

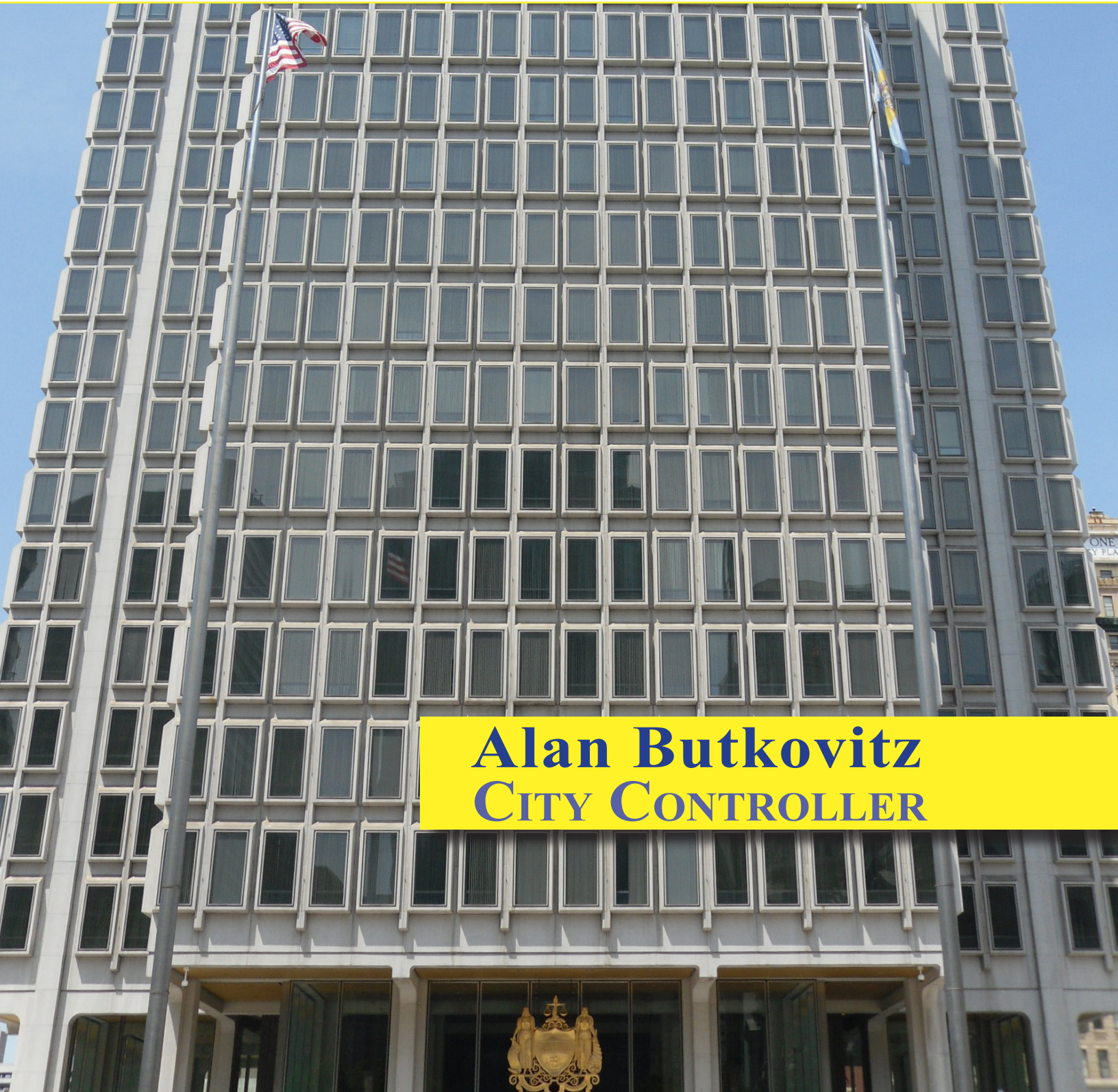
PHILADELPHIA'S NEW FUNDING REALITY

Impact of Potential Cuts in State Revenue

NOVEMBER 2010



PHILADELPHIA CITY CONTROLLER'S OFFICE



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Philadelphia's New Funding Reality

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Introduction

As the lingering economic recession continues to force local governments throughout the country to cut costs, eliminate programs and trim budgets, the influx of a new crop of freshmen legislators in the United States Congress vowing to “cut the federal budget,” will significantly impact the level of federal dollars going to state and local governments, including Pennsylvania and the City of Philadelphia.

