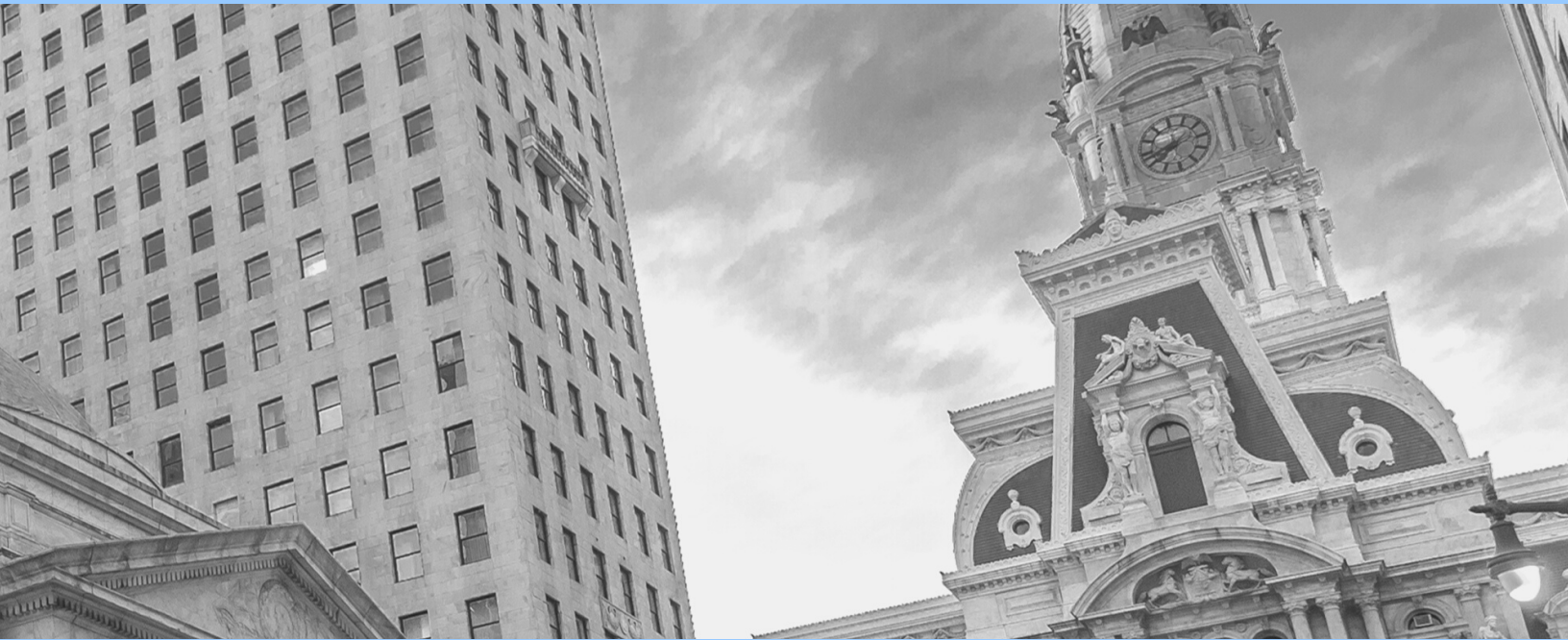


Recommendations for the Use of American Rescue Plan Funds in Philadelphia



City Controller
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In March 2021, Congress passed the \$1.9 trillion American Rescue Plan (ARP), which authorized the disbursement of \$350 billion to state and local governments to aid in the economic recovery from the COVID-19 pandemic. As part of these State and Local Fiscal Recovery Funds, the City of Philadelphia (City) will receive \$1.4 billion¹ in two equal installments, the first half in May 2021 and the second half approximately one year later. The funds must be used by the end of calendar year 2024 and are intended to support the households, businesses, and communities most impacted by the pandemic and to restore government services affected by lost revenue.²

This federal relief comes in response to the large revenue declines experienced by state and local governments since the pandemic began in March 2020. In Philadelphia, the Mayor's Budget Office projected a \$749 million budget shortfall in June 2020 for fiscal year 2021 (FY21). To fill this gap, the City increased taxes, made cuts to departments, and reduced services to residents. The pandemic continued to strain City revenues throughout FY21 and, as a result, the Budget Office projected an additional \$450 million shortfall for FY22 prior to the passage of the ARP. The mayor's recently released FY22 budget³ proposes to use ARP funding to restore many, but not all, of the pandemic-related spending cuts. Beyond restoring these cuts, the mayor's recent budget does not outline specific spending goals for the federal funds.

