

An Alternative Path Forward: Balancing the FY21 Budget Without Raising Taxes



**City Controller
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The impact of the COVID-19 pandemic on City finances has been substantial. On May 1, 2020, the Mayor released a revised budget proposal¹ that outlined a budget gap of \$649 million. As City officials decide to how to move forward and address this gap, it is important to keep in mind that the City's budget has increased by more than \$1 billion since fiscal year 2016 (FY16). While the City increased spending dramatically, resident satisfaction has declined. According to a recent resident survey² conducted by the City, about two-thirds of Philadelphians rated City services as fair or poor, a lower level of satisfaction than three years earlier. This brings into question the success of the increased spending. Additionally, critical challenges remain, such as the City's increasing homicide rate, which is now at the highest level since 2007; a tax structure that has some of the highest wage and business tax rates in the nation; and the highest poverty rate among the nation's ten largest cities. It is in this context that we need to evaluate how best to move our city forward in this time of crisis.

To solve for the \$649 million budget gap, the Mayor proposed a General Fund balance decrease of \$229 million as well as tax and fee increases valued at \$50 million. The remaining budget gap is solved through departmental cuts. In addition to the City budget gap, the School District of Philadelphia is also facing a significant budget gap in FY21. In an April 23rd public presentation, the school district's FY21 deficit was shown at \$38 million. However, that figure does not include a \$15 million reduction in the City's annual payment to the school district, which was included in the Mayor's revised FY21 budget, causing an additional shortfall in the school district's budget. The Mayor has publicly said he intends to support a 3.95% increase in the property tax later this spring to fill the school district's budget gap. This property tax increase would generate about \$57 million for the school district. Considering the City and school district's budgets together, \$107 million of savings is needed to avoid the Mayor's proposed tax and fee increases.

In addition to tax increases, some proposed cuts to City departments are particularly severe and will impact services for residents. These include:

1. The Department of Commerce's budget was cut 85%, which will significantly impact the City's ability to help businesses recover after the pandemic;
2. The Office of Arts, Culture and the Creative Economy, which manages grants to neighborhood-based community arts and culture institutions, was eliminated;
3. The Office of Workforce Development was eliminated; and
4. The Parks and Recreation Department's budget was cut 20%, which will have a substantial impact on its operations. Service cuts related to public health restrictions have not been clearly outlined, and this analysis assumes these cuts to be financial in nature.

¹ <https://www.phila.gov/documents/mayor-kenneys-fiscal-year-2021-budget/>

² <https://www.phila.gov/documents/philadelphia-resident-survey-report/>

It is also notable that the Police and Fire Departments are not taking cuts but have increases in their budgets.

The Mayor's proposed budget also includes employee layoffs, although it is unclear how many employees are budgeted to be laid off, or in which departments, as this information has not yet been made available. Notifications around layoffs have already started, raising concerns that layoffs may begin to occur before the budget discussion with City Council has started. When facing a fiscal crisis, best practices show that layoffs should be a last resort to balance the budget,³ and all available options must be fully explored and discussed before they occur.

States like New Jersey and cities like Cincinnati, Houston, and Dayton⁴ are using furloughs as a strategy to avoid layoffs, allowing employees to collect unemployment benefits and keep their health insurance during this public health crisis. Rather than layoff hundreds of workers, the City could use temporary furloughs, which would reduce its short-term labor costs and lower the need for permanent layoffs.

An Alternative Path Forward

Given that unemployment has reached levels not seen since the Great Depression, the last thing the City should be doing is raising taxes. In addition, some of the proposed cuts will have a severe impact on core services, as detailed above. To navigate this crisis, the city needs a path forward with a clear vision for all Philadelphians.

This section presents such a path: a way to balance the FY21 budgets for the City and school district without raising taxes and, at the same time, lessening cuts to core services. To do this, we need to identify additional savings totaling about \$120 million. This level of savings would fully account for the \$107 million generated from the proposed tax and fee increases while still including an additional amount to offset the largest service cuts. The additional savings could be used to reduce severe funding cuts to the Commerce Department and Parks and Recreation and restore the majority of funding for the Offices of Arts, Culture and the Creative Economy and Workforce Development.

After careful review of each department's budget in the Mayor's revised proposal, the following five steps could be taken to achieve this savings.

1. Remove Budgeted Deposit to the Finance Department's Recession Reserve (\$50 million)

We are in the throes of a recession and financial crisis right now; this is the time to use these funds, not put them away. This frees up \$50 million.

³ As an example, see budgeting guidance from the Harvard Bloomberg COVID-19 Local Response Initiative: <https://www.cityleadership.harvard.edu/resources-sessions>.

⁴ See budget plans for [New Jersey](#), [Houston](#), [Cincinnati](#), and [Dayton](#).

2. Establish a Citywide Coordinated Overtime Reduction Effort (\$45 million)

Overtime has increased significantly in recent years despite the City's workforce growing substantially. As staffing levels increase overtime should decline, since overtime is a tool to manage staffing shortages. However, the City added 945 full time employees since FY17 and at the same time, overtime increased from \$168 million in FY17 to \$181 million in FY19.⁵

Looking at overtime costs adjusted for inflation since FY11 shows the magnitude of the savings opportunity for the City's budget. Overtime per employee costs Citywide have increased from \$6,000 per employee in FY11 to \$8,000 per employee in FY19, the last full year of data. The top three departments in terms of increases in per employee overtime during this time period are:

- Police: an increase from \$5,474 in FY11 to \$8,514 in FY19;
- Fire: an increase from \$13,907 in FY11 to \$20,136 in FY19; and
- Streets: an increase from \$6,526 in FY11 to \$8,962 in FY19.