Combining the potential impact of the new political reality in our nation’s capital along with political changes in Harrisburg, the City of Philadelphia faces uncharted political and financial waters. In fact, Governor-Elect Tom Corbett has already vowed to take a “New Jersey Gov. Chris Christie-like approach” to cutting budgets.

In the coming months, Philadelphia will be forced to make tough financial decisions and fundamental funding choices in order to deal with anticipated shortfalls in revenue emanating from new political realities in Washington and Harrisburg.

Much like New Jersey under Governor Chris Christie, Pennsylvania could be headed for substantial budget-slashing under Governor-Elect Tom Corbett. When asked how he will solve the state’s financial woes, Corbett said, “Look across the river,”¹ referring to Christie’s promise to close a \$10.7 billion budget gap through deep cuts without raising taxes.

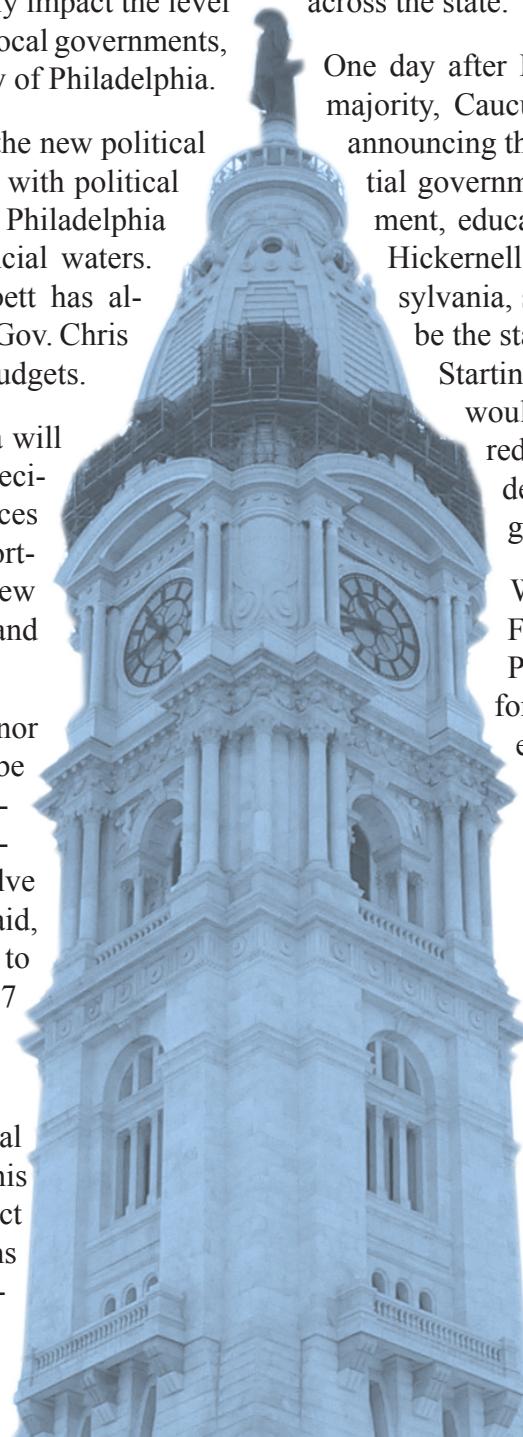
Realizing that he will be forced to deal with a \$4-to-\$5 billion deficit in his first budget proposal, Governor-Elect Corbett has already announced plans for at least a 10 percent across-the-board cut in administrative costs. Once administrative cuts have been implemented, Corbett plans

to look at other areas such as the Department of Public Welfare², which is the primary funding source for the City’s Department of Human Services (DHS). Out of Pennsylvania’s over \$28 billion budget for FY2011, \$10.4 billion was allocated for public welfare services across the state.