Prior to the COVID-19 pandemic, the City increased spending by more than \$1 billion between FY16 and FY20. Despite this significant increase, resident satisfaction with City services declined. In the most recent resident survey from January 2020,⁴ 23 percent of residents rated City services as poor, up from 17 percent in a survey from three years earlier. Additionally, public safety has become an enormous challenge for the city, with the number of homicide victims reaching a 30-year high of 499 in 2020. While many major cities dealt with increased violence during the pandemic, the number of shooting victims in Philadelphia has increased each year since 2017. In the same resident survey, only half of Philadelphians reported that they feel safe in their own neighborhood, with substantially lower values for Black and Hispanic residents (29 and 30 percent, respectively). These issues of resident satisfaction and public safety raise important questions about the return on the City's recent investments and its spending priorities, particularly as the City seeks to deploy more than \$1 billion in ARP funding.

As outlined in recent guidance, the ARP funds are intended to address the systemic public health and economic challenges that have led to the pandemic's unequal impacts. The guidance stresses the importance of funds being used to provide immediate stabilization for the households and businesses most impacted by the pandemic. Likewise, it restricts funds from being used for purposes without direct benefits to residents, such as payments to pension funds, increasing budget reserves, or replacing revenue lost to new tax cuts (although some ambiguity remains regarding the tax cut restriction). As Philadelphians struggle through the second year of the

¹ While not the focus of this work, additional aid is coming to the Philadelphia region through the ARP, including \$1.1 billion for the School District, funding for SEPTA and the Philadelphia Airport, and relief tied to specific purposes, such as restaurant relief and eviction prevention. The Drexel Nowak Metro Finance Lab has released a [full guide](#) to the ARP funds.

² For additional information, see the [guidance](#) released by the US Treasury for the State and Local Fiscal Recovery Fund.

³ Budget documents for FY22 are available [here](#).

⁴ Philadelphia Resident Satisfaction Survey Reports ([source](#)).

pandemic, the City must view the ARP funding as an opportunity to better focus its budget choices for FY22 and the next several years to build the equitable and sustainable recovery Philadelphians deserve.

The City should create a targeted plan for the ARP funds that clearly outlines how its investments will help address Philadelphia's most serious challenges while improving outcomes for residents in an equitable manner. Without a transparent and detailed spending plan, there is considerable risk that the funds will not be spent strategically and will fail to reach residents most in need. It is crucial that the City identifies and focuses on three to five key areas that require immediate and significant investment. This report summarizes potential areas of investment, focusing on the challenges that are particularly well suited for investment through the City's \$1.4 billion in ARP relief funds.

Philadelphia's Challenges

Understanding the most crucial issues facing Philadelphia residents should be the highest priority of any government budgeting process and is necessary, in this instance, to ensure the efficient use of ARP funds. Many of the city's social and economic challenges have affected generations of residents, and these challenges only worsened during the pandemic. This section analyzes social and economic indicators to measure Philadelphia against other cities and evaluate how these indicators vary across the city's neighborhoods. The indicators illustrate the enormity and unequal nature of the challenges faced by Philadelphians, reinforcing the urgent need to invest ARP funds strategically and equitably.

Using a combination of data sources,⁵ this analysis examines a number of metrics for the most populous geographic areas in the US. For the majority of indicators, Philadelphia is benchmarked against the top 15 largest cities in the country. The analysis also includes comparisons at the level of county, metro area, and school district due to limitations around data availability. The cities included in the analysis are New York City, Chicago, Los Angeles, Houston, Phoenix, Dallas, San Jose, San Diego, San Antonio, Jacksonville, Fort Worth, Austin, Columbus, and Charlotte. For a full list of the other geographic regions, see the appendix.

The metrics fall into five broad categories: Economic Development; Education; Housing; Poverty and Income; and Public Safety and Health. For each metric, cities are ranked from best to worst, with 1 being best. The majority of indicators rely on data from 2019, providing a measure of Philadelphia's challenges prior to the pandemic. As seen in the table below, Philadelphia has the worst rates for overall poverty and child poverty, the highest unemployment rate, the lowest median income, the lowest reading level ranking, the highest rates of homicide and drug overdose, and the most sluggish new business growth.

⁵ The majority of indicators are from the [1-year American Community Survey](#). Other data sources include: [The Nation's Report Card](#) (reading levels), [CDC Multiple Causes of Death Data](#) (overdose deaths), [County Health Rankings](#) (life expectancy), and the [CDC Provisional COVID-19 Data](#) (COVID-19 deaths). Economic indicators are from the [Bureau of Economic Analysis](#), the [Business Dynamics Statistics Survey](#), and the [Annual Business Survey](#).

