</b>	<b>\$60,541</b>

**Service Shifts/Reductions**

Establish one Constituent Call Center/eliminate Department centers	4,764
Right-size the number of facilities	16,000
Use Mobile Patrols at Detention Center	2,000
Update Streets Department Fee Schedule	1,064
Increase insurance coverage for health center patients	21,487
Eliminate PHLASH Subsidy	9,400
Phase Out Riverview/Find Alternate Placements	5,382
<b>Savings</b>	<b>\$60,097</b>

**Total Savings      \$489,033**

More than 60% of these savings will come from reducing the City's contribution to the pension fund, changes in interest rates, and a transfer of funds that the public will never see. An additional \$71 million in savings are projected over the next five years from downsizing the City workforce, eliminating executive level staff, and reorganizing the administrative structure of government. Whether this can be done without affecting city services remains to be seen. Already the \$16 million in projected savings from "rightsizing the number of city facilities" is raising concern among neighborhood groups as to *which* facilities will be "rightsized," and when.

For those working actively to improve neighborhoods, moreover, additional questions remain unanswered. Block captains, neighborhood groups, and community development corporations are pushing hard for the resources needed to keep vacant lots clean and support new housing development, as part of the City's "Neighborhood Transformation Initiative." Neighborhood safety organizations are wondering how long the additional police assigned to patrol commercial corridors under the "Safe Streets" Program can remain. In the effort to strengthen education, while many of the City's new after-school programs are supported with a sizeable increase in funding from the Commonwealth of Pennsylvania, there are still thousands of students who remained underserved. In short, for neighborhood activists, the resources available to solve our critical problems seem woefully inadequate, no matter how hard the administration is working to increase them in this difficult period.

Then there is the broad public debate over our tax system. In 2002, City Controller Jonathan Saidel; the Pennsylvania Economy League; the Central Philadelphia Development Corporation; and the **Philadelphia Daily News** all stepped forward to demand a serious effort to reduce our tax burden, which—they argued with considerable evidence—is inflicting irrevocable damage upon the city's economy, rendering us unable to compete for businesses within the Delaware Valley region. A new Tax Commission created with 80% support from voters in November's election is now given the assignment to review our entire tax structure and recommend needed changes by mid-November of this year.

Yet we all recognize as well that if tax reduction results in unacceptable cuts to City services and programs, then the whole effort will be self-defeating. The Street administration now proposes to reduce spending by an additional \$483 million over the next five years. How much more can we save? On what basis might we save it? Alternatively, how can we use the resources available to us in the city to strengthen neighborhoods and improve our quality of life? These are the questions that community leaders and activists ask, reflecting the view that effective public spending—along with reasonable and fair taxes—is critical to our success as a city as well. Hopefully, this "Neighborhood Guide to the City Budget" can help active citizens and our representatives in government address them.

More than 20 years ago, the Institute for the Study of Civic Values initiated a "Neighborhood Budget Project," that led to our helping then Managing Director Wilson Goode conduct meetings throughout Philadelphia. Unfortunately, by the end of the decade, the failure of the Mayor and City Council to produce balanced budgets three years in succession created a fiscal catastrophe.

There was little citizen involvement in matters affecting the budget in the 1990's. As Mayor Ed Rendell made clear, the discipline needed to make us solvent again did not lend itself to open-ended debate on public spending. That we are now engaged in a broad debate over the budget reflects at least a renewed confidence that we can establish priorities for spending and taxes that make sense for the City.

The aim of this new “Neighborhood Guide to the City Budget,” then, is to help us understand how the City currently funds the services and programs that shape our neighborhoods and what the impact of both public spending and tax reform might be on both our economy and our quality of life. Over the past year, the budget debate has been framed in ‘either-or’ terms. One side says, ‘either we cut taxes significantly, or we will continue to decline.’ The other side counters that if indiscriminate tax cuts undermine even the basic services on which the entire City depends, we will be destroying Philadelphia in order to save it. This is where the ‘cut taxes vs. preserve revenues’ debate stands right now.

But the debate in these terms is simply not helpful. A better set of questions might be, “can we set clear goals for public spending in ways that will both improve our quality of life and cut costs over time?” And can we restructure the ways that we raise revenues in Philadelphia that will allow us to reduce wage and business taxes over time? These are the central questions that I intend to address in this guide. Our aim here is help both active citizens and the general public understand both spending and taxes in Philadelphia in a way that might help us make needed changes in both. That is the least we can do to lend some clarity to this complicated process.

The data in the report comes from publications available to the general public—the **City of Philadelphia’s Five-Year Plan: FY2004-FY2006**; the **Mayor’s Operating Budget in Brief for Fiscal Year 2004**; **The Mayor’s Reports on City Services** from FY98 through FY02; the **City Controller’s Tax Structure Analysis Report** and **2003 Mid-Year Economic and Financial Report**, the city’s **NTI FY03 Program Statement and Budget**, and the **Year 28 Consolidated Community Development Plan**. We have also made use of data on Philadelphia available through the University of Pennsylvania’s superb Neighborhood Information System which you can access online at <http://cml.upenn.edu/nis>

Taken together, these resources provide an excellent portrait of where the City is heading both fiscally and programmatically and most of the information found here relies heavily on what they say. Additionally, the Institute for the Study of Civic Values will be maintaining a web page on the City budget on our “PhillyNeighborhoods” web site. You can access it on our home page at <http://phillyneighborhoods.org>.

I am indebted to a number of people for the information assembled in this **Guide**, especially to Robert Dubow in the City Finance Department, Brett Mandel in the City Controller’s office, and David Glancey in the Board of Revision of Taxes. Samara Freemark of ISCV was extraordinarily helpful in assembling much of the Philadelphia data used in the report. I take full responsibility for the conclusions reached in this analysis, however, since they are entirely my own.

Above all, the Institute for the Study of Civic Values also wishes to thank the Samuel S. Fels Fund for providing the support that made the development of this report possible.

*Ed Schwartz, Institute for the Study of Civic Values  
February, 2003*

## I. Processing the Budget

### A. The Budget Process-Who Decides What?

On the day that the Mayor delivers his budget address, members of City Council receive a range of materials related to the budget itself:

1. **The Mayor's Budget Address**

2. **"The Mayor's Operating Budget in Brief"**--A 100 page paperbound book that summarizes the various budgets that Council eventually will have to approve.

3. **The City of Philadelphia's Five Year Financial Plan**--A 300 page book with extensive narrative outlining the general state of the City's economy; the broad priorities of the Mayor; what each City Department proposes to do in the coming year--and how much they need to do it; the proposed Capital Budget for the City; and charts documenting levels of City expenditure, employee benefits, tax rates, brief sections devoted to the Philadelphia Airport and PGW; and documentation related to the long-term fiscal obligations of the City. This is as close as we get to a "State of Philadelphia" manifesto from the Mayor, whoever the mayor might be.

4. **The City's Capital Budget Ordinance**--This ordinance enumerates the City's entire capital budget by department and project.

5. **Tax Ordinances**--These ordinances enumerate the specific taxes and tax rates that will be used to raise revenues in the next fiscal year.

6. **The Mayor's Operating Budget (Books 1 and 2)**--These are two humongous looseleaf binders--1,500 pages between them--that set forth the City's operating budget in detail, including every position proposed for each Department, amounts available for every contract proposed to provide services to the City, precise allocations for supplies and equipment, and every area in which the City will be awarding grants and contracts in pursuit of its goals. If "the devil lies in the details," this is where you can find them.

7. **The City's Operating Budget Ordinance**--This is a thirty-page ordinance--also reproduced in the "Mayor's Operating Budget in Brief"--that the City Council must approve to authorize City spending on programs and services in the coming fiscal year.

One might ask how an operating budget that takes up to 1,500 pages in detail ends up as a mere 30 page ordinance for City Council approval. The answer to this question reveals a central element of the budget process:

Under the "strong Mayor" form of government established by the City Charter, the City Council has no direct control over the details of how the Mayor and the City's operating departments spend our money. Early in a fiscal year, the Mayor asks each operating department to begin preparing its budget for the following years. These end up being reviewed by a budget committee led by the City's Finance Department between October and December. The Mayor puts his final stamp of approval on the budget

in January. By February, he is delivering his budget address to the Council and the general public.

City Council, however, only gets to approve the broad levels of proposed spending for each department in five areas: Personal Services; Purchase of Services; Materials, Supplies and Equipment; Contributions, Indemnities and Taxes; and Payments to Other Funds. As long as they remain within the budget limits set by the Council ordinance for each category of spending, the Mayor and operating departments can allocate the funds in each area as they see fit.

Consider the Police Department budget as an example. The Mayor’s “Operating Budget Book 2” devotes as many as 140 pages to this budget, listing the exact number of people proposed for each position in the Department, along with specific expenditures for service contracts, equipment, and supplies.

The following is what is proposed for the Police Department in the FY04 Operating Budget that the City Council is asked to approve:

<b>Police Department</b>	
Personal Services	\$468,105,412
Purchase of Services	7,259,012
Materials, Supplies, Equipment	7,634,765
Payments to Other Funds	2,196,056
	-----
	\$485,195,245

That’s it. The Mayor may report that the City intends to employ 6,910 uniformed officers and 933 civilians in the FY04 Budget for the Police Department. The City Council approves only the \$468,105,412 needed to pay them. Under the City Charter, as long as the Mayor stays within this budget, he can hire as many or as few uniformed officers and civilians as he wants.

The key for a mayor to retain control over the management of each Department, however, lies in staying strictly within the budget that the City Council approves. If the Mayor wants to spend more for police overtime than the \$468,105,312 will permit—as an example--he has to find the funds elsewhere in the budget to make up the difference.

This leads to what are called “Transfer Ordinances” submitted by the Mayor to City Council to transfer money from underspending departments to departments where additional money is needed. In the past, mayors would submit transfer ordinances to City Council throughout the year, as fiscal needs arose. In recent years, the Mayor has chosen to submit only two major transfer ordinances to City Council—mid-year and at the end of the fiscal year. Council members may complain that they are being asked to ratify spending shifts that the Mayor already has engineered, but that remains his right under the City Charter. The strict requirement is that these adjustments simply must be made by the end of the fiscal year.

City Council’s inability to write the details of the City budget into law helps explain why members raise so much hell during budget hearings about their own priorities. A Congressman may be able to include



his or her own pet project in the federal budget behind closed doors. A Councilperson has no such opportunity, no matter how senior he or she may be. So the aim is to accomplish through politics and protest what the legislative process cannot deliver by itself. The major City employee unions are fully aware with the process as well, which is why they show up *en masse* to testify on matters of importance to them. Citizen groups—take note.

## **B. Funds-General and Otherwise**

The process that I have just described relates to what is called “the General Fund” in the City Budget.

The entire budget, in fact, is an amalgam of several funds, each with its distinct source of revenue and categories for spending.

Here are the funds included in the budget ordinance:

**Water Fund and Water Residual Fund**-Financed by revenues from the Water Department, these funds support positions services in the City’ administrative and management agencies that work with the Department and provide payments to other funds serving the Water Department.

**County Liquid Fuels Tax Fund**-Financed by revenues from the County Liquid Fuels Tax, this fund supports selected positions and services within the Streets Department.

**Special Gasoline Tax Fund**-Financed by the State gasoline tax, this, too, supports positions and services in the Streets Department.

**Healthchoices Behavioral Health Revenue Fund**-Financed by sizeable appropriations from the Commonwealth of Pennsylvania, this \$616,665,000 fund supports the health insurance needed by clients using behavioral health services in the City.

**Hotel Room Rental Tax Fund**-Created as a by-product of the legislation governing the City’s Convention Center, this fund supports the operations of the Convention Center.

**Grants Revenue Fund**-This fund provides legislative authorization for the City to receive grants from other levels of government, corporations, and private foundations. We should note that even if the City provides legislative authority to receive the grants, the departments still must succeed in raising them.

**Aviation Fund**-Supported by revenues from the Airport, these funds support City vehicles, Police and Fire services, utilities, economic development activities, and administrative services provided by the City to the airport.

**Housing and Community Development Fund**-As every community development corporation and housing activist knows, this fund provides legislative authorization for the City to receive federal, state, and private support for its housing and community development programs. These are reviewed by City Council hearings specifically focused on the City’s community development programs, scheduled after the Council has approved the City budget itself.

If you have not heard of any of these funds, you need not be embarrassed. Rarely is much attention devoted to them. What most of us call the “City budget” is really just one fund--the General Fund. This is the fund that uses our taxes, fees, fines, and revenues from other governments to support basic city services and programs. It is important to note, however, that hearings on the annual budget do provide an opportunity for City Council and citizens to examine all aspects of City government, given that the budget ordinance approves expenditures to every public agency within its domain.

### **C. Budget Hearings**

Soon after the Mayor’s presentation of the annual budget, City Council convenes extended hearings on all aspects of the plan. As indicated above, even without direct control of specific spending priorities within Departments, examining the overall budget provides an opportunity to raise issues related to everything that the City does. In dealing with the Mayor and Department heads, Council members implicitly operate on an 18<sup>th</sup> Century warning from Edmund Burke--“The question, my dear sir, is not whether you have the right to make us miserable. The question is whether it is not in your interest to make us happy.” Department heads, especially, work to accommodate the Council, if only to avoid being lambasted before the general public and the press.

Starting in February, the sequence of these hearings generally flows as follows:

Hearing on General Overview of the City’s Five Year Plan (one day)

Hearing on The City’s Capital Program (one day, with public testimony at the end of the hearing)

Hearing on Current Fiscal Year Transfer Ordinances (one day, as described above)

Hearings on the City’s Operating Budget (three weeks, ending with one day of public testimony)

Hearing on City Taxes (one day, ending with public testimony)

Hearing on the School District Budget (two days, ending with public testimony.) This only reviews the general fiscal condition and progress of the School District. The School District budget itself is approved by the newly created City/State School Reform Commission.

The scheduled hearings conclude at the end of March. Since the final budget must be approved by the end of June, this gives the Mayor and Council several weeks to negotiate differences over the budget before the final ordinance is adopted.

It is important to note that public testimony is only sought on three or four days of this entire process--at the end of the hearing on the Capital Budget; at the end of the hearings on the Operating Budget; at the end of the Hearing on City taxes; and at the end of the hearing on the School District Budget. While some may feel that the public should be able to testify throughout the budget process, the advantage is that a citizen group can listen carefully to Departmental testimony of concern to them, review it, and then mobilize people to respond on the day when citizens are invited to appear.

## D. The Budget and Neighborhood Improvement

How can community activists make sense out of the City budget and relate it to our priorities for neighborhood improvement?

Admittedly, this is not easy.