One day after House Republicans re-captured the majority, Caucus leaders held a press conference announcing their plans to limit spending to essential government programs such as law enforcement, education and infrastructure. Rep. Dave Hickernell, a Republican from Central Pennsylvania, said that the 2005-06 budget should be the starting point for budget negotiations. Starting at the 2005-06 budget figures would result in an immediate \$4 billion reduction in state spending. Noting the deep cuts, Hickernell said, “There’s going to be a lot of pain.”¹

When Pennsylvania’s budget was at FY05-06 funding levels, the City of Philadelphia received \$398 million for its general fund. These state revenues were used to help fund nine city departments, including Police, Streets, Human Services, Fire and others. Under the current FY2011 state budget, Philadelphia received \$595 million, a 50 percent increase compared to revenues provided by the state five years ago in the FY05-06 budget.

In preparing for its FY2012 budget and the required Five-Year Plan, the City of Philadelphia must take into account the potential financial consequences of the new realities in both Washington and Harrisburg that could result in serious



1. “Corbett’s spending cuts may be painful,” *Intelligencer Journal/Lancaster New Era* - Nov. 4, 2010
2. “New Gov. Tom Corbett planning to zero in on budget,” *Tribune Review* - Nov. 7, 2010

revenue shortfalls that the city would normally anticipate receiving.

If any potential cuts materialize, the City will have to search for ways to make up for the shortfall in anticipated revenues, or cut the level of these services. In the last two budget years, the city has reduced or cut services to public safety and community service programs as well as increased taxes to make up for these shortfalls.

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To provide a snapshot of state revenue cuts for City services as well as the School District of Philadelphia, the

Controller's Office has compiled data to show what the state's anticipated budget cuts could mean for Philadelphia.

The majority of state revenues flowing to the City are mandated and any changes to eligibility requirements or funding formulas would require amending current state laws. Amending laws for funding mandated programs could put the state at risk for losing some future federal funding for certain mandated programs.

Snapshot of Revenues

Under Pennsylvania's current FY2011 budget, the City of Philadelphia is set to receive \$1.8 billion for both the general revenue funds (\$595 million) and the special revenue funds (\$1.2 billion). The general revenue funds are monies dispersed to city departments to help fund general programs and services. The special revenue funds are monies used for specific projects that are funded through grant money.