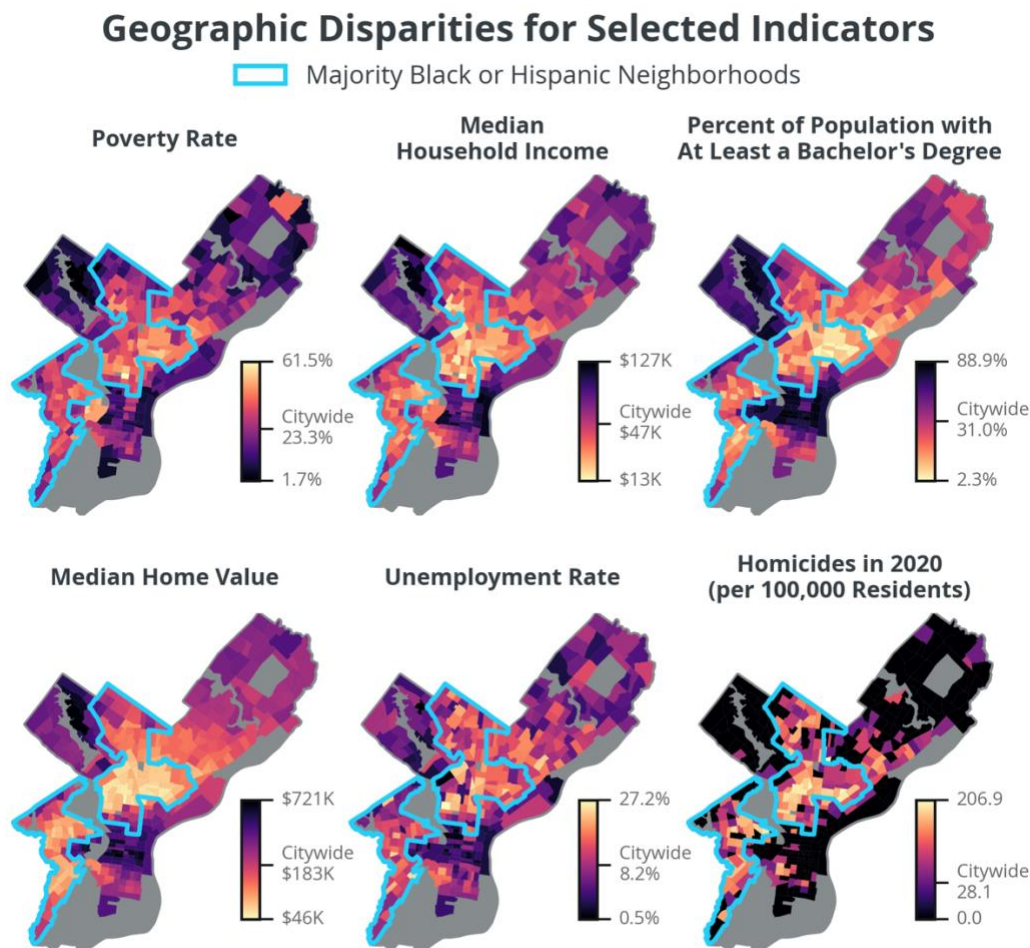
Benchmarking Philadelphia Against its Peers for Key Indicators

For indicators shown in bold, Philadelphia ranks last in the comparison group

Economic Development	Year	Metric	Philadelphia Rank	Geography
Population growth, 2010 to 2019	2019	3.6%	13 out of 15	City
Unemployment Rate	2019	8.2%	15 out of 15	City
Gap between White and Black population	2019	6.3%	14 out of 15	City
Percent change in total employment, 2010 to 2019	2019	14.9%	14 out of 15	Metro
Percent change in total businesses, 2010 to 2018	2018	2.8%	15 out of 15	Metro
Business-ownership statistics				
Black-owned	2017	2.7%	7 out of 15	Metro
Asian-owned	2017	10.0%	10 out of 15	Metro
Hispanic-owned	2017	2.2%	13 out of 15	Metro
Minority-owned	2017	14.8%	12 out of 15	Metro
Woman-owned	2017	17.7%	14 out of 15	Metro
Education	Year	Metric	Philadelphia Rank	Geography
Percent reading at a basic level in grade 4	2019	41.0%	11 out of 11	District
Percent with a bachelor's degree or higher	2019	31.0%	12 out of 15	City
Gap between White and Black population	2019	27.9%	12 out of 15	City
Percent enrolled in public school: 3- and 4-year olds	2019	30.0%	6 out of 15	City
Percent enrolled in public school: under 18 years old	2019	70.4%	14 out of 15	City
Housing	Year	Metric	Philadelphia Rank	Geography
Median age of housing	2019	1948	15 out of 15	City
Median home value	2019	\$ 183,200	13 out of 15	City
Percent of renters who are cost-burdened	2019	43.0%	14 out of 15	City
Ratio of median home value to median household income	2019	3.9	6 out of 15	City
Poverty & Income	Year	Metric	Philadelphia Rank	Geography
Percent below poverty level	2019	23.3%	15 out of 15	City
Gap between Black and White population	2019	12.3%	13 out of 15	City
Gap between Black and White population	2010	12.0%	8 out of 15	City
Percent below poverty level: under 18 years old	2019	32.1%	15 out of 15	City
Median Income	2019	\$ 47,474	15 out of 15	City
Black median income, as a percentage of White median income	2019	54.2%	13 out of 15	City
Black median income, as a percentage of White median income	2010	61.8%	7 out of 15	City
Public Safety & Health	Year	Metric	Philadelphia Rank	Geography
Percent without insurance, 19 to 64 year olds	2019	11.1%	12 out of 15	City
Homicide Rate (per 100,000 people)	2020	31.5	15 out of 15	City
Overdose Death Rate (per 100,000 people)	2019	61.9	25 out of 25	County
Cumulative COVID-19 Death Rate (per 100,000 people)	2021	204.3	16 out of 25	County
Average Life Expectancy	2019	76.4	24 out of 25	County

Source: Census American Community Survey and other data sources. See footnote 5 for all sources.