The media's coverage of the budget generally focuses on the broad categories of "spending" and "taxes," with special attention paid to specific programs like the Neighborhood Transformation Initiative and Safe Streets that reflect the Mayor's priorities. Departments with functions as varied as the Recreation Department, the Health Department, and the Police Department are all lumped together as "City services." There is no way within this framework to evaluate the goals that the City is trying to achieve through public spending and how we can measure success or failure in the process. Without this sort of information, most citizens—even active citizens—stay out of the City budget process most of the time.

The most common way that citizen groups influence in the budget process is through support of specific departments or at least of programs operated within an individual department.

Here are a few examples:

**Police Department**-Town Watch and community safety groups periodically testify on what the appropriate number of police officers should be and how the Police should be working with the neighborhoods.

**Streets Department**-Recycling advocates will lobby for increased support for recycling.

**Recreation Department**-Recreation Advisory Councils occasionally testify on behalf of Department's budget, especially when City Recreation Centers might be closed.

**Fairmount Park**-The Friends of Philadelphia Parks has been an effective advocate for the Park.

**Free Library**-The Friends of the Free Library is among the oldest citizen groups created to assist a public agency and it has been effective in promoting the Library's needs over the years.

This just about exhausts the list of citizen groups that show an interest in the City budget—or at least in the budget of the Department that they know best.

Obviously, this is a catch-as-catch-can arrangement, in which departments that have a tremendous impact on neighborhoods are left to fend for themselves. Licenses & Inspections, as an example, is entrusted with enforcing building code violations, demolishing vacant buildings, cleaning vacant lots, and processing thousands of business and residential licenses every year. There is no "Friends of L&I," demanding that the agency receive the resources needed to perform these critical task. The same groups that show up en masse for hearings related to the City's Housing and Community Development programs rarely, if ever, appear at the budget hearings relevant to L&I. Then they wonder why L&I

never has enough money to respond quickly to requests for demolition and cleaning vacant lots.

Beyond whatever insight this analysis might provide to the substantive debate over spending and taxes in Philadelphia, then, a primary purpose of this **Guide** is to help neighborhood activists, community organizations, block leaders, and concerned citizens make sense out of the budget and determine for themselves what our priorities in meeting the needs of the City and its neighborhoods ought to be.

As starting point, we offer the framework that the Institute for the Study of Civic Values uses in bringing block and citizen groups together with City agencies to implement specific strategies for neighborhood improvement.

When people move into a neighborhood, we note, we want it to be clean, safe, economically viable, and a decent place to raise our children. That's what a good neighborhood is. Trying to create neighborhoods clean, safe, economically viable, and decent places to raise our children is also a primary mission of City government. On this basis, we can organize what the City does around these four basic goals:

**Physical Improvement**-Streets and Sanitation Departments; Fire Department; Licenses & Inspections; Zoning Board; City Planning Commission; Office of Housing and Community Development; Debt Service supporting the City's Capital Program; Historical Commission.

**Neighborhood Safety**-Police Department, Human Relations Commission, District Attorney, Courts, Prison, Clerk of Quarter Sessions, Sheriff, Witness Fees, Defense Attorneys.

**Economic Development**-Commerce/City Representatives, Convention Center, Civic Center, SEPTA, Economic Stimulus Funds, Tax Commission

**Economic Security and Opportunity**-Health Department, Office of Emergency Services, Mayors' Office of Community Services

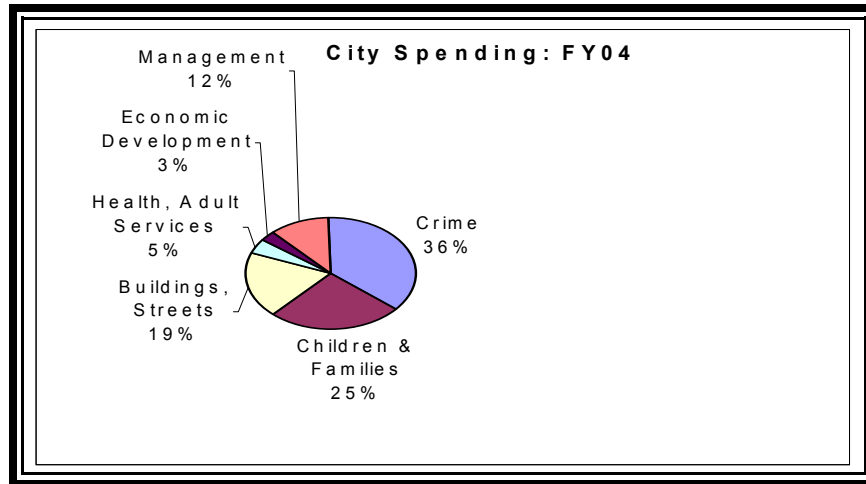
**Children, Youth, and Families**-School District Contribution, Free Library, Community College, Mayor's Scholarships and Hero Scholarships, Recreation Department, Fairmount Park William Penn Camp, Art Museum, Atwater Kent Museum, Department of Human Services.

**City Management and Administration**-Mayor, City Council, Managing Director, Fleet Management, Law Department, City Commissioners, Personnel, Civil Service Commission, Labor Relations, Mayor's Office of Information Services, Public Property, Utilities, Space Rentals, Telecommunications, Records, Procurement, Register of Wills, Finance, Revenue, Board of Revision of Taxes, City Treasurer, Finance-Indemnities, Finance-Refunds.

Every single item in the FY04 City Budget Ordinance is included in this list, organized around one of the six primary areas in which community organizations, neighborhood activists, and concerned citizens seek support from the City. By organizing the budget in this way, we can evaluate what the City is trying to accomplish in our neighborhoods and whether the revenues available are sufficient, insufficient, or excessive in achieving our goals.

## E. The Balance of the Budget-Law and Order

As a starting point, it is fascinating to see where our priorities lie, when we do organize the budget in accordance with the broad areas of concern for neighborhood stability and improvement that we have identified here. The accompanying chart makes this clear:



The following are the precise allocations represented in the chart:

### Spending Totals & Percentages

Crime	\$1,179,869,312	36%
Children & Families	\$827,828,740	25%
Buildings, Streets	\$630,262,252	19%
Health, Adult Services	\$159,104,772	5%
Economic Development	\$99,410,790	3%
Management	\$382,977,134	12%
	<b>\$3,279,453,000</b>	<b>100%</b>

As is quite clear, by far the greatest portion of the \$3.279 billion we raise in taxes and other revenues is spent on our Criminal Justice System—the Police and Sheriff, the Courts, Prisons, the District Attorney, and the Public Defenders.

Yet this is only part of the cost of crime. More than \$125 million of the nearly \$600 million budgeted for our Department of Human Services is allocated to direct services for the Juvenile Justice System. The Department of Licenses & Inspections spends at least \$10 million of its \$24 million on code enforcement.

Overall, then, more than 40% of our General Fund budget is devoted to “law and order”—and this

doesn't include services to abused children, the Street Department's efforts to crack down on trash dumping, and the internal City support needed to manage all these agencies and programs. The \$485 million Police Department budget is more than ten times the budget of the Recreation Department. The \$183 million we spend on the Philadelphia Prison is nearly five times the budget of the Free Library. The police overtime needed to support the Street administration's "Safe Streets Program" is likely to be a hot topic in the FY04 budget debate. That, it would seem, is the tip of this iceberg.

Crime is widely recognized as one of the major social problems facing Philadelphia. Some would say that it remains *the* major social problem. It also represents a massive fiscal problem. Even those of us who live in relatively safe neighborhoods are paying an enormous price to keep them safe. Here are a few points of comparison:

The City of Pittsburgh has roughly 334,000 residents—22% the size of Philadelphia. There were 3,267 violent crimes in Pittsburgh in 2000—murder, rape, robbery, assault. There were 22,812 violent crimes in Philadelphia in 2000—more than seven times the number in Pittsburgh..

The budget of the Pittsburgh Police Department is roughly \$70 million—14% of the \$485 million that we spend on our Police Department in Philadelphia.

1.2 million people live in Allegheny County—80% of the population of Philadelphia . The Allegheny County Prison costs \$42 million, with a daily census of 1,800 inmates. The Philadelphia Prison costs \$183 million, with a daily census of 8,000 inmates.

Moreover, if we remain at far greater risk in Philadelphia than in Pittsburgh, consider the same sort of comparisons within the Delaware Valley five-county area.

Prison costs alone tell the story:

### **Delaware Valley Five County Prison Costs**

<b>County</b>	<b>Population</b>	<b>Prison Costs</b>
Philadelphia	1,517,440	\$183 million
Montgomery	750,097	\$19 million
Bucks	597,635	\$13 million
Delaware	550,864	\$19 million
Chester	433,501	\$17 million

In the ongoing debate over why people leave Philadelphia, some argue that it is because of deteriorating neighborhoods and social decay. Others blame it largely on high taxes. It appears that these two problems facing the city are inextricably bound up with one another.

In the sections that follow, we provide a more careful look at each of the City government's primary areas of concern—relating costs to what our tax money buys. The budget represents the social contract between citizens and government—setting forth what we have a reasonable right to expect from the City given what we pay to support it. We commonly discuss this relationship in terms of taxes and services. Yet given the economic and social problems facing the city, we have come to expect more than just

routine trash pickups and convenient library hours—although that’s part of what we expect.

What we also want to see in Philadelphia is progress—making the city a better place in which to live, work, and raise our families. This is a goal in every area, from the physical appearance of our city, to its economic condition, to the quality of education in our schools. On this basis, a central question that every City budget raises is how government and citizens can work together to make progress in achieving the goals that we have set for ourselves. That is what transforms government spending into public investments in improving our quality of life.

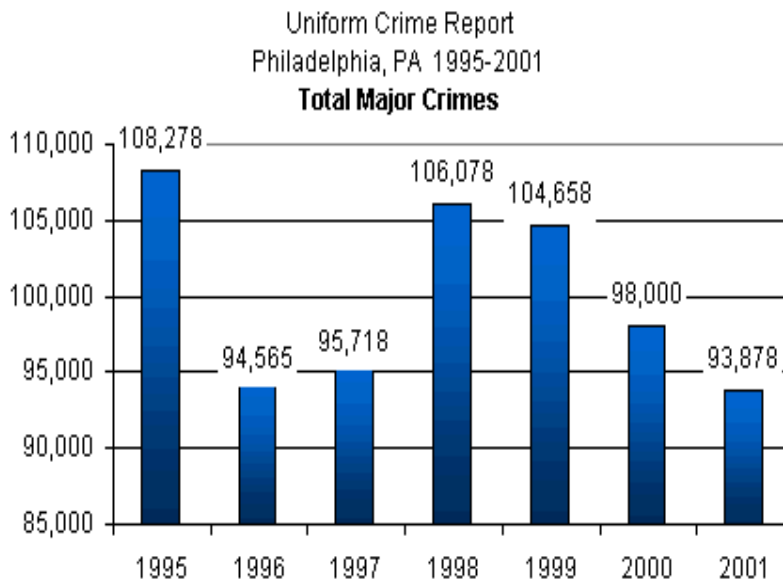
From this perspective, however, if there is any single point that emerges from examining Philadelphia’s City Budget in FY 2004, it is that strengthening civic values in Philadelphia—reducing crime and socially destructive behavior, while simultaneously encouraging civic engagement and community service—is essential if we hope to accomplish anything else.

As the old 1940's Bing Crosby song goes:

**“Accentuate the Positive.....”Eliminate the Negative”**

560 Town Watch Organizations	87,407 Major Crimes
6,000 Organized Blocks	112,000 Housing Code Violations
2,000 TANF recipients doing Community Service	27,000 households still on welfare
9,000 Households in Homeless Prevention Programs	2,000 Emergency Shelter Beds
8,750 Kids in After-School Programs	5,900 Youth Study Center Admissions

**“Latch on to the Affirmative..and Don’t Mess With Mister In-Between.”**



## II. Public Spending and Investment

### A. Physical Improvement-Streets and Buildings

#### Buildings and Streets-Preservation and Regulation

Department	Personal Services	Purchase of Services	Equipmnt, Supplies	Grants,Funds	Debt Service	Total
Streets	\$16,200,584	\$12,563,485	\$2,681,763	\$30,000		\$31,475,832
Streets-Sanitation	\$45,938,050	\$41,475,445	\$1,511,620	\$48,171		\$88,973,286
Fire	\$157,072,244	\$4,934,583	\$5,647,415	\$7,579,000		\$175,233,242
Licenses & Inspections	\$17,440,379	\$5,985,785	\$768,698			\$24,194,862
L&I-Zoning Board	\$440,703	\$60,417	\$2,867			\$503,987
L&I-Board of Review	\$182,076	\$30,223	\$628			\$212,927
L&I-Building Standards	\$119,899	\$527	\$628			\$121,054
City Planning	\$3,031,062	\$124,797	\$66,020			\$3,221,879
Capital Program Office	\$1,224,889	\$434,029	\$111,345	\$650,000		\$2,420,263
Debt Service		\$79,933,505			\$113,091,932	\$193,025,437
Housing & Comm.Dev.	\$277,972	\$1,462,762				\$1,740,734
Historical Commission	\$235,330	\$24,247	\$6,041			\$265,618
<b>Subtotals</b>	<b>\$242,163,188</b>	<b>\$147,029,805</b>	<b>\$10,797,025</b>	<b>\$8,307,171</b>	<b>\$113,091,932</b>	<b>\$521,389,121</b>
Benefits	\$108,873,131					\$108,873,131
<b>Totals</b>	<b>\$351,036,319</b>	<b>\$147,029,805</b>	<b>\$10,797,025</b>	<b>\$8,307,171</b>	<b>\$111,537,034</b>	<b>\$630,262,252</b>

### 1. Streets and Sanitation

Nothing is more central to the role of a city government than maintaining its streets and picking up the trash. In his **Autobiography**—written in 1771--Benjamin Franklin notes that when he, “saw with pain the inhabitants wading in mud while purchasing brick,” he was “instrumental in getting the street pav’d with stone between the market and brik’d foot-pavement, that was on each side next the houses.” Eventually, Franklin “found a poor industrious man, who was willing to undertake keeping the pavement clean, by sweeping it twice a week, carrying off the dirt from all before the neighbours door, for the sum of sixpence per month, to be paid by each house.” Thus began the City’s Streets Department.

Today, Philadelphia residents pay \$120,449,118 for these services—roughly \$10 million per month. With 590,000 households in Philadelphia now, that adds up to \$17 per household per year or 33 cents per week—a 550% cost increase over 1771. This still constitutes an inflation rate of only 2% per year, however—not bad by any standard.