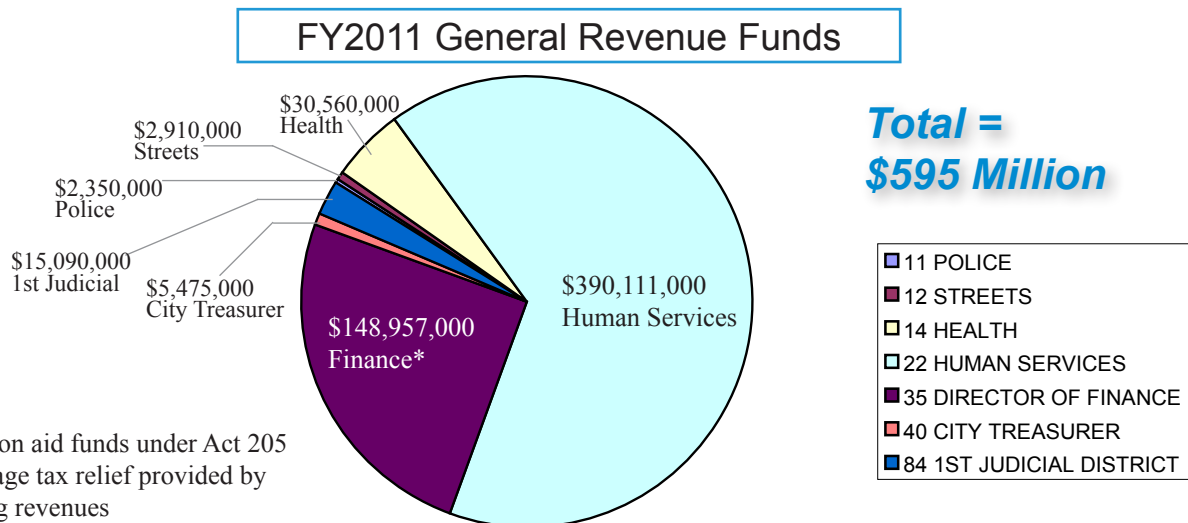


Along with state revenues for City services, the School District of Philadelphia is set to receive \$1.5 billion in education funds from the state during its current FY10-11 budget. The state's funding for Philadelphia's education is 64% of the School Districts overall operating budget of \$2.4 billion.

General Revenue Funds

The following seven city departments received funds through state general revenues: Police, Streets, Health, Human Services, Director of Finance, City Treasurer and the First Judicial District.

Under the state's FY2011 budget, the Department of Human Services will receive the most revenues with \$390 million. The Department of Finance receives the second highest funding, \$149 million, most of which is allocated for pension aid funds under Act 205, \$60 million, and \$86.7 million is provided for wage tax relief under the gaming revenues. Pennsylvania's other 66 counties receive property tax relief from gaming funds. The following chart depicts the amounts received by department:



While 80% of these revenues are state mandated and directed mostly by funding formulas, the state legislature could amend existing laws to change eligibility requirements and funding formulas that would reduce current revenue levels. Either of these changes could put the state at risk to losing some future federal funding for certain mandated programs.

By compiling a list of departments and their respective revenues, the Controller’s Office compared the allocated amounts to potential future state cuts ranging from five percent to 30 percent. Under these cuts, city departments could result in the following lowered revenue funding levels depending on the severity of the funding cut:

Department	FY11 General Fund	Funding Level 5% Cut	Funding Level 10% Cut	Funding Level 15% Cut	Funding Level 20% Cut	Funding Level 30% Cut
Police	\$2,350,000	\$2,232,500	\$2,115,000	\$1,997,500	\$1,880,000	\$1,645,000
Streets	\$2,910,000	\$2,764,500	\$2,619,000	\$2,473,500	\$2,328,000	\$2,037,000
Health	\$30,560,000	\$29,032,000	\$27,504,000	\$25,976,000	\$24,448,000	\$21,392,000
Human Services	\$390,111,000	\$370,605,450	\$351,099,900	\$331,594,350	\$312,088,800	\$273,077,700
Finance**	\$148,957,000	-	-	-	-	-
Treasurer	\$5,475,000	\$5,201,250	\$4,927,500	\$4,653,750	\$4,380,000	\$3,832,500
1st Judicial	\$15,090,000	\$14,335,500	\$13,581,000	\$12,826,500	\$12,072,000	\$10,563,000

**Almost all of these funds are from Pension aid and Wage Tax Relief. Philadelphia’s pension payments are already at the minimum level and any change to funding formula for the wage tax relief would require legislators to amend the state’s gaming law.

From the table above, the Department of Human Services could lose as little as \$19.5 million or as much as \$117 million, which would almost cover the cost to fund the Juvenile Justice Programs that provide adjudication, placement and support for juveniles. Cuts to the Health Department could range from \$1.5 million to as much as \$9 million. Revenue reductions to the Police Department could range from \$118,000 to \$705,000, or the amount it would cost to put 12-to-15 new police officers on the street.



Overall, a five percent cut would amount \$22 million, where as a 30 percent cut would total \$134 million in loss revenue.

Special Revenue Funds

The major special revenue funds consist of four different funds; county liquid fuels tax, special gasoline tax, healthchoice behavioral health, and the grants revenue fund. The majority of this money comes from the healthchoice behavioral health fund and the grants revenue fund. Both of these funds are allocated to the City for programs that have specific goals and objectives that must be met for the funding to be provided. When the City spends more than what it is allocated by the state, it must find other revenue sources to fulfill the required payments.