Not only is Philadelphia at the bottom of its peer comparison group nationally, but there is extreme disparity across its neighborhoods, with majority-minority neighborhoods facing more disadvantage than the city as a whole. The figure on the following page compares selected indicators across neighborhoods, highlighting majority-Black and majority-Hispanic neighborhoods. The variation across all metrics is severe and illustrates not only the disparities faced by the city's minority populations, but also the intersectionality of these challenges and cumulative disadvantage faced by residents in these neighborhoods.



Sources: 2019 1-year American Community Survey; Open Data Philly

One of the intended uses⁶ of the ARP funds is to support equity-focused government services to address many of the preexisting racial disparities in disadvantaged communities that were worsened by the pandemic's effects. In Philadelphia, extra effort must be made to target ARP investments to the communities most in need. With such large disparities across a number of metrics, funding should be focused to just a few key areas to ensure meaningful progress is made.

⁶ See the [Quick Reference Guide](#) from the US Treasury.

And ultimately, these investments should be tracked and evaluated to verify the benefits of the ARP funds are reaching the most vulnerable Philadelphians.

Necessary Areas of Investment

When compared to its peers, the magnitude of Philadelphia's challenges is clear. Foremost among these challenges is the city's unacceptably high homicide rate, a challenge that disproportionately affects communities of color. While worsened by the pandemic, the city's homicide rate has increased for years, in contrast to many cities that saw decreases before the pandemic. Residents also identified public safety as a top concern prior to the pandemic. Adequate and urgent investment in proven violence reduction strategies is needed to combat this crisis.

In addition to public safety, this report identifies several other areas in need of urgent investment. The pandemic has disproportionately impacted neighborhoods struggling with poverty,⁷ worsened the city's opioid crisis,⁸ devastated the small business community, and exposed disparities in housing, education, and employment opportunities. ARP funding can be used to address each of these issues, and the following subsections discuss potential investments in more detail. This section concludes with recommendations on how the City can best deploy ARP funds effectively while addressing pre-pandemic inefficiencies across City government to sustain improved services for residents in the long term.

Note that the School District will receive \$1.1 billion⁹ in separate funding through the ARP in addition to \$256 million in City contributions in FY22. The educational disparities identified in this report are best addressed with these resources rather than the City's \$1.4 billion in ARP funds. As such, education will not be discussed in more detail.

Challenge #1: Public Safety

Among the top 15 most populous cities, Philadelphia had the worst homicide rate in 2020 at 31.5 per 100,000 residents, while peer cities had an average rate of 12.4. There were 499 homicides in Philadelphia in 2020, the most since 1990. Meanwhile, the homicide clearance rate at the end of 2020 was 36.7 percent, far below the 2019 national average of 61.4 percent.¹⁰

As seen in the previous section, homicides primarily occur in communities of color in Philadelphia; neighborhoods with high levels of violence also have higher poverty rates and lower household incomes. The intersection of these challenges is not a coincidence, but rather the consequence of structural racism and historical government-sponsored housing discrimination.¹¹

⁷ See "The Impact of COVID-19 on Philadelphia's Neighborhoods, Part 2: The Impact on Residents" ([source](#)).

⁸ "Philly's overdose spike in 2020 hit Black and Latino residents the hardest," Billy Penn, April 22, 2021 ([source](#)).

⁹ According to the PA Department of Education ([source](#)).

¹⁰ Most recent available data from the [FBI UCR website](#).

¹¹ See Controller Office reports entitled "[Economic Impact of Homicides](#)" and "[Mapping the Legacy of Structural Racism in Philadelphia](#)."

For residents in these areas, there is substantial evidence that exposure to violence deepens poverty while impeding outcomes in a range of areas, including health, education, and jobs.¹²

Recommendations

The need for additional spending on anti-violence programs with proven track records of success is critical. A 2019 report¹³ from the Controller’s Office outlined how considerable evidence shows that strategies such as Cure Violence, Group Violence Intervention, and cognitive behavioral therapy are successful at reducing the homicide rate when appropriately funded and implemented correctly, as demonstrated in Oakland prior to the pandemic. The Cure Violence model is a community-based outreach program that relies on “violence interrupters” to intervene in disputes that could lead to violence. Philadelphia’s investment in this kind of violence intervention model and the associated support services is substantially lower than cities with similar, and more successful, approaches.