These costs show a lack of oversight and control over the use of overtime and present an opportunity to rein in costs to benefit taxpayers. Getting these costs back down to FY11 levels for departments that have seen the largest overtime increases would result in \$45 million in savings. This calculation excludes the Sheriff's Office, which has also seen a large increase in overtime per employee, since the office is not under the Mayor's direct purview. It should be noted that the Department of Prisons reduced its overtime from \$12,769 to \$11,347 per employee during the period of FY11 to FY19.

3. Lower Budgeted Increase to DHS — Keep PreK, Community Schools at FY20 Levels (\$13 million)

This lower increase to DHS's budget is calculated using the stated PreK cost of \$8,500 per seat and the FY20 seat count of 3,300, which totals a budget of \$28 million. The lower increase also includes \$2 million per year for Community Schools, which is consistent with spending levels through the first half of FY20. Adjusting the budget for these programs saves \$13 million.

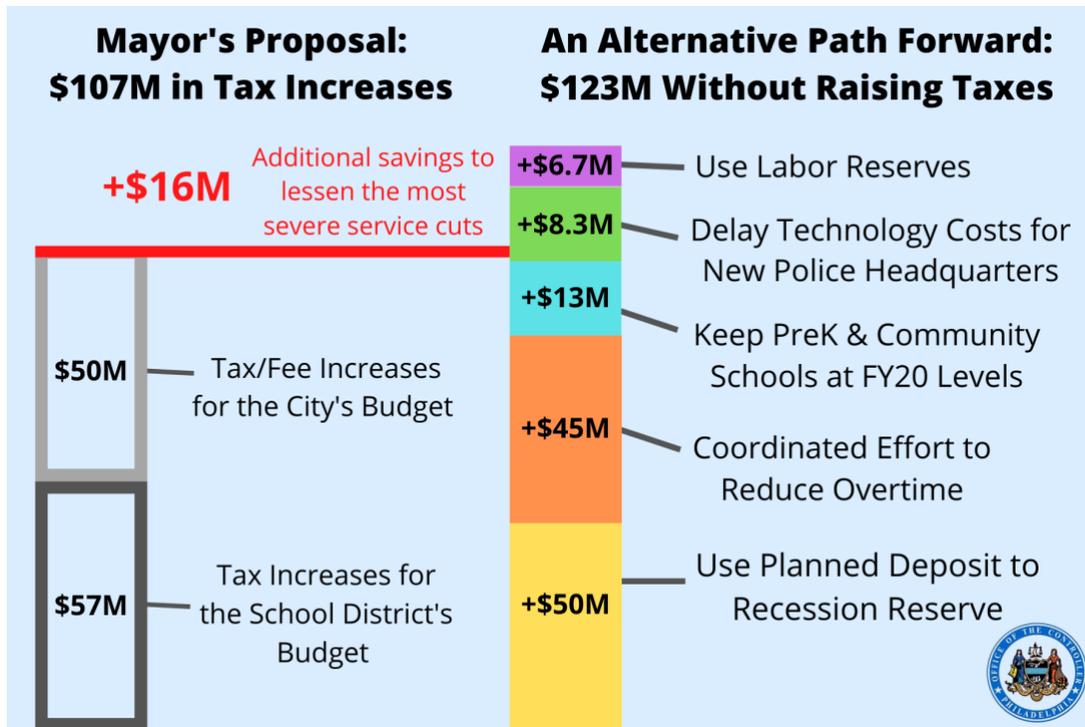
4. Reduce OIT Budget — Eliminate FY21 Technology Costs for New Police Headquarters by Delaying Move Several Months (\$8.3 million)

There is \$8.3 million budgeted in OIT's budget for technology costs associated with the new police headquarters building. Given that we are navigating a financial crisis, this move could be delayed several months into FY22 to free up this \$8.3 million.

5. Remove Budgeted Deposit to Labor Reserve for Wage Increases (\$6.7 million)

Wage increases were just given to all four unions as well as non-represented employees. Additional wage increases are not appropriate; therefore, the budgeted amount to be deposited into this reserve should be removed, for a savings of \$6.7 million.

⁵ For more information, see the Controller's Office report on recent City spending trends: <https://controller.phila.gov/philadelphia-audits/analysis-of-city-spending-trends/>



Conclusion

The five action items outlined in this analysis would prevent the need for any tax or fee increases to balance the City or school district's FY21 budgets and would free up money to lessen the most severe cuts to core services in the Mayor's proposal. This would allow the FY21 budget to serve as a transitional budget to FY22 and beyond, when a larger more comprehensive review of City spending could occur. Such a review would ensure that taxpayer dollars are spent fairly and effectively as the City recovers from the current crisis.

Over the next year, the City should move to a true activity-based budgeting process,⁶ in which every program within each City department is evaluated, unsuccessful or ineffective programs are terminated, and the funds are freed up to be invested in programs or technologies that can have a positive impact for Philadelphians. In addition, operations should be reviewed for efficiencies and modernizations across departments, which could save money, time and resources. These program and operation reviews could be enhanced by bringing in the breadth of expertise available in our City's vibrant business, education and healthcare communities. Together, leaders from across industries could work together with government to chart a path to best propel our city forward for all Philadelphians.

⁶ Activity-based budgeting is identified as a necessary tool for making strategic budget cuts in response to COVID-19 by the [Harvard Bloomberg COVID-19 Local Response Initiative](#).