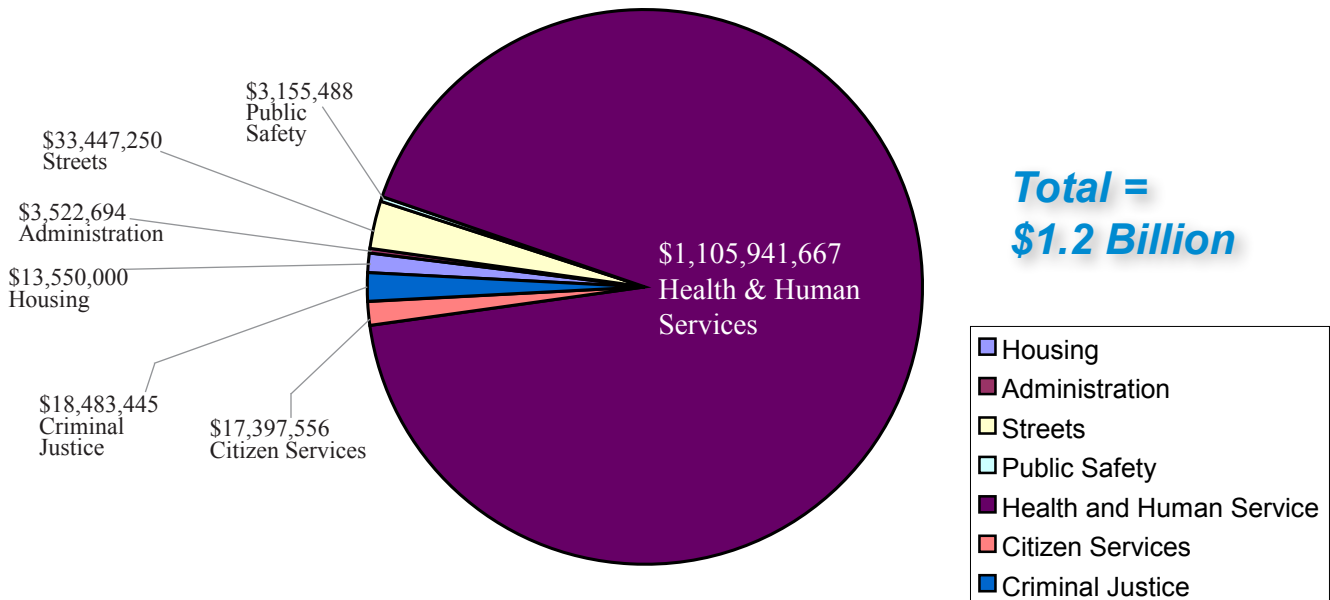
The following 19 city departments received special revenue funds through the state’s FY2011 budget: Mayor, Office of Housing, Mayor’s Office of Community Services, Managing Director, Police, Streets, Fire, Health, Office of Behavioral Health & Mental Retardation, Recreation, Human Services, Office of Supportive Housing, Fleet Management, Procurement, Commerce, City Planning Commission, Free Library, District Attorney, and the First Judicial District.

The Office of Behavioral Health and Mental Retardation Services receives the majority of the special revenues with \$1.06 billion, or 89 percent of the total amount the City receives. Some of the other funds received by department include: Streets, \$44 million; Human Services, \$17.8 million; Office of Housing, \$13.5 million; and Health, \$12.6 million.

The majority of special revenue funds are generated through grants that are provided for the Office of Behavioral Health & Mental Retardation Services. Almost all of these revenues are state mandated but could be amended under existing laws by the state legislature. Any amendments resulting in a change to eligibilities or funding formulas could put the state at risk of losing some of future federal funding for certain mandated programs.

To present the 19 departments receiving special revenue funds, the Controller’s Office categorized the departments by type of public service. The following chart represents the amount of funding provided to each department through the selected special grant revenues:

FY2011 Selected Special Revenue Funds



By compiling a list of departments and their respective revenues, the Controller’s Office compared the allocated amounts to potential future state cuts ranging from five percent to 30 percent. Under these cuts, city departments could result in the following lowered revenue funding levels depending on the severity of the funding cut:

Department	FY11 Special Revenue Funds	Funding Level 5% Cut	Funding Level 10% Cut	Funding Level 15% Cut	Funding Level 20% Cut	Funding Level 30% Cut
Mayor	\$15,800	\$15,010	\$14,220	\$13,430	\$12,640	\$11,060
Off. of Housing	\$13,550,000	\$12,872,500	\$12,195,000	\$11,517,500	\$10,840,000	\$9,485,000
Office of Comm. Serv.	\$831,330	\$789,764	\$748,197	\$706,631	\$665,064	\$581,931
Mng. Dir.	\$2,415,564	\$2,294,786	\$2,174,008	\$2,053,229	\$1,932,451	\$1,690,894
Police	\$2,336,195	\$2,219,385	\$2,102,576	\$1,985,766	\$1,868,956	\$1,635,336
Streets	\$33,447,250	\$31,774,888	\$30,102,525	\$28,430,163	\$26,757,800	\$23,413,075
Fire	\$819,293	\$778,328	\$737,364	\$696,399	\$655,434	\$573,505
Health	\$12,699,516	\$12,064,540	\$11,429,564	\$10,794,589	\$10,159,613	\$8,889,661
Office of BH/ MRS	\$1,062,446,199	\$1,009,323,889	\$956,201,579	\$903,079,269	\$849,956,959	\$743,712,339
Recreation	\$1,077,699	\$1,023,814	\$969,929	\$916,044	\$862,159	\$754,389
Human Services	\$17,860,542	\$16,967,515	\$16,074,488	\$15,181,461	\$14,288,434	\$12,502,379

Special revenue funds continued

Department	Special Revenue Funds	Funding Level 5% Cut	Funding Level 10% Cut	Funding Level 15% Cut	Funding Level 20% Cut	Funding Level 30% Cut
Off. Supp. Housing	\$12,935,410	\$12,288,640	\$11,641,869	\$10,995,099	\$10,348,328	\$9,054,787
Fleet	\$2,678,890	\$2,544,946	\$2,411,001	\$2,277,057	\$2,143,112	\$1,875,223
Procurement	\$150,000	\$142,500	\$135,000	\$127,500	\$120,000	\$105,000
Commerce	\$2,585,000	\$2,455,750	\$2,326,500	\$2,197,250	\$2,068,000	\$1,809,500
City Planning	\$110,000	\$104,500	\$99,000	\$93,500	\$88,000	\$77,000
Free Library	\$13,640,967	\$12,598,919	\$12,276,870	\$11,594,822	\$10,912,774	\$9,548,676
District Attorney	\$4,254,028	\$4,041,327	\$3,828,625	\$3,615,924	\$3,403,222	\$2,977,819
1st Judicial	\$14,229,417	\$13,517,946	\$12,806,475	\$12,095,004	\$11,383,534	\$9,960,591

The table above shows the Office of Behavioral Health & Mental Retardation Services could lose the most ranging from a low of \$53 million to a high of \$319 million. These funds provide for mental health and substance abuse services. The Health Department could lose \$3.8 million, which is the current department cost to fund certain Disease Control programs such as AIDS Services and Testing and Chronic Disease services such as the Tobacco Control Program.

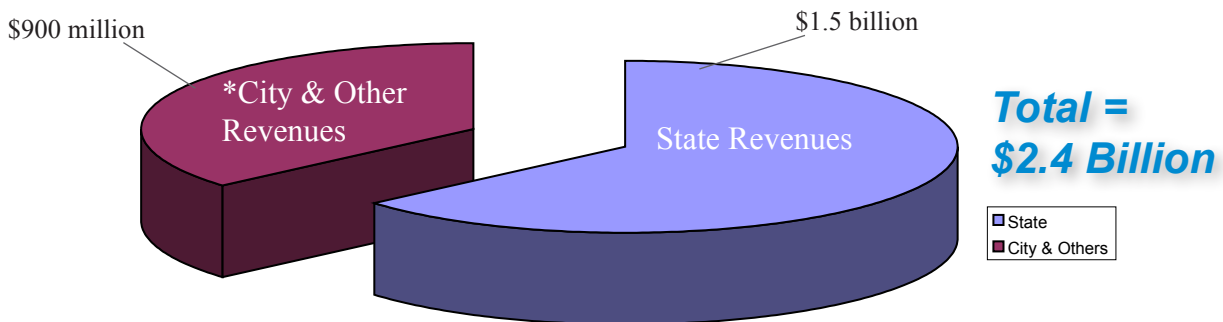
Losses in the Department of Human Services could be in the range of \$900,000 from a five percent cut and as much as \$5.3 million from a 30 percent cut in special revenues. A 30 percent cut would be the near equivalent of funding the Community Based Prevention Housing Initiative and the Transitional Living Program for youth homeless and the aging out of foster care.