In particular, New York City’s Crisis Management System¹⁴ (CMS) and Los Angeles’s Gang Reduction and Youth Development¹⁵ (GRYD) program are two such efforts that receive substantially more funding than similar programs in Philadelphia. These are both coordinated networks of community organizations operating in targeted geographic areas. They deploy credible messengers to interrupt violence and connect high-risk individuals to support services to prevent long-term violence. As seen in the table below, the funding per shooting victim for these programs is more than four times higher than the investment level proposed in Philadelphia’s FY22 budget for similar programs.

Investment Related to Violence Intervention in Top US Cities			
	Total Funding	Shooting Victims in 2020	Funding Per Shooting Victim
New York City ^a	\$ 50,677,000	1,942	\$ 26,095
Los Angeles ^b	\$ 32,573,467	1,338	\$ 24,345
Philadelphia ^c	\$ 13,501,809	2,249	\$ 6,003
^a Funding for Crisis Management System from the FY21 budget, plus announced \$11.1 million increases			
^b Funding for Gang Reduction & Youth Development program in proposed FY21-22 budget			
^c Funding for Office of Violence Prevention and transitional jobs programs in proposed FY22 budget			

The City recently released an update¹⁶ to its comprehensive anti-violence plan that aims to use a public health approach to violence prevention. The update continues an approach that, since its

¹² “The Relationship between Community Violence and Trauma: How violence affects learning, health, and behavior,” The Violence Policy Center, July 2017. ([source](#))

¹³ “The Economic Impact of Homicides”, Controller’s Office, October 2019 ([source](#)).

¹⁴ Crisis Management System, New York City Office to Prevent Gun Violence ([source](#)).

¹⁵ Gang Reduction & and Youth Development, City of Los Angeles ([source](#)).

¹⁶ “Philadelphia Roadmap for Safer Communities: Spring 2021 Update” ([source](#)).

introduction in 2019, has not made progress in decreasing gun violence in the city. For FY22, the City has proposed an investment of \$13.5 million on violence intervention programs, an increase of only \$3.8 million from the existing funding level. This total excludes funding for a number of initiatives the City considers part of its anti-violence spending, including \$13.3 million to reform 911 and better handle mental health incidents; \$1.5 million for blight remediation and demolitions; and additional spending on reentry services and a Police-assisted diversion program. While these are important initiatives worthy of investment, they have not been found to yield the kind of short-term reductions in gun violence that are possible with targeted community intervention programs. From 2010 to 2019, shootings in targeted CMS areas in New York City fell by 40 percent, a steeper decline than similar areas without the intervention program.¹⁷ Similarly, an evaluation of GRYD interventions in 2014 and 2015 found significant reductions in crime, violence, and gang activity in Los Angeles.¹⁸ If Philadelphia were to invest at the level of New York or Los Angeles, it would cost about \$55 million annually. The City should use its ARP funds to commit to a considerably larger investment in proven strategies, evaluate the success of the programs, and continue to fund only the programs that work.

With this level of investment, the City will also need to improve the coordination of street outreach organizations and better support capacity building, potentially investing in technical assistance and contracting with national leaders¹⁹ to train and develop outreach workers. For example, the City's Targeted Community Investment Grant program has already awarded nearly \$2 million to more than 100 community organizations,²⁰ and the proposed budget includes an additional \$1 million in funding. To better target these resources to the residents and neighborhoods most in need, these organizations should operate as part of a single response coordinated by the City. In addition, the City should establish clear metrics of success, and grants should be evaluated to identify the most successful providers in order to direct future funding more strategically. With improved evaluation, grants, which range from \$500 to \$20,000, could also be increased over time for organizations that prove successful. For comparison, Chicago recently awarded \$7.5 million to 11 street outreach organizations using grants in the range of \$150,000 to \$400,000.²¹

Challenge #2: Poverty

As of 2019, Philadelphia had the worst poverty rate of the top 15 largest cities with 23.3 percent of the population living at or below the poverty line. The city also has the lowest median income of the top cities at \$47,474. Notably, from 2010 to 2019, Philadelphia's rank worsened nationally for the gap between Black and White residents for two indicators: the poverty rate and median

¹⁷ Crisis Management System, New York City Office to Prevent Gun Violence ([source](#)).

¹⁸ Brantingham, J. et al., "GRYD Intervention Incident Response & Gang Crime 2017 Evaluation Report," City of Los Angeles, 2017 ([source](#)).

¹⁹ For example, [the Urban Peace Academy](#).

²⁰ "Apply for the Targeted Community Investment Grant and help reduce violence in our communities," City of Philadelphia, November 10, 2020 ([source](#)).

²¹ "Mayor Lightfoot Announces \$7.5 Million Awarded to More Than 10 Community-Based Street Outreach and Victim Services Organizations in Communities at Highest Risk of Violence," City of Chicago, April 21, 2020 ([source](#)).

household income. This widening gap shows that not all Philadelphians participated equally in the city's strong economic growth in the years prior to the pandemic.