Moreover, the number of City workers needed to provide these services has dropped considerably over the past 35 years. There were 4,467 people working in the Streets Department in 1965. As of FY04, the number will drop to 1,185. When reporters and City budget analysts keep writing that we have just as many City employees today as we did in the 1950's, even though our population has dropped, they need to exempt the Streets Department from the charge. Here, the workforce has dropped by 73%.



**Streets/Sanitation Positions: FY65-FY02**

	<b>FY65</b>	<b>FY75</b>	<b>FY85</b>	<b>FY00</b>	<b>FY04</b>
Streets	1,572	1,177	952	707	617
Sanitation	2,895	2,523	2,542	1,466	1,198
<b>Total</b>	<b>4,467</b>	<b>3,700</b>	<b>3,494</b>	<b>2,173</b>	<b>1,815</b>

As to performance, the City’s Five Year Plan tells us that Streets Department resurfaces 1,800,000 square yards every year, repairs 25,000 potholes, and restores 7,752 ditches. The Sanitation Department disposes of 770,700 tons of refuse. Interestingly enough, citizen satisfaction with trash collection is considerably higher than with street repairs—according to the Citizen Survey reported in the 5 Year Plan. 68% appear satisfied with trash collection. Only 38% approve of street cleaning, and an even lower percentage--34%--with street repairs. It will be interesting to see whether a new ‘snow-fighting fleet’ assembled by the Department over the past three years—along with several large-scale street and bridge reconstruction projects now underway--will improve citizen satisfaction over the next two years.

Yet the among the most important contributions that the Streets Department makes to neighborhood physical improvement is the “Clean Blocks Program” sponsored by the Philadelphia More Beautiful Committee (PMBC). . As community groups throughout the City know, more than 6,000 blocks participate in cleanups coordinated by the Department between April and the end of September. A block can register as a “Clean Block” by submitting a petition to PMBC designating a block captain with support from at least 51% of the block. There’s a “clean blocks” contest in October and special events like tire roundups along the way. It is among the most important City/citizen partnerships in Philadelphia but it stands as a microscopic line-item in the City budget, without receiving the attention that it deserves.

Another City/citizen partnership managed by the Streets Department fares a lot better. This is the City’s recycling program. The Department reports that of the 770,700 tons of refuse collected each year, 46,377 tons are collected through recycling. Participation in the program is growing—from 55.5% in FY01 to 65.5% in FY02. The Streets Department is now planning an educational campaign to triple the rate of recycling diversion. The Recycling Office participated in over 150 community outreach events in FY02, including 40 visits by “Curby Bucket,” the City’s recycling mascot. 77% expressed satisfaction with the City’s recycling program in FY02, as opposed to only 66.9% with trash collection. What a difference citizen involvement makes.

**2. Fire**

90% of respondents on the Citizen Survey also expressed satisfaction with the Fire Department and the Department itself is pleased to report that the City hit a 50-year low for the number of fatal fires, with 32 fatalities for the year. There were 52 fatalities in FY2000.

The Fire Department also attributes its success to a broad fire prevention and education program, which now sponsors more than 11,000 events per year. This, too, is a tradition that extends back to Benjamin Franklin’s era, when—Franklin reports in his **Autobiography**--residents agreed “to meet once a month and spend a social evening together, in discoursing and

communicating such ideas as occurred to us upon the subject of fires, as might be useful in our conduct on such occasions.”

None of this is cheap. The Department’s \$175 million budget is the third largest in the City, exceeded only by the Police Department and the Department of Human Services. The budget has risen by 14% since FY02—up \$21 million from \$154 million at that time. By contrast, the overall budget has grown by only 10%—from \$2,981,134,584 FY02 to \$3,279,443,000 projected for FY03. The number of positions in the Fire Department has remained roughly constant since FY85—dropping by only 130 from 2,648 in FY85 to 2,518 in FY04. Nonetheless, here is a case where the effectiveness of a department in reaching out to the neighborhoods has built a base of citizen support for what they are doing, despite the increasing cost.

Moreover, the Fire Department’s Emergency Medical Services, are playing an increasingly important role in the City. The number of “Runs” has jumped from 176,971 in FY2000 to a projected 196,862 in FY04. The average EMS response time is only 6:15 minutes and new Geographic Information System (GIS) software should make even further improvements in this area. As with Fire Prevention, more than 90% of the respondents to the City Services Citizen Survey expressed satisfaction with EMS. This, too, is an area where a serious attempt to cut the Department’s budget would likely meet stiff resistance from the public.

### **3. Buildings and Lots-From OHCD to NTI**

Far fewer plaudits greet the City’s ongoing effort to deal with roughly 28,000 vacant buildings and 30,000 abandoned lots that have plagued large sections of Philadelphia for the past 30 years. Having served as Director of Philadelphia’s Office of Housing and Community Development (OHCD) between 1987 and 1992, I can speak from personal experience on this point. The federal and state resources available to the City for housing rehabilitation can address only a small percentage of the problem in any given year. Even the handful of large-scale developments that the Rendell administration was able to implement in the 90's touched only one or two neighborhoods in any significant way.

Some criticisms of City housing efforts may be valid—that building costs are higher in Philadelphia than in the suburbs; that three distinct agencies dealing with Community Development—the Office of Housing and Community Development, the Redevelopment Authority, and the Philadelphia Housing Community Corporation—are confusing; that it remains a nightmare for developers and community development corporations to acquire vacant land from the City, even when the City owns the parcels. Yet contrary to popular opinion, even if all these problems were solved—as they should be—the level of federal funding to Philadelphia available for housing and community development will still be insufficient to address more than a small percentage of the problem in any given year.

Do the math.

In its planning document for the City’s Neighborhood Transformation Initiative, the City reports that there were 29,065 unsafe or dangerous vacant buildings as January, 2000.

Rehabilitation costs on long-term vacant buildings are now at least \$100,000 per building. To rehabilitate every single building, then, would cost \$3 billion. The combined federal and state allocation for Housing and Community Development is now roughly \$80 million. Since this supports not only housing rehabilitation, but homeowner and rental assistance, housing counseling, community planning, and neighborhood economic development, only \$30 million ends up being available for housing rehabilitation. At that rate, it would take 100 years to rehabilitate every long term vacant house in the city.

This is what led to the Street administration’s “Neighborhood Transformation Initiative” (NTI) Having struggled as an activist and then as a Councilman with the problem of abandoned housing for 25 years, Mayor Street concluded that most of the remaining 28,000 vacant buildings are now literally beyond repair. Moreover, as long as they remain standing, they pose a serious obstacle to revitalizing the neighborhoods around them. So it made sense at this point to demolish them *en masse*, clear the land, and pave the way for new development. The funds for all this could be made available through a \$295 million bond issue financed by \$18 million in annual debt service payments from the City’s general fund.

The administration is using the \$295 million bond issue to achieve these goals by FY08:

- \*Demolish between 8,000 and 10,000 dangerous buildings
- \*Spend \$20 million on commercial demolition
- \*Stabilize between 1,500 and 2,000 properties
- \*Ensure that 3,500 new affordable housing units exist by the end of FY07
- \*Promote the construction of 2,000 housing units in mixed-income neighborhoods

The administration projects that \$60,252,730 will be used in FY04, as follows:

**NTI Budget Projected for FY04  
(To be Updated May, 2003)**

<b>Blight Elimination</b>	
Residential Demolition	\$28,252,730
Large Vacant Bldg. Dem	4,250,000
<b>Redevelopment through land assembly</b>	
Land Acquisitions	\$8,000,000
Land Assembly for Development	2,500,000
<b>Housing Investment and Preservation</b>	
Vacant Property Stabilization	\$6,000,000
Housing Rehab & Preservation	11,250,000
	-----
	<b>\$60,252,730</b>

In the current five year plan, the administration pledges to produce an updated FY04 budget in May.

The press is now focusing a great deal of attention on the exact number of houses that the City is starting to rehabilitate or construct under NTI, on a monthly basis. This is certainly important, but it misses the larger point that the Street administration, citizen groups, and City Council all are making—namely, that neighborhood transformation will take place only if all stakeholders within the community and government are involved in the process. Block organizations are seeking new opportunities to acquire and maintain vacant lots. Community development corporations have been demanding involvement in both the planning and the housing production targeted for their neighborhoods.

The City, in turn, has commissioned the Planning Commission to develop long-range planning strategies for targeted NTI neighborhoods, in partnership with community groups. City Council made their own involvement in NTI a prerequisite for supporting the entire program. Council members are now playing the lead role in the NTI decision-making process. All of this does slow down the process of housing rehabilitation—no question about it. But it also can lead to the broader partnership between citizens and government around clean-ups, safety, and youth development that any effective strategy for neighborhood transformation will require.

#### **4. Code Enforcement**

While most attention on NTI has been focused on the demolition/rehabilitation aspects of the program, another part of the program has great significance for virtually every Philadelphia neighborhood—namely, code enforcement.

Traditionally, it is the Department of Licenses and Inspections that enforces residential and commercial building codes in Philadelphia. According to the FY02 “Mayor’s Report on City Services,” the number of building code violations that L&I brought to Municipal Court had dropped from 25,067 in FY2000 to 12,338 in FY02. L&I blamed the drop-off on the need to assign its housing inspectors to vacant land surveys for NTI. Here is a clear case, then, where an agency lacked the staff to fulfill its core assignments. Only 41.03% expressed satisfaction with L&I performance in FY02, down from 47% in FY01.

A new program has emerged within the framework of NTI, however, that shows great promise in stabilizing neighborhoods that are still in good shape. It’s called “CLIP”—for Community Life Improvement Program. It was conceived by Councilwoman Joan Krajewski to address the major housing issues in her Lower Northeast District, which mostly revolve around code violations. As of the first half of FY03, inspectors had written 7,047 code and 2,428 sanitation violations in the 6<sup>th</sup> Councilmanic District, and L&I reports that well over 50% of those cited corrected the problems and paid their fines. Not surprisingly, several other Councilpeople now want to implement the “CLIP” program in their districts as well.

In the Five Year Plan, the administration notes that “by the end of FY03, the City will launch NTI quality of life improvement programs tailored to address public nuisances specific to the city’s different communities. These programs will represent a coordinated effort among the Mayor’s Office, the MDO, Law Department, several of the operating departments, members of City Council and community residents. All stakeholders will work together to identify and prioritize quality of life and public nuisance issues specific to areas within each Councilmanic

District and direct public services to address those issues.”

Framed in this way, the problem of blight—especially in its early stages—becomes another sort of crime. *People* once owned the vacant buildings and lots that the City is stuck with trying to redevelop today. As they left their properties behind over the past 30 years, they often faced no sanctions whatsoever from the City. Often, they were able to avoid paying taxes for years. The City further lacked the tools—or the will—to acquire the properties quickly and make them available to others who might preserve them. This is what gave rise to the battles over housing and community development that brought Mayor John Street into government and politics along with a great many others around the city—including this writer.

Whether this cycle of unenforced code violations, abandonment, and blight will spread to new areas, however—South Philadelphia, the lower Northeast, Olney and West Oak Lane—will depend upon the City’s commitment to tough enforcement of its codes up to and including seizing properties by eminent domain before they are beyond repair. It’s a social problem with enormous fiscal consequences that represents a fundamental test of our commitment to civic values. And it can only be solved if government and citizens work together.

## **5. Capital Program**

We have also included \$193,025,437 in debt service owed by the City in this section, since much of it is related to financing our Capital Program and other infrastructure improvement programs. The Capital Program itself is central to the modernization of our infrastructure, of course, and the FY04 Capital Program budget totals \$621.6 million, of which \$80.9 million—13%—is to be funded through new City tax-supported debt financing. Like individual borrowers, our debt is limited—in this case to an amount equal to 13.5% of the ten-year average of the City’s real estate. If real estate values rise, our debt service limit rises. Obviously, if we retire one set of debts, we can incur new ones. Neither is happening quickly enough, however, so our debt capacity as of the end of FY02 was only \$133.9 million. Under the circumstances, the City is now considering paying down projects through the General Operating Fund or using authorities like the Redevelopment Authority and the Philadelphia Industrial Development Corporation to issue debt.

The impact of the Capital Program on our neighborhoods is considerable. \$257.4 million in capital program projects are related to Neighborhood Development; \$30.2 million, to Quality of Life; and \$86.8 million to Health and Safety throughout the City. The FY04 proposed Capital Program includes \$2.4 million for Central and Branch Library improvements in the Free Library; \$790,000 for Health Center renovations; \$2.2 million for Communication System Improvements in the Police Department; \$181 million in SEPTA Station, Bridge, and Vehicle Improvements; \$1.650 million in Cultural Facility Improvements; \$15.750 million in Recreation Center Improvements, including swimming pools, ice rink renovations; an improvements to existing recreation facilities; and \$31 million for a range of street, highway, and bridge reconstruction projects.

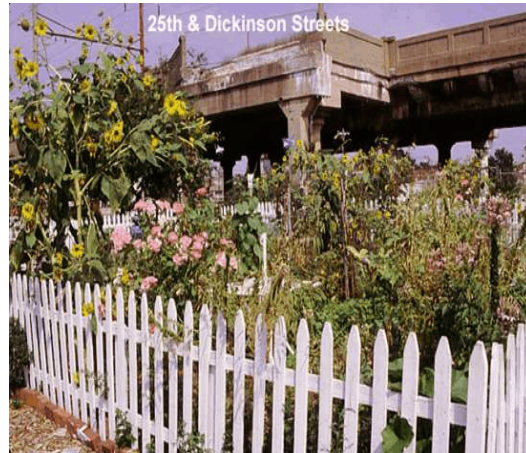
Community groups in Philadelphia play little, if any, role in advocating for specific capital improvements in our neighborhoods. In the City of Chicago, however, a citizen organization

called the Neighborhood Capital Budget Group has involved hundreds of activists and organizations in ongoing debate and advocacy related to the City’s capital budget. Over the past decade, they have single-handedly pushed Mayor Daley and the City of Chicago to embrace a “Neighborhoods First” capital campaign. Is it time for such a movement to develop in Philadelphia?