School District Funding

The School District of Philadelphia’s current FY11 operating budget is \$2.4 billion. The State provides \$1.5 billion, or 64%, and the City provides the other \$900 million, or 46%. The following table shows the current funding level as well as the levels if various cuts were to occur:

Department	FY11 General Fund	Funding Level 5% Cut	Funding Level 10% Cut	Funding Level 15% Cut	Funding Level 20% Cut	Funding Level 30% Cut
School District	\$2,432,417,000	\$2,310,796,150	\$2,189,175,300	\$2,067,554,450	\$1,945,933,600	\$1,702,691,900

FY2011 School District Operating Budget

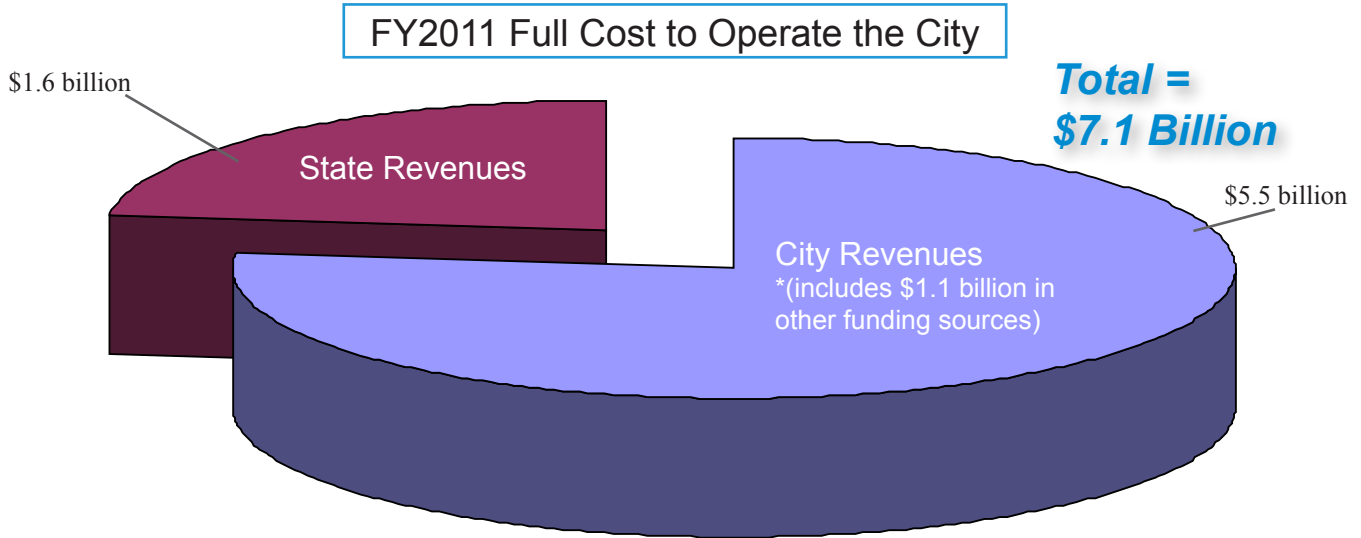


*Revenues include local tax and non-tax revenues, city grants, and federal revenues

Of the \$1.5 billion in state revenues for Philadelphia’s education, almost \$1 billion is provided through the Basic Education Subsidy. This is the allocation from the state budget that every school district receives as part of the state’s share in education costs. This formula is set as a matter of state law.