Philadelphians living in poverty are also more likely to have challenges accessing basic needs, particularly affordable or safe housing as well as food security.²² Philadelphia has the highest share of children facing food insecurity among the top 15 counties,²³ an issue that was especially vulnerable to the challenges posed by the COVID-19 pandemic. Low-income Philadelphians are more likely to rent than own a home, and Philadelphia renters experience housing affordability as a serious challenge. Philadelphia ranks 14 out of 15 for share of renters that are cost-burdened.²⁴ In addition to affordability, the quality of Philadelphia's housing stock is comparatively old and inadequate. Of the largest cities, Philadelphia has the oldest median age of housing stock. Many older homes in Philadelphia typically require more upkeep and repairs than newer homes, which can pose challenges to low-income and senior households.²⁵ According to the American Housing Survey,²⁶ the Philadelphia metro region has more than 121,000 housing units considered severely or moderately inadequate. Of the top 15 metros, this is the third highest percentage, after only New York City and Washington DC.

Recommendations

The City has stated its commitment to alleviating poverty in recent years. City Council declared its goal to lift 100,000 residents out of poverty by 2024 in their Poverty Action Plan released last year. With City Council's Poverty Action Plan, \$10 million was directed to the Poverty Action Fund – a public-private partnership between the City of Philadelphia and the United Way of Greater Philadelphia and Southern New Jersey – in February 2021. Currently, the Poverty Action Fund is working to address the many structural causes of poverty, including disparities in education, jobs, income, and housing. The City should explore continuing this partnership, as well as dedicating additional resources to poverty reduction initiatives that would include rigorous program evaluation.

One example of this is direct payments to low-income Philadelphians in poverty. In response to the COVID-19 pandemic, the City implemented the Worker Relief Fund, a cash-relief program (a one-time \$800 payment) that distributed more than \$1.7 million to 2,162 low-income workers during summer 2020. There is a large body of evidence²⁷ that shows the efficacy of direct-payment cash relief in reducing poverty, and an evaluation²⁸ of the program suggests that the funding targeted individuals most affected by the pandemic. A direct cash-relief program could effectively address the food insecurity problems facing impoverished Philadelphians, as studies

²² "The State of Housing Affordability in Philadelphia," Pew, September 2020 ([source](#)).

²³ See county-level [data](#) on the Feeding America mapping page.

²⁴ Cost burden is defined as spending more than 35 percent of monthly income on rent.

²⁵ "Old homes, high poverty make Philadelphia housing less than affordable for some," WHYY, July 25, 2018 ([source](#)).

²⁶ American Housing Survey ([source](#)).

²⁷ "Debunking the Stereotype of the Lazy Welfare Recipient: Evidence from Cash Transfer Programs," MIT, September 2016 ([source](#)).

²⁸ "Final Report: Philadelphia Worker Relief Fund," ([source](#)).

on basic income pilots have shown that recipients use most of the money on basic necessities, such as groceries and housing costs.²⁹

The City should set aside \$18 million of ARP funds annually for addressing poverty. In FY22, the City should use these funds to extend the direct-payment pilot to distribute monthly payments of \$750 to 2,000 impoverished families, with an emphasis on tracking how the money from these monthly payments is being spent. This would help to evaluate the benefits of direct payments to Philadelphians living in poverty beyond a one-time influx of cash during an economic crisis. If successful, the program could be continued in future years with ARP funds dedicated to anti-poverty efforts, or alternatively, the funds could be redirected to other anti-poverty initiatives. Additionally, the Poverty Action Fund has indicated a goal of implementing similar basic income programs. If proven successful, the City's program could be transitioned to the Poverty Action Fund over time, increasing the capacity to sustain such a program beyond the life of the ARP funds and evaluate its role in reducing poverty.

The City should also use ARP funding to support the improvement of its housing stock by offering housing repairs and other low-cost financial support to low-income Philadelphians impacted by the pandemic. While the ARP does include several housing-specific programs, these funds do not focus on housing repairs. As such, the City could dedicate funding from its direct ARP allocation, which allows for more flexible spending, to meet this need. A commitment of \$5 to \$10 million annually would bolster existing funding for repairs through the Housing Trust Fund³⁰ and provide critical home repairs for thousands of additional Philadelphians.

In addition, the City is set to receive \$58 million from the ARP's Emergency Rental Assistance Program,³¹ separate funding from the City's \$1.4 billion in relief. The City's ongoing rental assistance program should track and evaluate the use of these funds, and based on need, supplement them with a portion of the ARP allocation, if necessary.

Finally, the City's eviction program has received national recognition for its success during the pandemic.³² However, the FY22 budget proposes reducing funding for the anti-eviction program by 50 percent.³³ As housing advocates have argued,³⁴ an annual investment of \$3 million would maintain funding for the existing program and build off of prior City Council efforts to ensure access to counsel for low-income tenants.³⁵ Ultimately, eviction and rent burden were significant preexisting challenges in Philadelphia, and programs that are shown to be successful in helping low-income Philadelphians should be maintained beyond the life of the ARP funds.