**New Kensington CDC**



**Philadelphia Green**



## B. Crime

### Criminal Justice

Department	Personal Services	Purchase of Services	Equipment	Grants, Etc.	Total
Police	\$468,105,412	\$7,259,012	\$7,634,765	\$2,196,056	\$485,195,245
Human Relations Comm.	\$2,198,591	\$60,778	\$20,504		\$2,279,873
District Attorney	\$28,262,033	\$1,639,078	\$583,328	\$384,123	\$30,868,562
Courts	\$87,147,557	\$22,907,319	\$2,605,760		\$112,660,636
Clerk of Quarter Sessions	\$4,857,090	\$30,246	\$60,360		\$4,947,696
Sheriff	\$12,823,267	\$428,377	\$224,115		\$13,475,759
Prisons	\$97,863,315	\$79,890,424	\$4,544,100	\$1,026,757	\$183,324,596
Witness Fees		\$229,881			\$229,881
Legal Services: Defenders		\$31,611,759			\$31,611,759
Subtotals	\$701,257,265	\$144,056,874	\$15,672,932	\$3,606,936	\$864,594,007
	\$315,275,305				\$315,275,305
Benefits					
<b>Totals with Benefits</b>	<b>\$1,016,532,570</b>	<b>\$144,056,874</b>	<b>\$15,672,932</b>	<b>\$3,606,936</b>	<b>\$1,179,869,312</b>

### Commentary

When budget analysts sought to identify the main reasons for increased City spending in the 1980's, three major culprits emerged—the escalating cost of landfills taking City trash; the Commonwealth of Pennsylvania's unwillingness to reimburse Philadelphia adequately for serving abused children; and homelessness, which for the first time forced the City to maintain shelters that cost us more than \$32 million per year. These escalating increases—coupled with the loss of federal general revenue sharing in 1986 that had brought us more than \$46 million per year—set the stage for our fiscal collapse in the 1990's.

As we have noted, we have met the fiscal enemy of the past five years: it is crime. The budget for our criminal justice system reproduced here adds up to \$1.179 billion--36% of our overall general fund budget..

It is also instructive to see what the main spending increases have been.

The following are the increases in Police and Prisons expenditures, not even counting employee benefits:

### Police and Prison Budget Increases

Department	FY98	FY00	FY02	FY04	FY98-04
<b>Police</b>	\$363 million	\$408 million	\$455 million	\$485 million	<b>\$122 million</b>
<b>Prison</b>	\$113 million	\$132 million	\$155 million	\$183 million	<b>\$ 70 million</b>
<b>Totals</b>	\$496 million	\$540 million	\$610 million	\$668 million	<b>\$192 million</b>

Compare these increases with spending patterns in other major service departments::

<b>Increase</b>	<b>FY98</b>	<b>FY00</b>	<b>FY02</b>	<b>FY04</b>	<b>FY98-04</b>
<b>Fire</b>	\$131 million	\$139 million	\$154 million	\$175 million	<b>\$44 million</b>
<b>Sanitation</b>	\$91 million	\$84 million	\$85 million	\$89 million	<b>-\$2 million</b>
<b>Recreation</b>	\$33 million	\$38 million	\$34 million	\$38 million	<b>\$5 million</b>
<b>Free Library</b>	\$31 million	\$33 million	\$34 million	\$36 million	<b>\$5 million</b>
<b>Totals</b>	\$286 million	\$294 million	\$307 million	\$338 million	<b>\$52 million</b>

The contrast here is striking—the increased cost of crime is nearly 4 times the increases in the Fire, Sanitation, and Recreation Departments and the Free Library—most of which are accounted for in the \$44 million increase in the Fire Department budget. In fact, the Sanitation Department budget actually dropped by \$2 million between FY98 and FY04. Incidentally, the Sanitation, Recreation, and Free Library Departments are all represented by AFSCME DC 33 and 47—the evil ‘unions’ most frequently blamed for cost overruns in government. Clearly, they are not the culprits here.

So a key question facing the City now is whether we can find ways not merely to remove crime from neighborhood corridors—as the Street administration is doing through “Safe Streets”—but to reduce crime altogether. In terms of the cost of crime, the administration’s budget is mixed. Safe Streets itself is projected to cost \$100 million from FY03 through FY07, funded through \$45 million in internal savings in the Police Department, \$25 million raised through drug forfeiture efforts, and \$30 million from local, state, federal, and private funding sources. By FY08, however, the administration projects that as the City clears out drug corners, it will need only \$12.5 million annually to support Safe Streets. Indeed, the Police Department budget will drop back to \$457 million in FY08—about where it was in FY02—as a result of bringing open-air drug trafficking under control. So here is a case where a sizeable investment in crime reduction today can achieve an overall savings in law enforcement in the future.

Unfortunately, despite its emphasis on reducing recidivism, the administration is not yet ready to predict that we can cut costs in the prisons as well. The Five Year Plan reports that an early parole and re-parole program designed to provide community-based drug and alcohol treatment as an alternative to incarceration will save \$71.39 million in prison expenditures over the next two years. It appears that the Prison census has dropped from 8,000 people per day to 7,500. Nonetheless, the budget for the Philadelphia Prison is projected to reach \$201 million by FY08—another \$18 million increase.

Finally, there is an ongoing fiscal issue related to the Criminal Justice system that bears mentioning here, as part of our cost of crime—namely, who should be paying for the courts, the City or the State?

In 1987, the Pennsylvania Supreme Court ruled that the Commonwealth of Pennsylvania bears the responsibility for paying for the courts in Philadelphia. In July, 1996, the Supreme Court even issued a writ of mandamus directing the General Assembly to develop a funding scheme for the court system by January 1, 1998. The Governor and State Legislature have simply ignored these decisions. Under the circumstances, the City of Philadelphia will be spending



\$112,660,636 in City taxes to support the courts in FY04—10% of what we raise in the wage tax—even though the State Supreme Court has ordered the Pennsylvania Legislature to foot the bill. Beyond the fiscal problems this creates for the City, there's a serious moral issue here as well: how we can persuade citizens to obey the law as interpreted by the courts if the Pennsylvania Legislature chooses to ignore the courts as well?

Thus, if we are looking to discover where most of the increased spending in Philadelphia has occurred over the past five years, look no further than the cost of crime. That's where the money is.

We have come a long way since the 1970's, when whole areas of the city were at war with the Rizzo administration over its handling of crime in their neighborhoods. Today, a vast network of Town Watch groups, Police District Advisory Councils, and Victims Services Organizations have developed a genuine partnership with the criminal justice system. Thousands of people participated in "Safe Streets" rallies organized by the City in the summer of 2002.

So far, however, these groups have been organized simply to protect neighborhoods from crime and seek effective prosecution of offenders. What might happen in Philadelphia if we all start working on ways to reduce crime in the city once and for all?

## C. Economic Development

Department	Personal Services	Purchased Services	Equipment	Grants, Miscel. Pmnts	Total
Commerce/City Representative	\$1,577,400	\$1,561,701	\$106,699	\$1,500,000	\$4,745,800
Commerce-Economic Stimulus		\$4,631,250			\$4,631,250
Commerce-Convention Center				\$31,995,000	\$31,995,000
Commerce-Civic Center	\$124,128	\$123,649	\$23,650		\$271,427
SEPTA Subsidy		\$56,523,925			\$56,523,925
Tax Commission	\$230,000	\$140,000	\$5,000		\$375,000
SubTotals	\$1,931,528	\$62,980,525	\$135,349	\$33,495,000	\$98,542,402
Benefits	\$868,388				\$868,388
<b>Totals with Benefits</b>	<b>\$2,799,916</b>	<b>\$62,980,525</b>	<b>\$135,349</b>	<b>\$33,495,000</b>	<b>\$99,410,790</b>

### Commentary

Given the importance of economic development to the overall progress of the city, it may come as a surprise to see how small a portion of the General Fund budget is allocated to it. The \$4,745,800 budget for the Commerce Department makes it by far the smallest cabinet level agency in the government. The Managing Director's Office, the Finance Department, and the Law Department are each \$15 million City departments, with between 92 (Managing Director's Office) and 207 (Law Department) positions apiece. Only 27 people work directly for the City's Commerce Department on programs supported by the General Fund.

Of course, the Commerce Department itself is not the only department entrusted with carrying out the City's economic development program. At least as important—and many would argue, *more* important—is the Philadelphia Industrial Development Corporation (PIDC), self-described as a “a private, not-for-profit Pennsylvania corporation, founded in 1958 by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce to promote economic development throughout the city.” The Mayor and President of City Council sit on the Board of PIDC, as do the Director of Commerce, the Managing Director, the Finance Director, the City Solicitor, and the Chairman of the City Planning Commission. Joining them are the President of the Philadelphia Chamber of Commerce, a number of corporate leaders, and a handful of representatives from labor, the universities, and non-profit organizations. Its Board Chairman is Walter D'Alessio, founding Director of the agency who has been associated with it for more than 40 years. PIDC's staff includes 55 full time employees with an annual budget funded largely by service fees generated—in PIDC's own words—“by the agency's business activities.”

A summary of the agency's activities in 2001 found on the PIDC web site (<http://www.pidc-pa.org>) suggests the critical role that it plays for the City:

\*On behalf of the City of Philadelphia, PIDC is responsible for acquiring, improving, and selling industrial and commercial land in strategic locations throughout the City.

\*PIDC also represents the City in the conversion of former military properties to civilian use.

\*During 2001, PIDC, the Commerce Department, the Center City District, and the Mayor's Office created a Tenant Retention Initiative which proactively targeted major corporations with expiring leases and assisted each company with its office decision. As a result, Citizens' Bank, FMC Corporation, and Pew Charitable Trust all made lease commitments in downtown Philadelphia.

\*PIDC has become the City's point person in the development of major, public purpose facilities. This included the negotiation, legislation, and financing of the \$1 billion stadium project in 2001.

\*With the creation of its Urban Industry Initiative five years ago, PIDC has combined its traditional loan and real estate programs with grassroots technical assistance with an approach that is specifically focused on retaining and growing business and community development in neighborhoods.

Clearly, we cannot understand how the City of Philadelphia implements its economic development programs without gaining an appreciation of the critical role played by PIDC.

Much smaller—and less important in the City's overall economic development system—is the Philadelphia Commercial Development Corporation (PCDC) with a primary responsibility for assisting small businesses throughout Philadelphia's neighborhoods. Central to its work is a "One Stop Capital Shop," located on the fifth floor of 1315 Walnut Street, that has become an important resource to neighborhood businesses seeking support for expansion.

In 2001, the Street administration helped launch a new agency, "Innovation Philadelphia," in a partnership with the University of Pennsylvania, Comcast, and GlaxoSmithKline, to "grow, attract, and retain entrepreneurs and technology-based companies in region." As of January, 2003—according to the City's five-year plan-- Innovation Philadelphia had created the "Innovation Philadelphia Economic Stimulus Fund" to "make investments in Philadelphia regional early-stage technology companies." In short, Innovation Philadelphia is being positioned to play the role with the new, high-tech economy—if it ever revives—that PIDC and PCDC have played within the more established industrial and commercial sectors in the City and the region.

Few of the projects that these agencies develop appear directly in the City budget. There's a \$31,995,000 line item in the budget for the Convention Center, whoever ends up running it. There's a \$4,631,250 line item for "Economic Stimulus" projects—a legacy of the Rendell administration--aimed at helping smaller economic development initiatives get started. The City's \$56 million annual subsidy to SEPTA—a critical dimension of our local economy—has its own line item. Finally, Community Economic Development receives a \$26 million allocation from the City's Community Development Block Grant, which is spelled out in detail in their annual plan reviewed by City Council in separate hearings. Everything else is buried in

contracts negotiated and approved for specific projects which receive substantial publicity when they're approved, but drop out of sight after that.

Beyond the major projects in the Operating Budget, \$192.8 million in the City's capital program is allocated to Economic Development. This includes Convention Center Expansion, Waterfront Development, Empowerment Zone Improvements, the Avenue of the Arts, and Neighborhood Commercial Center Site Improvements.

Finally, there is the Philadelphia International Airport and the Northeast Philadelphia Airport, run by the Commerce Department's Division of Aviation and assisted by a range of deputies and staff. The International Airport is now the 19<sup>th</sup> busiest in the country—up from being the 20<sup>th</sup> busiest in 2001—accommodating more than 24 million passengers over the past year. The ongoing capital improvements in the Airport—especially evident in anticipation of the Republican National Convention in Philadelphia in 2000—are now supported by more than \$177 million in the City's capital plan, including \$100 million for a new Airport security program. City management of the airports, in turn, is financed through airport revenues allocated to the "Aviation Fund," which will receive \$325,000,406 in FY04—equal to 10% of the City's General Fund-- to support positions in the Commerce Department, the Managing Director's Office, the Police Department, the Fire Department, and the Law Department. Here, again, while we are all familiar with the Airport, this is an aspect of City government that is rarely discussed in any detail.

Yet for all its complexity, economic development does represent the most advanced and successful system of public-private partnerships that City government has produced thus far. In this case, the partners are not community organizations, but businesses and unions with a large stake in the life of the city.. Would Philadelphia have been able to reshape center city as we have done over the past twenty-five years were it not for the involvement of private sector leaders like Stockton Strawbridge, Willard Rouse, and Ronald Rubin? Hardly. And the 'special service districts' that the City is now supporting in and around major commercial corridors in West Philadelphia and South Philadelphia all depend upon a major institution like the University of Pennsylvania to serve as the 'anchors' for the districts and a source of ongoing political support.

Economic development has demonstrated how effective government can be when it works closely with the people and organizations with the greatest stake in the success of the program—whatever the program may be. Increasingly, it is a principle that we are applying to everything that government does.

## D. Public Health and Services to People-At-Risk

Department	Personal Services	Purchase of Services	Supplies, Equip.	Grants	Other Funds	Total
Health	\$43,667,443	\$71,194,313	\$4,421,839	\$40,000	\$2,100,000	\$121,423,595
Office of Emergency Shelter	\$3,173,471	\$12,219,923	\$150,978			\$15,544,372
MayorsOffc.CommunitySvcs	\$662,080	\$76,325	\$41,728			\$780,133
Subtotals	\$47,502,994	\$83,490,561	\$4,614,545	\$40,000	\$2,100,000	\$137,748,100
Benefits	\$21,356,672					\$21,356,672
<b>Totals with Benefits</b>	<b>\$68,859,666</b>	<b>\$83,490,561</b>	<b>\$4,614,545</b>	<b>\$40,000</b>	<b>\$2,100,000</b>	<b>\$159,104,772</b>

### Commentary

#### 1. Health

Given that 20% of Philadelphia residents live in poverty, there is a general impression that a sizeable portion of the City's General Fund is allocated to direct services to the poor. While this is certainly the case in relation to low income children—where the funding comes mostly from the State—it is not true in relation to low income adults. Most of the \$159 million spent in this area—5% of the total budget—goes to the City's Health Department. The Office of Emergency Shelter serving the homeless is projected to receive only \$15.5 million in FY04. The budget for the Mayors' Office of Community Services—a descendent of the 1960's "War on Poverty"—is only \$780,133. Obviously, the City receives a sizeable allocation from HUD to manage the Philadelphia Housing Authority and federal support channeled through the State to run the Philadelphia Workforce Development Corporation. Like the City's Office of Housing and Community Development, these agencies are funded independently and do not appear in the City budget at all.