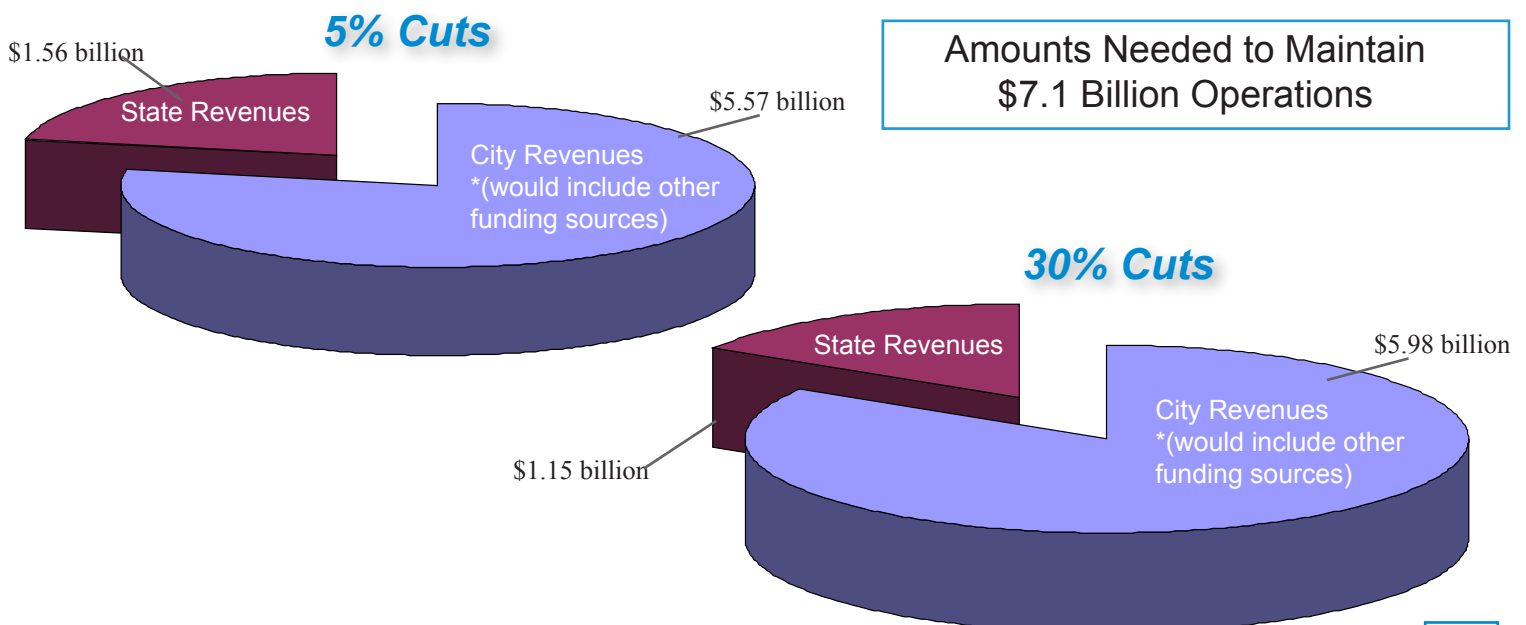
Revenue Impacts

In the current FY2011, it will take \$7.1 billion for the City of Philadelphia to fund all programs and services, excluding education and the funds it receives for pension aid and wage tax relief, through the city’s general fund and other government revenues. Of this total amount, the state will provide the city with \$1.6 billion, through both general fund and special revenues. The chart below depicts the current amount it takes for the City to operate and how much the state provides:



*The \$1.1 billion includes funds from the City’s water and aviation funds as well as PICA funds and Federal monies

Decreases in state revenues for Philadelphia by any amount would result in the city having to find other revenues to maintain and/or sustain the level of services currently being provided. If the state decreased its funding share for the city by five percent, Philadelphia would need to generate an additional \$82 million in revenues to fund current programs and services. A 30 percent decrease in state revenues would mean the City would have to generate almost \$500 million, which is currently seven percent of the total cost to operate the City.



*The \$1.1 billion includes funds from the City’s water and aviation funds as well as PICA funds and Federal monies