²⁹ "Preliminary Analysis: SEED's First Year", Stockton Economic Empowerment Demonstration, October 2019 ([source](#)).

³⁰ Per the [2018-2019 Housing Trust Fund Report](#), \$6.9 million in funding was used to perform more than 10,000 home repairs in Philadelphia.

³¹ See [guidance](#) on the Emergency Rental Assistance Program.

³² "Eviction Prevention and Diversion Programs: Early Lessons from the Pandemic," Urban Institute, April 2021 ([source](#)).

³³ "Philadelphia's main anti-eviction initiative fights for its future," WHYY, April 29, 2021 ([source](#)).

³⁴ "When the pandemic ends, Philly must retain eviction prevention," WHYY, May 14, 2021 ([source](#)).

³⁵ "Philly City Council passes right to counsel bill for low-income tenants," Penn Capital-Star, November 18, 2019 ([source](#)).

Challenge #3: Public Health

In 2019, Philadelphia had the highest drug overdose rate of top US counties at 61.9 per 100,000 residents, nearly four times higher than the average value for other large counties (16.4 per 100,000). Philadelphia's Kensington neighborhood, which has been referred to as the largest open-air heroin market on the East Coast,³⁶ is the epicenter of the crisis. After two years of lower overdose rates, the crisis worsened during the pandemic, with the city experiencing the highest number of fatal drug overdoses in its history in 2020. Of particular concern, overdoses for Black Philadelphians increased by an alarming 40 percent year-over-year in 2020.³⁷

Recommendations

The City has released a 2021 action plan for the Opioid Response Unit (ORU), a continuation of the cross-agency effort known as the Philadelphia Resilience Project. The ORU has a proposed budget of \$500,000 and will also be supported by about \$10 million in opioid-related funding from the Public Health department.³⁸ Using ARP funds, this budget should be expanded by \$5 to \$10 million with new spending tracked and evaluated to ensure funding is directed to the most successful initiatives. Spending should be focused on improving access to treatment and other behavioral healthcare services, in accordance with the eligible uses of ARP funds. In addition to improving access to addiction and behavioral health services for all Philadelphia residents, the City should specifically target resources to understanding and addressing the alarming year-over-year increase in overdose deaths in the Black community.

Challenge #4: Business Recovery and Growth

As of 2019, Philadelphia had the worst unemployment among peer cities at 8.2 percent.³⁹ This issue has only been exacerbated by the COVID-19 pandemic. In July 2020, the unemployment rate in Philadelphia peaked at 19.5 percent and remains at 10.6 percent as of March 2021, the fourth highest unemployment rate of the top 25 counties.⁴⁰ Before the pandemic, Philadelphia also struggled with sluggish new business and job growth. Between 2010 and 2019, the number of businesses in the Philadelphia metro area grew by only 2.8 percent, the lowest of the top 15 metro areas. During that time, the average annual job growth was just 1.4 percent, the second lowest among top metros. The city's economic growth is hindered by the barriers companies face when conducting business in the city — a recent report⁴¹ ranked Philadelphia 71 out of 80 top

³⁶ "Trapped by the 'Walmart of Heroin,'" New York Times, October 10, 2018 ([source](#)).

³⁷ "Philadelphia Opioid Response: 2021 Action Plan" ([source](#)).

³⁸ "Philly's overdose spike in 2020 hit Black and Latino residents the hardest," Billy Penn, April 22, 2021 ([source](#)).

³⁹ This value is from the 1-year American Community Survey, which differs slightly from the monthly data released by the Bureau for Labor Statistics.

⁴⁰ See [data](#) for the unemployment rate in Philadelphia County and other US counties on the BLS Local Area Unemployment Statistics page.

⁴¹ "Doing Business North America: 2020 Report", Arizona State University ([source](#)).

US cities for the ease of doing business. Multiple studies⁴² have also cited the city's high wage and business tax burden as a cause for weak job creation compared to other cities. However, with the restrictions on tax cuts outlined in ARP guidance, this issue is not eligible for ARP funding.

A previous report⁴³ by the Controller's Office found that unemployment during the pandemic likely affected Black and Brown neighborhoods with high rates of poverty more than other neighborhoods. This was due to the larger-than-average share of residents in those areas that were employed in industries severely affected by COVID-19 business restrictions, such as the hospitality and service industries. Restrictions also severely impacted small businesses, and the loss of retail activity poses a serious threat to the future of the small business communities that define our neighborhoods and commercial corridors across the city. In the Philadelphia metro region, the number of small businesses in operation declined by 29 percent during the pandemic, and many minority-owned businesses may have been disproportionately affected.⁴⁴ Minority-owned businesses also face issues with access to capital for starting businesses, with disparities across loan access and amounts between minority and non-minority owned firms nationally.⁴⁵

Recommendations

With the help of ARP funds, the City should focus on removing barriers to doing business in Philadelphia to aid in the economic recovery and spur local job growth. The City should establish clear goals for its economic recovery efforts, with a specific focus on equity and helping minority-owned businesses. In these efforts, the City should prioritize better support for entrepreneurs and small- and medium-sized businesses — a recent report⁴⁶ found that Philadelphia had the lowest number of small and midsized businesses per capita relative to its peer cities.