The history of the City's Health Department is especially interesting. Up to the late 1970's, the City itself managed its own hospital, Philadelphia General Hospital, for the disadvantaged. Trying to deal with a major fiscal crisis of his own, Mayor Frank Rizzo ordered it closed and its services turned over to private hospitals and community health centers managed by the City. As a result, while there were 3,494 positions directly supported by the Philadelphia Health Department in FY75 there are only 834 positions today. Here again, the "we have just as many people working in City government even though our population has dropped" critique of the City budget simply does not apply.

The Health Department's overall budget today is \$121 million, of which \$50 million is reimbursed by the State. The Department's current priorities are spelled out in the City's Five Year Plan, within the framework of two broad goals: increase the quality and years of healthy life and eliminate health disparities.

The specific projects are as follows:

\*Help obtain insurance coverage for a larger percentage of residents visiting City health care centers. Presently, 68% of these patients do not have coverage. The City is working to address this problem by assigning 48 full, part time and volunteer staff to the centers to assist such patients at a cost of only \$70,900 to the General Fund that is projected to yield \$21.5 million in new revenues to the City by FY08.

\*Increase the Childhood Immunization Rate to 90% across the city by working with primary providers in Philadelphia neighborhoods where this goal has not yet been reached.

\*Continue an aggressive campaign to reduce childhood lead poisoning by initiating action against private landlords who refuse to conduct needed lead hazard reduction and informing tenants of their rights to withhold rent from non-compliant landlords.

\*Expand a Chlamydia and Gonorrhea Initiative to all public high schools. The Health Department reports that “the incidence of Chlamydia and Gonorrhea among adolescents is at epidemic proportions.” In response, the Department is providing confidential, on-site screening for students at all 42 public high schools, coupled with appropriate treatment arrangements. The total cost here is \$642,000, of which \$262,000 will be supported through grant funds.

\*Provide effective animal control, through the creation of a new not-for-profit entity, the Philadelphia Animal Care and Control Association (PACCA) to provide citywide animal control services at a cost of \$2.2 million.

\*Improve public health emergency response capacity. This is a post 9/11 program to strengthen the City’s preparedness to bioterrorism. Here, the Health Department is the lead agency in a team that includes the Fire Department, the Police Department, and the Office of Emergency Management. It seems that the Federal Homeland Security legislation recently provided the City with \$1.4 million in additional resources out of the Bush administration’s \$20 billion budget for Homeland Security.

Beyond these major priorities, the Health Department statistics included in the 5 Year Plan point to its ongoing activities.

The last item highlights how much of even the Health Department’s work must focus on problems related to crime and social disorder in the City--bioterrorism, non-compliance with laws governing lead paint abatement, a Chlamydia and Gonorrhea epidemic in our schools.

This is the environment in which our Health Department has to operate, with its budget of \$121 million.

Compare this with the \$510,000 budget for the Montgomery County Health Department, whose web site features a “code blue” weather alert going back to December 5<sup>th</sup>, 2002; a September 27<sup>th</sup> report that two Montgomery County residents and five birds had contracted the West Nile Virus; an Emergency Preparedness advisory urging us to “stay calm” and call 911 along with an online Question & Answer section on terrorism that starts with the question, “What is Anthrax?”.

Do we really have to look at tax rates to explain why families might be moving to the suburbs—or, for that matter, why taxes in Montgomery County are lower, overall, than in Philadelphia? Even in matters affecting public health, we end up paying a heavy price to enforce our laws and to protect our young people from the unstable, even dangerous environment around them.

In tackling these complicated problems, however, the Health Department benefits considerably from its partnerships with private agencies and organizations within the community. The Department’s budget itself tells the story—only \$43 million for personnel; \$71 million in “Purchase of Services.” The “services” are all purchased from groups like the Maternity Care Coalition and Philadelphia FIGHT—groups with considerable expertise and strong roots in the community. They are the ones who help the City succeed.

## **2. Homelessness**

In 1980, there was no need for a department in Philadelphia called the “Office of Emergency Services”—or in any other major city, for that matter.

All that changed over the next five years, in the wake of federal budget cuts for public housing, deinstitutionalization of mental health facilities without adequate support for community care, and growing spousal abuse in the response to urban economic decline.

By FY 89, the Goode administration had created a separate “Office of Services to Homeless and Adults,” for which they sought \$26 million from the General Fund. At that time, they promised to screen and appropriately place or refer 350 clients daily and to provide case management services to 8,000 homeless households over the course of the year.

Fifteen years later—FY04-- what is now called the “Office of Emergency Shelter” will maintain an average of 2,083 daily shelter beds for an annual General Fund budget of \$15.5 million. 500 people will be placed in transitional housing; another 480 will be placed in permanent housing. These connections will be established with non-city funded supportive transitional and permanent housing resources from the federal government. Nonetheless, the City’s current Comprehensive Housing Assistance Plan submitted to HUD, reports the need for additional emergency shelter beds, transitional housing units, and permanent housing units to fill serious

gaps in what the City can provide. A supporting chart in the OHCD plan tells the story:

### **Unmet Housing Needs for the Homeless**

<b>Individuals</b>	<b>Estimated Need</b>	<b>Current Inventory</b>	<b>Gap</b>
Emergency Shelter	3,643	1,485	2,158
Transitional Housing	11,157	1,688	9,489
Permanent Housing	7,970	1,592	6,378
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<b>Totals</b>	<b>22,770</b>	<b>4,745</b>	<b>18,025</b>

The OHCD plan pledges to provide \$5,519,000 in federal funds for Emergency Shelter, Transitional Housing, and Permanent Housing for the Homeless in FY04—supplementing the \$15 million in the General Fund budget. Yet as this “Unmet Needs” chart tells us we are still far from solving the problem of homelessness in Philadelphia.

Nonetheless, that the City of Philadelphia has been able to cut its General Fund allocation for homeless shelters by nearly 50% since 1988—from \$28 million to \$15 million—demonstrates that by helping us solve critical problems, effective citizen groups can help us save money as well. Organizations like Project HOME and the Peoples’ Emergency Center have had great success in winning federal grants from HUD for transitional housing that provide a ‘continuum of care’ to the homeless. As their programs have grown, the City’s need for emergency shelters has diminished.

In the 1980's, critics complained that helping the homeless was not an appropriate role for City government. Some still do. Yet one way or another, we all pay a price for social problems. In this case, by working with groups determined to solve these problems, government gradually has been able to cut the cost.

### **3. Community Services and Public Housing**

Going largely unnoticed in the budget is a \$780,000 allocation for the Mayors’ Office of Community Services (MOCS) –the Community Action Agency created under the War on Poverty in the 1960's. Today, the MOCS administers fuel and food assistance programs, pilot welfare-to-work projects, and the City’s Empowerment Zone. In the past year, MOCS organizers have been doing community outreach for NTI..

The MOCS is the only agency in government with a primary responsibility for neighborhood organizing. MOCS neighborhood offices have been a lifeline for low-income families to gain information about ongoing programs and services available to them. Despite wide-publicized problems with individual projects within the City’s Empowerment Zones in the 1990's, MOCS oversight was useful in helping Community Trust Boards and project managers define realistic goals for their projects and work together to achieve them.

The MOCS budget of \$780,000 represents no more than .02% of the entire budget. It shows that even a tiny investment in citizen engagement can yield strong programmatic returns.



Not included in the City budget, however, is the Philadelphia Housing Authority (PHA)—with its own charter from the State. PHA’s annual budget totals \$350 million—larger than every City department but the Police and the Department of Human services. It receives \$328 million from HUD, \$20 million in grants, and \$2 million in other funding. It returns \$13 million to HUD in rents, as part of its operating subsidy agreement.

PHA houses more than 75,000 people in conventional, scattered site, and Section 8 units in Philadelphia. Its web site boasts that it is the biggest landlord in Pennsylvania. Its conventional and scattered site developments have been a source of considerable controversy in the past and its management of the Section 8 program has become a ‘hot-button’ issue today. On a positive note, however, PHA has completed and maintained some attractive new developments in recent years and its latest evaluations from HUD have been positive.

It is unfortunate, then, that the independent structure of the Philadelphia Housing Authority places it out of range of serious budgetary review by the City Council. The Mayor appoints two members to the PHA Board. The Controller appoints two members. These four members appoint the fifth. It is this Board, then, that reviews all the financial and management decisions that PHA must make over the course of a year.

Perhaps we also need to institutionalize an annual City Council review of the PHA budget—even though Council has no formal control in this area—if only to help the citizens of Philadelphia understand more fully how the Housing Authority is spending our money and what its latest programs and plans for improvement will be.

## E. Children and Families

### Children and Families

Department	Personal Services	Purchase of Services	Materials, Equipment	Grants, Indemnities	Totals
School District				\$35,000,000	\$35,000,000
Free Library	\$32,796,809	\$1,585,406	\$3,899,678		\$38,281,893
Community College				\$22,467,924	\$22,467,924
Mayor-Scholarships				\$200,000	\$200,000
Hero Scholarships				\$35,661	\$35,661
Recreation	\$32,694,425	\$2,196,891	\$1,350,047	\$1,500,000	\$37,741,363
Fairmount Park	\$10,077,309	\$2,742,509	\$632,158	\$850,000	\$14,301,976
Recreation-Stadiums	\$1,238,035	\$3,050,196	\$290,533		\$4,578,764
Art Museum				\$2,250,000	\$2,250,000
Atwater Kent	\$286,992	\$5,875			\$292,867
William Penn Camp	\$156,979	\$105,590	\$48,170	\$672	\$311,411
DHS-At-Risk Kids	\$85,139,969	\$508,261,561	\$5,882,504	\$64,376	\$599,348,410
SubTotals	\$162,390,518	\$517,948,028	\$12,103,090	\$62,368,633	\$754,810,269
Benefits	\$73,008,471				\$73,008,471
<b>Totals</b>	<b>\$235,398,989</b>	<b>\$517,948,028</b>	<b>\$12,103,090</b>	<b>\$62,368,633</b>	<b>\$827,818,740</b>

### Commentary

#### 1. Education

Next to crime, the largest allocation in the City's General Fund budget is \$827,181,740 for services and programs aimed at families at children—roughly 25% of the budget. Indeed, if we add the School District's own budget of \$1,756,838,000 to this amount, it becomes apparent that the greatest single investment of public funds in Philadelphia is to support public education, strengthen families, and manage community facilities and programs that parents and young people can enjoy together.

As is now well understood, the City and School District have achieved a fiscal partnership as part of the agreement between Mayor Street and then Governor Mark Schweiker in December, 2001 that created the City-State School Reform Commission. The City is now obliged to provide \$45 million to the School District beyond what it has provided in the past in real estate tax revenues and a \$15 million grant from the General Fund. There is now a \$35 million line item for the schools in reflected in the FY04 budget, supplemented by \$22 million in property tax millage transferred from the City to the schools in the current fiscal year. The School District's new Chief Operating Officer, Paul Vallas, has moved quickly to downsize the District's administrative staff, even as he has reallocated funds to extended day programs, curriculum development, and supportive services to disruptive students. As of December, 2002, the School District reported that it already has closed its \$28 million deficit projected at the beginning of this fiscal year and will likely end up with a \$2 million surplus by July.

Beyond the reforms that the School District is initiating itself, there is an ongoing City-School District dialogue on how to collaborate more fully in producing quality education for our children. Included in these discussions are ways to integrate an ambitious capital program of new school construction undertaken by the School District with neighborhood revitalization programs sponsored by the City;

coordination in providing after-school and summer programs for students at every level; and ways to take advantage of both School District and City facilities in providing quality programs to young people. Both the School District and the City mention 'rightsizing' or 'downsizing' their facilities over the next five years to cut costs. It is clear that this will be accomplished through an integration of school and city-run programs and facilities that has been needed in Philadelphia for some time.

The City's programmatic contributions to educational reform come in three areas—a significant expansion in after-school programs throughout the city; ongoing broadening of Free Library Services to young people; and the integration of computer literacy and cultural programs into the City's Recreation Centers. Indeed, scattered through the FY04 Five-Year Plan are the basic elements of a neighborhood-based support system for quality education. Here are its central elements, culled from the program descriptions offered in the Plan by the Department of Human Services, the Free Library, the Recreation Department, and Fairmount Park:

- \*Increase the use of 19 Department of Human Services Family Centers for parenting education and support, after-school, and other youth development programs.
- \*Develop a closer partnership between the Free Library and the School District through hiring nine School Outreach Specialists in the libraries to establish closer contact with principals, teachers, department heads, and school librarians.
- \*Expand Free Library services for teens and undertake a thorough evaluation of the Free Library's after-school program.
- \*Expand an online homework help program to fifteen Free Library locations throughout the city.
- \*Continue quality improvements to the Recreation Department's After-School Program.
- \*Expand the number and type of visual and performing arts courses provided to children and adults in Recreation Centers.
- \*Provide instructional programming at Recreational and Educational Computer Sites now operating at 11 recreation facilities.
- \*Link cultural facilities in West Fairmount Park, including the Zoo, Memorial Hall, and the Mann Center for the Performing Arts.
- \*Create watershed-related exhibits for the Fairmount Park environmental centers.

The Department of Human Services reports in the Five Year Plan that despite the instability of the School District, the number of young people enrolled in after-school and positive youth development programs jumped from 3,382 in FY02 to 8,750 projected for FY04. It will be interesting to see how much more can be accomplished, now that the School District itself is moving in the right direction.

## 2. Recreation

Even though the City's primary goals for young people in the Five Year Plan revolve around education, support for the Recreation Department, Fairmount Park, and Camp William Penn remains intact as well. The Recreation Department's FY04 budget increases slightly from \$35 million in the current fiscal year to \$37 million starting in July. The Fairmount Park budget remains constant at roughly \$14 million.

Yet even within these constraints, both departments report high levels of citizen satisfaction with their programs. 79% of those who visited a neighborhood recreation center—and 90% of those who participated in an after-school program—responded positively to the experience. 72% of Philadelphia residents surveyed expressed satisfaction with a neighborhood park, and 82% were positive on Fairmount Park itself. These remain areas of real strength for the City in connecting with the general public.

It is interesting to note that here, too, the level of staffing in the Recreation Department has declined over the years from 810 full-time positions in FY75, down to 593 projected for FY04. Fairmount Park's current staff of 219 employees represents less than 1/3 of the staff of 668 that maintained the Park in FY65—and little more than 1/2 of the Park's staffing level in FY 85. These are two important departments that have considerably downsized over the years, as the city's population has declined.

Even with a smaller staff, however, the Recreation Department maintains close ties with neighborhood organizations throughout the city. Recreation Advisory Committees has been an important vehicle for citizen participation in neighborhood activities throughout the City and sports teams and leagues remain part of the social fabric that holds the city together.

## 3. At-Risk and Delinquent Youth

Where spending has increased dramatically over the past five years is in the Department of Human Services (DHS)—the agency charged with the responsibility for addressing the needs of at-risk and delinquent youth. The Department's new programs are not being funded by City taxes, however. Here, success in securing sizeable increases in funding from the Commonwealth of Pennsylvania has enabled DHS to broaden its outreach and programs significantly.

The FY04 budget for DHS will be \$599,348,410. \$551 million of it is coming from the State.

The increased support from Harrisburg speaks for itself:

### Commonwealth of Pennsylvania Revenues to DHS (Department of Human Services) (Amounts in Thousands)

FY 2002	FY 2003	FY2004
\$392,967	\$501,095	\$551,727

Moreover, beyond its ongoing role in protecting children from abuse and providing services to the Juvenile Justice system, DHS is now focusing primarily on what it calls “Community-Based Prevention Services.” In the Five Year Plan, it notes that for many years it has supported a “variety of community-based services aimed at preventing out of home care and supporting families,” but that until the last few years, the proportion of DHS resources dedicated to these services was relatively small. That is precisely what DHS Commissioner Alba Martinez has worked to change over the past three years. It is in the area of prevention, in fact, that the expansion of DHS services has been most dramatic, from \$14.4 million in FY 2000; to \$56 million in FY03; to \$90 million projected for FY04.

The precise funding for these programs is provided by Temporary Assistance to Needy Families (TANF) funds from the federal government to Harrisburg, which can be applied to a wide range of services to needy families. That Harrisburg receives these funds hardly guarantees that they will end up at the Department of Human Services in Philadelphia, however. In this instance, DHS is demonstrating that it can make a real difference in helping young people solve the problems that lead to destructive behavior by working with neighborhood-based human service agencies in developing the solutions.

The specific prevention programs that DHS now manages includes the following:

- \*Increased use of 19 Community Family Centers, not only for remediation in education, but for links to family therapy, counseling, respite and other health and social services.
- \*Expanded delinquency prevention programs, including academic assistance, counseling, community service activities, physical and behavioral health supports, life skills, job readiness and employment training, cultural enrichment activities, and victim and community awareness education.
- \*Expanded community-based parenting skills enhancement programs.
- \*Intensive services for new mothers who are at high risk of neglecting or abusing their children;
- \*School-based case management services to additional schools, providing a continuum of supportive services to children whose behavior problems interfere with their ability to learn.

The real test of a prevention strategy, of course, is not simply whether it can raise additional funds, but whether it actually works. DHS is now confident that it does. The number of parents and caregivers participating in parenting education and support groups has grown from 978 in FY02 to 8,750 projected for FY04. The number of families diverted from home-based services or even foster care to community based services has jumped from 267 in FY02 to a projected 3,500 in FY04.

Clearly, DHS has now joined the Office of Housing and Community Development, the Mayors’ Office of Community Services, Philadelphia More Beautiful and Town Watch as a major resource for neighborhood improvement.

## F. City Management and Finance

### Management & Finance

Department	Personal Services	Purchased Services	Equipmnt, Supplies	Grants,Other Funds	Total
Mayor	\$2,905,763	\$736,765	\$136,082	\$4,797	\$3,783,407
City Council	\$12,130,748	\$2,284,284	\$915,300		\$15,330,332
Managing Director	\$9,121,315	\$5,817,410	\$1,019,992		\$15,958,717
MDO-Fleet Management	\$17,167,789	\$4,192,500	\$15,292,501		\$36,652,790
MDO-Vehicle Purchase			\$10,700,000		\$10,700,000
Law	\$10,396,156	\$5,184,940	\$284,118		\$15,865,214
City Commissioners	\$5,085,047	\$2,594,035	\$633,471		\$8,312,553
Personnel	\$4,405,592	\$550,132	\$68,406		\$5,024,130
Civil Service Commission	\$160,007	\$2,316	\$2,062		\$164,385
Mayor-Labor Relats.	\$474,264	\$37,050	\$21,450		\$532,764
MayorsOffice.InformationSvc	\$7,585,144	\$5,081,562	\$199,875	\$93,614	\$12,960,195
Public Property	\$10,146,919	\$23,009,306	\$1,009,177	\$14,000,000	\$48,165,402
Utilities		\$27,475,500			\$27,475,500
Space Rentals		\$14,515,541			\$14,515,541
Telecommunications		\$12,748,125			\$12,748,125
Records	\$3,383,643	\$3,156,084	\$635,843	\$1,130,971	\$8,306,541
Procurement	\$3,218,037	\$1,572,687	\$117,714		\$4,908,438
Register of Wills	\$3,005,508	\$40,920	\$28,524		\$3,074,952
Finance	\$7,756,558	\$7,326,764	\$658,327	\$30,982	\$15,772,631
Revenue	\$13,329,906	\$4,063,379	\$784,058		\$18,177,343
Board of Revision of Taxes	\$7,711,710	\$338,186	\$144,702		\$8,194,598
Auditing	\$7,382,518	\$471,467	\$97,494		\$7,951,479
City Treasurer	\$789,571	\$90,797	\$27,527		\$907,895
Finance-Indemnities				\$29,921,804	\$29,921,804
Finance-Refunds				\$854,365	\$854,365
Subtotals	\$126,156,195	\$121,289,750	\$32,776,623	\$46,036,533	\$326,259,101
Benefits	\$56,718,033				\$56,718,033
<b>Totals</b>	<b>\$182,874,229</b>	<b>\$121,289,750</b>	<b>\$32,776,623</b>	<b>\$46,036,533</b>	<b>\$382,977,134</b>

### Commentary

The entire management, fiscal, and administrative support system for City government—including Indemnities and refunds, support for City Utilities and Telecommunications, and space rentals for City offices—adds up to roughly \$383 million, or 12% of the total budget. This is likely to come as a surprise, given that media stories about the budget often focus on high profile positions like Mayor Street’s “Fitness Czar” or increases in the City’s administrative staff. Yet all of these offices and departments—the Mayor, the Managing Director, the Law Department, the Finance Department, the City Council, the City Controller—still add up to only 12% of the budget.

As the table shows, the biggest increase in staff over the past twenty years has been in City Council, as an expression of its effort to become an effective legislative body despite the limits imposed by a strong Mayor system of government. Yet the Mayor’s Office, the Managing Director, and the Finance Director have increased their staffs as well.

### Changes in City Administrative Staffs: FY85-FY04

Positions	FY85	FY04
Mayor's Office	28	48
City Council	161	226
City Controller	139	132
Managing Director	69	92
Finance Director	142	151
Law Department	212	207
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	751	856

The Street administration has pledged to eliminate 50 senior positions and to reorganize internal support staff in a way that will cut costs by \$80 million between now and FY08. Every little bit helps, but it is important to point out that this adds up to only \$16 million/year—a savings of less than 1%.

Demanding even more draconian cutbacks in the administrative departments is always popular, but it could end up undermining efforts to bring efficiency and effectiveness to the rest of the government. As an example, neighborhood groups have had an especially difficult time in getting the City to produce a coordinated response to its problems. If we want to tackle blight, we need to call L&I. To crack down on trash dumping, we need to contact the Streets Department. To reduce crime, we need to establish a relationship with a Police District. And if we want to start an after-school program for kids, we need to deal with either the Department of Human Services or the Recreation Department or both. Even high-level administrators within the government refer to its departments as 'silos,' expressing their own frustration at producing integrated, coordinated strategies for neighborhood improvement.

There are only three officials within the government with the authority to force operating departments to work together in response to neighborhood needs—the Mayor, the Managing Director, and the District Council members. For any of these officials to play this role, they need staff. Indeed, the failure to provide adequate coordination from the Mayor and Managing Director's office is what has pushed District Council members to demand more staff to make up the difference. Most Council staff members do this sort of constituent service most of the time. In short, cutbacks in lead agencies of government—the Mayor's Office, the Managing Director, City Council—may save taxpayers' dollars but serve to fragment the government in the process..

The same principle applies to cutting administrative costs. A key element in Mayor Street's program is the creation of 'service centers' to perform administrative for departments with similar missions. Right now, each department may have its own budget unit and personnel office. Soon, "service centers" will play these roles for groups of departments. The City will be able to eliminate 400 redundant positions scattered through the government in the process, for a 5 year saving of \$35.2 million. But this will also *increase* the central administration staff. So when evaluating efforts to achieve efficiency in government, it's important to look at the entire departmental structure, not just a handful of management departments at the top.

## G. Neighborhood Improvement-A Long-Term Investment

### Investing in Neighborhood Improvement Five Year Plan: FY04-08

Improvement Project	Total Cost	5 Yr. General Fund	New Revenues	Tax Cost/Year	Outcome
Neighborhood Transformation	\$425,000,000	\$130,000,000	\$295,000,000	\$26,000,000	Physical Revitalization
Safe Streets	\$100,000,000	\$30,000,000	\$70,000,000	\$6,000,000	Reduced Crime
Convention Center Expansion	\$472,000,000	\$12,000,000	\$460,000,000	\$2,400,000	New Jobs & Businesses
School Reform, Youth Development	\$750,000,000	\$225,000,000	\$525,000,000	\$45,000,000	Improved Student Performance
	<b>\$1,747,000,000</b>	<b>\$397,000,000</b>	<b>\$1,350,000,000</b>	<b>\$79,400,000</b>	

### Commentary

It's important to place what the City of Philadelphia is doing now in historical perspective.

Between 1978 and 1992, the City undertook an ambitious, multi-faceted program to rebuild center city. A series of big-ticket projects drove the process, from Gallery I and II; the center city rail connection; and above all, the Convention Center. Then, in 1991, downtown business leaders led by Stockton Strawbridge asked for the authority to create a 'special services district' to strengthen the area's appearance and safety and to assist in marketing center city to residents and businesses throughout the Delaware Valley. They even agreed to impose an additional fee on area companies for these services, which now costs major employers like First Union as much as \$75,000 per year. Nonetheless, both the City and center city businesses went along with this plan in the interest of creating the strongest possible environment for these major new tourist and retail projects to succeed.

And succeed they did, by all accounts. Even though we are all paying nearly \$32 million in annual debt service for the Convention Center every year—more than the budget of the Streets Department—Convention Center managers point out that the estimated sales and real estate tax increases associated with tourism have more than offset the annual debt service cost that we are paying. In fact, we are all concerned about the labor problems and political turmoil surrounding the Convention Center precisely because we understand its importance to the overall economic recovery of the City. The Convention Center has demonstrated how a combination of direct public investment and improved city services can stimulate the private economy.

At the fiscal level, however, what made the Convention Center and the other major development projects viable were sizeable grants either from the federal government or the State, coupled with long-term debt financing. Here are a few examples:

Project	Financed with...
Gallery I	Urban Development Action Grant, Write-Down in Land Costs
Center City Rail Connection	\$325 million Department of Transportation Grant
Convention Center	Bond Financing; \$150 million from State; \$32 million in debt service from the City for 30 Years



In short, when it comes to development projects that appear to provide strong economic benefits to the City, we have no compunction about seeking debt financing and serious support from other governments to get the job done.

Now we return to the present.

During the 1999 Mayor's race it was almost commonplace for citizens to say that while it was fine that we were rebuilding center city, direct attention now needed to be paid to the neighborhoods. Three of the four projects that have become administration priorities—the Neighborhood Transformation Initiative (NTI), Safe Streets, and School Reform—represent the Mayor's response to this neighborhood agenda.

Moreover, as has been the case with economic development, the City is using resources from other levels of government and debt financing to fund these neighborhood initiatives over time. As the table at the beginning of this section shows, NTI is being financed by a \$295,000 bond issue for which we will be paying \$18 million in debt service annually over the next 30 years. The debt service—coupled with \$40 million for streetscape improvements—will add \$130 million to our General Fund costs between FY04 and FY08. Thus, NTI represents an investment of \$425 million during the current Five Year Plan.

As part of City's agreement with the State to fund the schools, we have increased our annual General Fund contribution to the School District by \$45 million—from \$15 million to \$60 million—in order to leverage an additional \$75 million per year from the State. The State also supported \$300 million in debt financing to enable the School District to get through its immediate fiscal crisis. Add \$30 million in TANF funds from the State to support new after-school programs over the next five years, this brings the total of new revenues to support education and youth development to \$525 million over the next five years, with only \$225 million coming from the General Fund.

Safe Streets is projected to cost \$100 million over the next five years, but only \$30 million in overtime costs from the General Fund will be applied to the program. The City hopes to raise the remaining \$70 million from grants and revenues from drug forfeiture sales.

And the administration's major economic development project—convention center expansion—will be financed by another \$460 million bond issue, for which a \$12 million debt service payment from the General Fund will be made over the next 5 years. While this is not a neighborhood-based project, the jobs created in the hospitality industry provide opportunities for neighborhood residents without high school diplomas who cannot be employed in any other way.

So the City has committed \$397 million in General Fund revenues over the next five years in order to raise \$1.35 billion in debt financing and grants from the Commonwealth of Pennsylvania—all aimed at strengthening our neighborhoods. This is consistent with what we have done for center city in the past.

Are there any signs that the neighborhoods are responding to this new commitment of support? Check out what has happened to median residential home sales prices over the past year in every single City Council District in the City: This data is available through the University of Pennsylvania's Neighborhood Information System (<http://cml.upenn.edu/nis>):

## Residential Sales Prices in Philadelphia, 1996-02

Council District	% Change, 1996-2001	% Change, 2001-02
1	13.64	20.00
2	14.29	17.50
3	-12.50	20.61
4	3.75	18.88
5	12.20	74.76
6	-1.79	12.73
7	11.84	13.26
8	-6.12	12.78
9	-6.12	12.83
10	9.89	18.60

*University of Pennsylvania, Neighborhood Information System*

Obviously, it would be premature to attribute this improvement to NTI and School Reform, since these initiatives are in their earliest stages. Yet the City's ambitious efforts to remove cars and clean vacant lots, along with increased police presence (an increase of more than 1,000 officers since FY97) and a dramatic expansion in after-school programs, appear to be making a difference.

So far, it appears, so good.

Yet if these new initiatives are to be seen as genuine public investments—as opposed to indefinite increases in government spending without results—there needs to be tangible progress in achieving their goals.

The Neighborhood Transformation Initiative needs to combine tough code enforcement with creative strategies to turn vacant lots into attractive open space, so that market rate developers will begin to invest in our neighborhoods again.

“Safe Streets” needs to prove that we can drive drug dealers out of neighborhood main streets and retail corridors once and for all—as has happened in center city—making a neighborhood commercial renaissance a real possibility throughout the city.

School reform and neighborhood-based after-school programs need to reduce truancy and juvenile crime and significantly improve student performance in our schools.

These are the goals. Most of us support them. There is even renewed hope in neighborhoods throughout the city that we can achieve them. Yet unless we all decide—neighborhood by neighborhood—to work with the City and the schools to fight blight and reduce crime, while helping our young people succeed in school, we will be throwing money at these problems indefinitely.

### III. Revenues

#### A. FY04 Revenues and Spending in Brief (In Thousands)

<b>Fund Balance, July 1-FY04</b>	<b>\$116,519</b>
<b>Cancelled Commitments</b>	<b>\$25,000</b>
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<b>Prior Fiscal Years</b>	<b>\$141,519</b>
<b>FY04 Revenues</b>	<b>\$3,151,819</b>
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	<b>\$3,303,338</b>
<b>FY04 Spending</b>	<b>\$3,279,443</b>
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<b>FY04 Operating Surplus</b>	<b>\$13,535</b>

Obviously, in order to support its varied activities government needs to raise the money and that's where we, the people, really come in. We pay for it all, through taxes, fees, and fines to all levels of government.

The City projects that it will raise \$3.1 Billion in FY04—\$3,151,819,000, to be exact.

Since the City intends to spend \$3,279,443,000 in FY04, we will end up with an operating budget deficit of \$127,624,000 for the year. This will be the City's first operating budget deficit in a decade.

Fortunately, thanks to a Fund Balance of \$116 million projected for the beginning of FY04—coupled with \$25 million in cancelled commitments—the City will still have a fund balance of \$13.5 million at the end of the fiscal year.

That still will be the smallest fund balance in years.

Yet at least we are not facing the whopping tax increases and service cuts that are plaguing cities and states throughout the country. Quite the opposite. The City will still be *cutting* taxes in FY04, even as it absorbs an added contribution to the School District, a 37% increase in health benefits awarded to the police, and overtime costs associated with Safe Streets. All of this has contributed to our annual deficit.

#### B. Philadelphia's Tax Burden

Moreover, as we all know, there remain significant, controversial issues related to taxes in Philadelphia.

Our most serious problem rarely even comes up in the debate on tax reform. It's a provision in the Pennsylvania Constitution. "Fair" taxes—defined as taxes levied in accordance with people's ability to pay—are unconstitutional in Pennsylvania. Each tax must be a 'flat' tax—imposed at the same rate, regardless of income level. So unlike the federal system, where (in theory, at least) the rich pay at higher rates than the poor, in Philadelphia and other Pennsylvania cities and towns, everyone pays at the same rate, no matter what our level of income is. This imposes a serious constraint on what we can do to build a tax system in the City that is fair to everyone.

Our ‘flat tax’ system also shapes where Philadelphia’s tax burden stands in relation to other cities around the country. The City’s Five Year Plan reproduces data from an annual survey undertaken by the District of Columbia Department of Finance and Revenue of the tax burden on individuals and families in sample cities throughout the country. Philadelphia emerges with the third highest tax burden on this list.

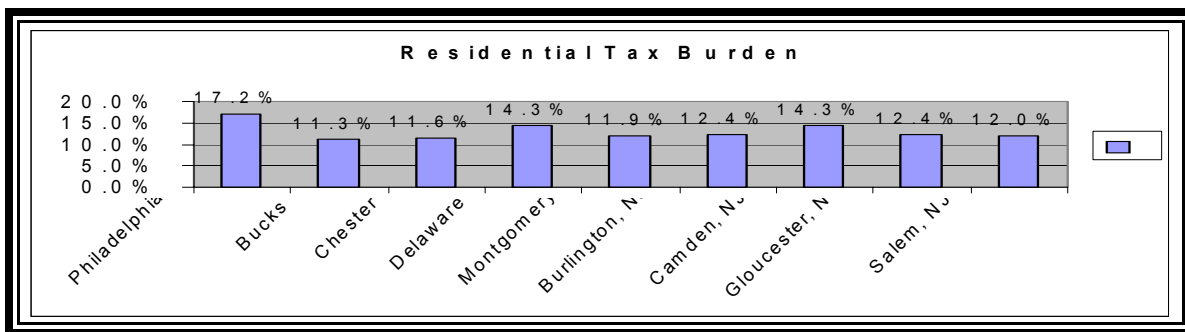
Yet it turns out that the Five Year Plan shows us only the tax burden on people earning \$25,000 per year. The DC study also documents the tax burden on people and households earning \$150,000 per year. Here, we drop to fifth on the list—behind New York City and Los Angeles, no less. These other cities are permitted to tax people with higher incomes at higher rates, and they do. So there, the rich pay more.

### Estimated Burden of Major Taxes For a Family of Four in the Largest City in Each State 12 Sample Cities

Annual Income of \$25,000			Annual Income of \$150,000		
City	State	% Burden	City	State	% Burden
Bridgeport	CT	22.8%	Bridgeport	CT	22.9%
Newark	NJ	14.5%	Newark	NJ	14.3%
<b>Philadelphia</b>	<b>PA</b>	<b>13.4%</b>	New York	NY	14.2%
Detroit	MI	8.9%	Los Angeles	CA	11.8%
Washington	DC	8.6%	<b>Philadelphia</b>	<b>PA</b>	<b>11.7%</b>
Chicago	IL	8.4%	Washington	DC	11.4%
Boston	MA	8.1%	Boston	MA	11.2%
Los Angeles	CA	7.9%	Baltimore	MD	10.8%
New York	NY	7.9%	Atlanta	GA	10.3%
Atlanta	GA	6.9%	Detroit	MI	10.3%
Baltimore	MD	6.3%	Chicago	IL	8.8%
Denver	CO	5.6%	Denver	CO	6.9%

There’s nothing we can do in Philadelphia to redistribute the tax burden on our residents from the “haves” to the “have-nots” unless we secure passage of an amendment to the Pennsylvania Constitution permitting graduated taxes. Unfortunately, all previous efforts to make this change have failed.

Where high taxes hurt us most, however, is in relation to the five county metropolitan area, as this chart developed by the Pennsylvania Economy League in 2001 shows:



When individuals and families decide where they want to live, their overall cost of living is the critical factor. Here, Philadelphia is quite competitive, given our affordable housing market. There are people who commute from Philadelphia to work in New York City every day, because overall it is considerably cheaper to live here.

Yet when businesses decide where they want to locate within a metropolitan area, tax rates play a big part in their decisions. A 4.4625% city wage tax places us in a class by ourselves in this region, measured against 1% income taxes levied in the surrounding counties. Some employers feel that they if locate in Philadelphia, they will have to raise salaries to make up the difference and it's just not worth it. This is the anecdotal evidence provided by Delaware Valley business leaders. Various studies of why Philadelphia has lost thousands of jobs to the suburbs over the past twenty years reach the same conclusion.

For those concerned about this problem, by far the highest priority has been to lower the wage tax. Real estate values and taxes are a bargain in Philadelphia. It's the wage tax that kills us.

The problem is that the wage tax is also the City's biggest source of revenue.

The challenge, then, is how to reduce the wage tax without destroying city services in the process. That's the challenge that the business leadership of Philadelphia, joined by City Controller Jonathan Sidel and the **Philadelphia Daily News**, posed to the Street administration and City Council last spring.

Here, then, is the basic problem, along with the major recommendations on how we might solve it.

### C. The Wage Tax and City Revenues

A review of City revenues projected for FY04 demonstrates quite clearly that the wage tax remains our primary source of revenue:

#### City Taxes, Fees, & Fines in Brief-FY04

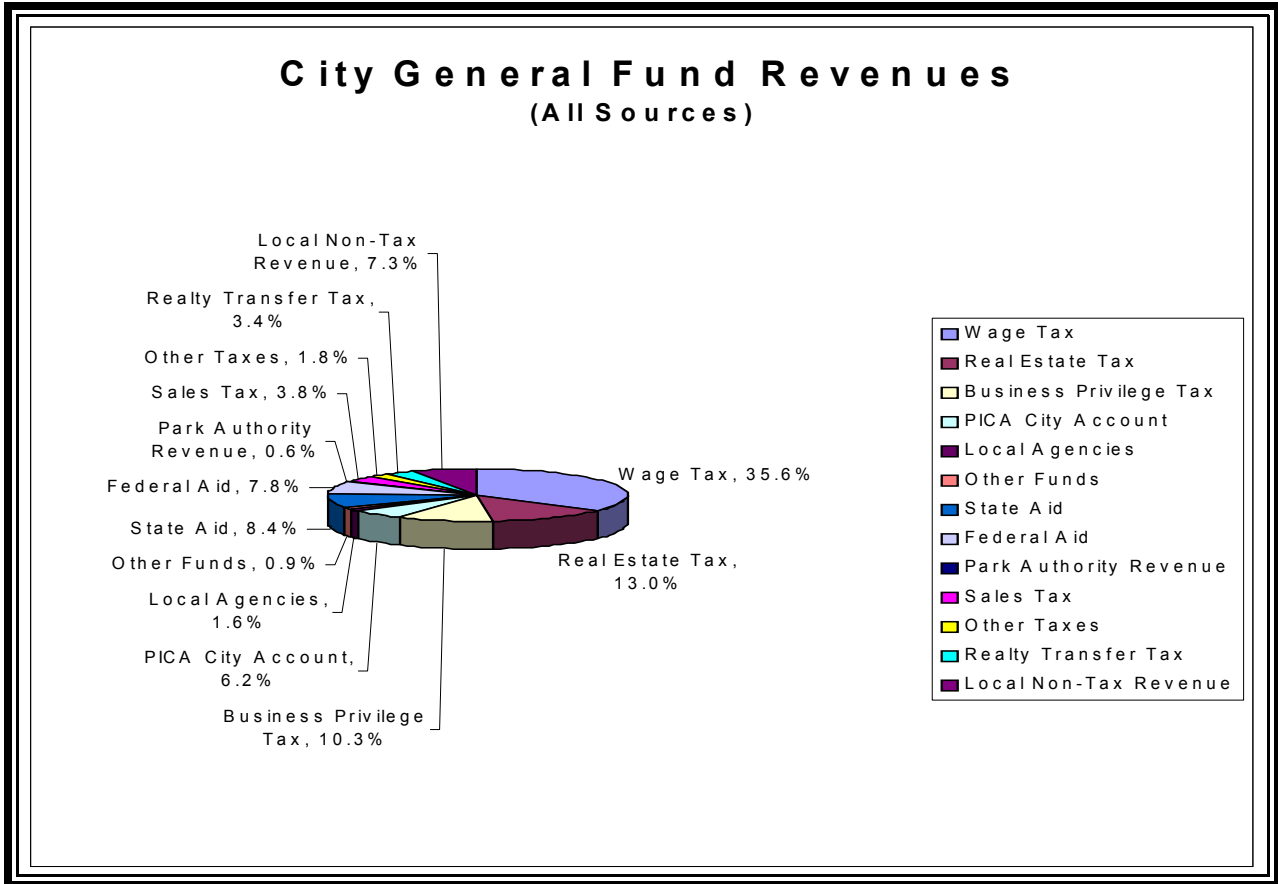
<b>Tax</b>	<b>Rate</b>	<b>Amount Generated</b>
Wage	4.4626%-Residents/3.8801%-Non-Residents	\$1.044 Billion
Real Property-City	3.75% of assessed value of property	\$364.6 Million
Business Privilege	6.5% on net income; .23 on gross receipts	\$310.0 Million
Sales Tax	1.0% Sales Tax	\$113.6 Million
Real Property Transfer Tax	3.0% Value of Property Transferred	\$93 Million
Amusement	5% Price of Applicable Events	\$15.2 Million
Parking	Levied on vehicles parked or stored in city	\$40.4 Million
L&I License Fees		\$3.3 Million
Live Stop Fines on Uninsured Cars		\$2.6 Million
Updated Record Fees		\$2.9 Million
Updated Parking Fines		\$6.0 Million
Library Fines		\$300,000

Clearly, the wage tax raises as much revenue as every other tax, fee, and fine put together.

Moreover, even if we include *all* revenues projected by the City for FY04, the wage tax remains the major contributor.

### Sources of City Revenue

**FY04  
Fiscal  
Year**



### Revenues: FY04

City Wage Tax	\$1,044,829
Other Governments	\$933,838
Property Tax	\$364,589
Business Privilege	\$296,312
Local Non-Tax	\$210,819
Sales Tax	\$113,570
Real Estate Transfer	\$93,000
Parking	\$40,385
Other Funds	\$25,313
Amusement	\$15,353
Net Profits Tax	\$13,698
Miscell. Tax	\$113
	<b>\$3,151,819</b>

Even with all revenues included, the wage tax supports 36% of the City’s General Fund. And this doesn’t count an additional \$285 million raised through the wage tax for P.I.C.A—the lending authority created by the State to oversee our finances as we worked our way through the fiscal crisis of the 1990’s. \$225 million of this revenue is, in fact, channeled back to the City as “Revenues from Other Governments.”

In total, then, the wage tax is projected to generate \$1.32 billion for the City in FY04.

As the chart below indicates, we depend on these revenues to support most of our major service departments.

**What Wage Tax Revenues Represent: FY04**

<b>Department</b>	<b>Budget</b>
Streets	\$31,475,832
Streets-Sanitation	\$88,973,286
Fire	\$175,233,242
Licenses & Inspections	\$24,194,862
Police	\$485,195,245
Free Library	\$38,281,893
Community College	\$22,467,924
Recreation Department	\$37,741,363
Fairmount Park	\$14,301,976
Benefits (75%)	\$346,611,556
	<b>\$1,264,477,179</b>

This, then, is the dilemma the City faces in reducing the wage tax. However we cut it, we need either to reduce spending or add revenues from somewhere else--or both--to make up the difference. Obviously, the more we reduce the wage tax, the harder it gets to replace it. That is precisely the problem that groups advocating wage tax reduction are now trying to solve.

**D. Wage Tax Reduction—Searching for Solutions**

There were, in fact, two debates surrounding wage tax reduction in the FY03 budget fight last year.

The first arose from Mayor Street’s announcement that the City would end the incremental cuts in the wage tax that had been taking place since 1995, in order to accelerate reductions the Gross Receipts Tax on Philadelphia businesses. The Mayor argued that we could not afford to cut both taxes and that Gross Receipts Tax reduction would provide much greater benefit to the local economy.

The second debate arose from simultaneous studies from the Pennsylvania Economy League (PEL) and the Center City District—reinforced by the City Controller’s “Tax Structure Analysis Report”—on the need for sizeable cuts in the wage tax if we hope to become competitive with the rest of the region. Ironically, both the business leadership and the Mayor were acknowledging that incremental wage tax cuts were not enough to make a real difference between the city and the suburbs. Yet PEL and its allies—the Chamber of Commerce and the Center City District, notably—insisted that the answer was not to kill the program, but to reduce the wage tax by a full 1% down to a ‘blended’ rate of 3.0%–3.5% in the city; roughly 2.5% for non-resident employees. Otherwise, there would be no way to stop the outflow of businesses and jobs that

Philadelphia has been experiencing for the last 30 years.

Had this proposal been adopted, however, it would have meant a 22% cut in the wage tax, reducing wage tax revenues by more than \$285 million. That represented 15% of all locally collected revenues.

In the end, City Council concluded that while there was no way to cut City revenues by \$285 million in a single year without wreaking havoc on the budget, it was essential to continue the incremental pace of wage tax reductions to convey that the City was at least trying to address the problem. Despite his initial opposition, the Mayor eventually compromised and signed the bill.

The following, then, is the schedule of wage tax reductions now in place for the next five years:

### Projected Wage Tax Reductions

Fiscal Year	Residents' Rate	Non-Residents' Rate
FY04	4.4625%	3.9127%
FY05	4.4250%	3.8801%
FY06	4.3875%	3.8149%
FY07	4.35%	3.7823%
FY08	4.3125%	3.7497%

The cost of these reductions is now built into the administration's Five Year Plan. And at this incremental pace, wage tax revenues are still expected to grow at a rate of roughly 2.5% per year.

The obvious problem, however, is that if in order to compete within the region for business and jobs, Philadelphia really does need to reduce the wage tax to a 'blended' city/suburban rate of 3.0%–3.5% on city residents—it will take years to reach this desired level on the current incremental schedule. Even the Street administration acknowledges in its Five Year Plan that “much steeper reductions are required to allow the City to make substantial strides toward being more competitive.”<sup>1</sup>

So the question of how to accelerate wage tax reduction *without* wreaking havoc on the budget is still with us --perhaps now, more than ever. In its latest report, the Central Philadelphia Development Corporation warns that leases for a number of center city firms will expire over the next three years and that these companies might leave the city altogether if the wage tax is not reduced enough—thus costing us even more jobs.

So what are the possible solutions? Two lead the list.

**State-Wide Property Tax Reform**—The City expresses the hope in the **Five Year Plan** that state-wide local property tax reform-- a major priority for the Rendell administration--will end up helping Philadelphia reduce the wage tax as well. Given the strong support throughout Pennsylvania in local property tax reform--and the equivalent support for wage tax reduction throughout the Delaware Valley--this is a real possibility.

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<sup>1</sup> City of Philadelphia, **Five Year Financial Plan**, p. 24.



**Debt Financing-** This was not clear last spring, but it is an option that the Pennsylvania Economy League (PEL) and local business leaders have been exploring for some time. Now it can be told, as it were.

In testimony before City Council last year, PEL argued that because of a ‘supply side effect,’ a significant cut in the wage tax would generate 51,500 new jobs by 2007—generating enough revenues to reduce our five-year ‘tax expenditure’ to a total of \$285 million-- as opposed to \$285 million per year. That added up to \$4,900 per job.

Then PEL compared this initiative with other major projects undertaken by the City in recent years, listed as follows on a separate page:<sup>2</sup>

Stadiums	\$600 million
Convention Center	\$560 million
Kvaerner	\$450 million
NTI debt	\$300 million
School deficit	\$300 million
PICA debt	\$256 million

The problem with comparing these projects with wage tax reduction, however, is that none of them even contemplated using General Fund revenues to subsidize them, given their staggering cost. In fact, two of them—the School District deficit and PICA debt—were put into place to *erase* deficits in the City and School District’s operating budgets, not to add to them.

What all these projects did have in common was debt financing. Four of them—the Convention Center, Kvaerner, School District deficit financing, and PICA debt—even involved debt financing secured by the Commonwealth of Pennsylvania. This was a far cry from expecting the City of Philadelphia to foot the entire bill through drastic cuts in General Fund Revenues or sizeable increases in other taxes—or both.

So while the Pennsylvania Economy League never said so directly, its list of projects comparable to wage tax reduction made it clear that they had some sort of debt financing strategy in mind. They have since acknowledged this to be case, as the debate over reducing the wage tax has unfolded this year.

So as the City’s newly created Tax Reform Commission, the City administration, and business and community leaders continue to struggle with wage tax reduction this year, State-wide property tax reform and/or debt financing to make up for lost revenues are two of the options that will certainly be discussed.

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<sup>2</sup> Pennsylvania Economy League, Wage Tax Presentation to City Council (Philadelphia: PEL, 2003), p. 16.

## **E. Wage Tax Reduction, Property Tax Reform, and the Land Tax**

City Controller Jonathan Sidel has proposed yet a third way to recoup revenues lost as a result of wage tax reduction—namely, concentrate on increasing revenues from the real estate tax.

One of the ironies of wage tax reform, in fact, is that it is explicitly intended to raise property values through economic development and, in the process, raise real estate assessments. The analysis of the wage tax ‘supply side effect’ prepared by Econsult for the Pennsylvania Economy League makes this quite clear.

After reducing the wage tax to 3.5%, Econsult argued, a ‘supply side effect’ will result in restoring 65.72% of the lost annual revenues within two years and 101.42% by 2010. But increased wage tax collections would account for only 52 % of this increase. The rest would come from rising property values and property tax assessment increases brought about as a result of economic development.

The study’s authors were well aware of the potential problem, however. “The increase in property tax revenue from the increased value of properties is unlikely to be politically feasible,” they warned. “It would imply large increases in property tax payments by Philadelphia property owners, many of whom have little ability to pay the increased property tax resulting from the higher value of their properties.”<sup>3</sup>

Needless to say, in the summer and fall of 2002, Philadelphia experienced precisely what Econsult had predicted. As the city’s economy revived, so did our real estate market—especially in center city. According to the University of Pennsylvania’s Neighborhood Information System, median sales prices in center city more than doubled between 1997 and 2002. The Board of Revision of Taxes’ (BRT) web site, in turn, warned that, “the results of our recent sales analysis indicate that roughly 302,000 of 485,000 residential properties require adjustment through equalization. Of these 302,000 parcels, approximately 258,000 are undervalued.” The reassessments were mailed out over the summer. Center city was hit especially hard, with some residents facing more than \$2,000 in outright tax increases in the process. By the fall, a major protest movement had developed and more than 10,000 appeals had been filed with the BRT.

Had these aggrieved homeowners read City Controller Jonathan Sidel’s “Tax Structure Analysis Report,” published in November, 2001, however, they would have been better prepared for what had happened. “Recent increases in Philadelphia real estate assessments have lagged behind the increase in the rate of inflation,” the Controller warned. “Between 1990 and 2000 inflation increased by 31.8 percent but real estate assessments grew by a mere 3.2%. If the city’s fair market values more closely mirrored current market conditions, the city would be due a substantial amount of additional tax revenue.”<sup>4</sup>

Consistent with the Econsult analysis, he, too, argued that reassessing properties regularly and properly would help the City reduce the wage tax, thus easing the overall tax burden on most people in the City. He

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<sup>3</sup> Richard Voigt, et. al. “Philadelphia Tax Rates and their Relationship to Tax Bases and Tax Revenues,” (Philadelphia: Econsult Corporation, 2002) p. 24.

<sup>4</sup> Office of the City Controller, “Tax Structure Analysis Report,” (Philadelphia: City of Philadelphia, 2001) p. 49.

even proposed that after reducing the Wage Tax from 4.5385% to 4.0%, the City should increase real estate rates outright to ‘create a budget-neutral first year shift’ between the two taxes in the process.<sup>5</sup> What the Econosult study approached with great trepidation the Controller’s office advanced with considerable zeal.

Yet the “Tax Structure Analysis Report” recommended one additional reform that, it maintained, would protect the average homeowner from whopping assessment increases—namely, changing our current real estate tax assessment system to what is called “land tax valuation” or, simply, a land tax.

Presently, the value of a property assessed by the Philadelphia Board of Revision Taxes is supposed to represent 32% of its market value—that is, its likely sales price in the neighborhood real estate market.

This overall assessment is really a composite of two values, however: a value placed on the land and a value placed on improvements. Presently, the Board of Revision of Taxes (BRT) allocates these two values almost arbitrarily, since its primary concern is the likely price of the property on the market—land and improvements together. Moreover, since the BRT perceives vacant land as having relatively little value, the highest assessments are imposed upon the most developed properties.

This is precisely the pattern that the City Controller wants to change. In reviewing the 2002 reassessments, he notes that the BRT “basically ignored taxable vacant land; of the 28,305 vacant sites in the city, less than 1.0 percent saw their value increased while 1,090 parcels saw their value decreased. If the Board of Revision of Taxes (BRT) would reassess residential vacant land as it has reassessed other residential properties, total assessments and total collections could be expected to increase.”<sup>6</sup>

Land tax valuation would carry this process a step further. The land occupied by a property would be taxed at a higher rate than the improvements. As a result, the owners of vacant land would end up paying an even larger share of the real estate tax. Specifically, the Controller proposes that the City Council should change the real tax rate as follows: decrease the real tax rate on improvements from .08246 down to .0533; increase the real estate tax rate to .1833. Land would be taxed at more than three times the rate of improvements.

“Split-rate taxation” of this kind would “discourage speculation” and “encourage neighborhood development and revitalization.” Owners of vacant and underutilized land and properties would find it more costly to continue to maintain their holdings in an underdeveloped state.<sup>7</sup> Moreover, since land values are now quite low in relation to improvements, the Controller estimates that 78% of residential taxpayers would see their real estate taxes reduced, while speculators and owners of underdeveloped commercial properties would start paying higher taxes. During the first year, the Controller estimates that the results would be ‘revenue-

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<sup>5</sup> *Ibid.*, p. 61.

<sup>6</sup> Jonathan A. Saidel, “2003 Mid-Year Economic and Financial Report” (Philadelphia: City of Philadelphia, 2003), p. 19.

<sup>7</sup> Jonathan A. Saidel, “Tax Structure Analysis Report,” *op. cit.*, p. 60.

netural.’ As the land tax simulated development, real estate tax revenues would rise.

In short, Jonathan Saidel and his staff are convinced that if we move toward land tax valuation—as has happened in Harrisburg and Allentown—the real estate tax will generate significant increases in revenue that can benefit both the City and the schools. Whether a land tax can achieve this kind of result for the City of Philadelphia remains to be seen. Yet it is being examined quite seriously now as another possible way to lower the wage tax and make the City’s tax structure competitive with the suburbs.

## F. Other Revenues—Down and Up

Pushing the wage tax down while driving real estate assessments up aren’t the only areas where the City is trying to realign what it receives from the public.

We note the following changes in the FY04 budget:

\*The tax on the “Gross Receipts” of companies doing business within the City of Philadelphia will be **reduced**--from .2300% in FY03 to .2100% in FY04 all the way down to .1500% by FY08. As a result, Business Privilege taxes are expected to drop from \$296.6 million in FY03 to \$296.3 million in FY04, but eventually rise to \$305.1 million by FY08 as a result of business expansion. The ‘supply side effect’ strikes again.

\*Parking fines will be ‘updated’ in FY04—meaning **raised**--from \$5 to \$15 for most violations, with an increase of \$25 for the cost of a boot or a tow. Add \$6 million in new revenues to the budget.

\*The Department of Records has **increased** the fees for recording deeds and mortgages to “accurately capture the cost of technology upgrades”—in the words of the Five Year Plan. Add \$2.9 million to the budget.

\*The Free Library will **increase** its fines for overdue materials for the first time in ten years, generating \$300,000 in new revenue for the Free Library Foundation.

The City also expresses relief in the Five Year Plan that the Philadelphia Gas Works is solvent again and will be able to provide the \$18 million per year to the General Fund that we have come to expect from PGW. That’s more than the budget of Fairmount Park, after all.

If some of this feels like scraping the bottom of the barrel, keep in mind that our barrel isn’t especially deep.

## IV. A Vision of Progress

As we observed earlier in this analysis, the usual way that we talk about a city budget is in terms of taxes and services. How high do our taxes need to be to support the City services that we expect? How much will it cost to pick up the trash and clean the streets and put out the fires and protect us from crime? How many people do we need to perform these services and what should we be paying them? This is the way that all city budgets are reviewed and Philadelphia is no exception.

Yet here we have added an equally important criterion for measuring the success or failure of what we do—namely, progress. When a city is struggling to rebuild its economy and to reverse decades of population decline, we want to know that what we’re doing is succeeding in meeting these important goals.

Clearly, the big issues facing the city and the City budget all have to do with progress.

Will Mayor Street’s Neighborhood Transformation Initiative really turn blighted areas of Philadelphia into new arenas for market rate housing development?

Will the “Safe Streets” campaign help Philadelphia become “the safest city in the nation”—as the Mayor put it in his annual budget message?

Will Convention Center expansion and other development projects revive our economy once and for all?

Will school reform provide a quality education to every child in Philadelphia?

We are investing nearly \$2 billion in public funds in these projects over the next five years. Will they result in progress—or disappointment—as we work to improve our quality of life?

Alternatively, if the City does find a way to cut the wage tax to 3% without wreaking havoc on the budget, will employers from the suburbs and elsewhere really start to locate in Philadelphia again—or will the price still not be low enough? Again, we’re talking about progress—in this case, in creating jobs.

If there is any new insight in this report concerning the substantive problems that we face, it has to do with crime. We have seen how much we spend to protect our neighborhoods from crime. Unless we can find a way to reduce crime—decisively—we will be spending this much forever, with all the high taxes that go with it. Thus, we need to make crime reduction a serious goal and measure our progress accordingly.

Philadelphia already has shown what we can accomplish, when we decide to get serious about making progress.

Twenty years ago, a new convention center was just a dream, shared by a handful of people in city government and the hospitality industry. Today, it is the centerpiece of a new tourist economy.

Fifteen years ago, it seemed impossible to remove dozens of homeless men and women from the sidewalks of Philadelphia without simply throwing them into shelters to get them out of our way. Today, groups like Project HOME and the Peoples' Emergency Center take it for granted that we can help the homeless get back on their feet, and our emergency shelter budget has been cut in half.

Ten years ago, rescuing the City from fiscal catastrophe seemed impossible. Yet even now—at a time when cities all over the country are raising taxes and cutting services—we are debating how to *reduce* taxes, even as we strengthen the services that we provide.

What we need, then, is not just a new set of fiscal strategies to achieve the goals that we set for ourselves.

We need to keep focused on a vision—the vision of a city that is clean, safe, economically viable, and a decent place to raise our children. Then we need to ask at every step of the way, “what do we need to invest to achieve this vision? What does government need to invest? What do we, as citizens, need to invest?”

That's the way we've made progress in the past. It's the way we will make progress in the future.

As the old proverb tells us, “without vision, the people will perish.”