ARP funds could help support the expansion of the City's Small Business Relief Fund, which leveraged public and private funding to provide assistance to small businesses during the pandemic and contributed to the City's \$40 million investment in small business recovery efforts.⁴⁷ As public health restrictions are lifted in the coming months, ARP funds should be deployed to jumpstart the city's small business recovery. As shown in the Controller's Office's report on the Small Business Relief Fund,⁴⁸ funding should be used to address economic disparity across the city by targeting funds to minority-owned businesses in low-income neighborhoods. The mayor's proposed budget does not include additional funding focused on economic stimulus in FY22, instead maintaining last budget's \$3 million allocation for economic development

⁴² See, for example, the 2003 Tax Reform Commission ([source](#)) and the 2009 Mayor's Task Force on Tax Policy & Economic Competitiveness in Philadelphia ([source](#)).

⁴³ "The Impact of COVID-19 on Philadelphia's Neighborhoods, Part 2: The Impact on Residents" ([source](#)).

⁴⁴ "The Effects of the COVID-19 Pandemic on Small Businesses," Small Business Administration, March 2021 ([source](#)).

⁴⁵ "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," US Department of Commerce, January 2010 ([source](#)).

⁴⁶ "Philadelphia's Small and Midsize Business Landscape," Pew, 2020 ([source](#)).

⁴⁷ "City Announces Additional \$30 Million in Funding for Rental Assistance and Small Business Relief," City of Philadelphia, November 12, 2020 ([source](#)).

⁴⁸ "Impacts of COVID-19 Across Philadelphia's Neighborhoods, Part 3: Local Relief Efforts for Small Businesses." June 2020, Controller's Office ([source](#)).

programs administered by PIDC. While the proposed funding increases to \$13 million in FY23, the proposal fails to meet the immediate needs of the small business community, which continues to deal with the economic effects of the pandemic. In order to support local small businesses in the early stages of our economic recovery, the City should use \$25 million in ARP funds to support small business development programs in FY22 and decrease its commitment by \$5 million annually for a total commitment of \$70 million over the next four years.

The ARP also presents an opportunity for the city to focus funding on a financing program that could provide capital to minority entrepreneurs looking to open businesses in Philadelphia. One model for such a program is Cincinnati's Minority Business Accelerator, which provided start-up capital for 67 minority-owned businesses, supporting the creation of 3,500 jobs and more than \$1.5 billion in new business revenue.⁴⁹ Following Cincinnati's example, a minority business accelerator would require about \$1 million in annual operating costs and would leverage private partnerships to raise start-up capital for the businesses. This economic development investment would not only benefit local businesses, but would have positive effects for all Philadelphians with increased tax revenues and a stronger, more inclusive economy.

To support small business recovery and growth, the City should fully restore funding for the Commerce department. During last year's budget, the City cut the Commerce department's funding by 63 percent, dramatically reducing a department necessary for recovery during an unprecedented fiscal challenge for the city's small business community. The proposed FY22 funding for Commerce is still only three-quarters of the FY20 level. At a minimum, the City should provide the full \$6.2 million annually necessary to restore Commerce's budget to its pre-pandemic level, which is \$2.5 million more than the proposed FY22 funding level. The City should also consider increasing Commerce's budget to better support the economic recovery as the restrictions on city businesses are lifted. For example, ARP funding could be used to support the creation of a Nighttime Economy Office within the Commerce department, as recently proposed by City Council's Arts and Culture Task Force.⁵⁰ Following cities like New York and Pittsburgh, this office would focus on engaging nightlife stakeholders, such as DJs, music venues, and bars, and providing services to the arts, culture, and hospitality industries, some of the hardest hit industries during the pandemic.

Challenge #5: Government Efficiency

The infusion of \$1.4 billion in ARP funds presents an unprecedented opportunity for the City to not only tackle its most serious challenges, but also prioritize transparency, accountability, and efficiency in the administration of government services. In FY21, core resident services and essential administrative offices saw large budget cuts to make up for revenue shortfalls caused by the pandemic. In the mayor's proposed FY22 budget, many of these cuts were made permanent, and in some cases, such as Parks and Recreation and the Free Library, departments

⁴⁹ "How a new Minority Business Accelerator grant program can close the racial entrepreneurship gap," Brookings, December 9, 2020 ([source](#)).

⁵⁰ "Reviving Philadelphia's Nighttime Economy," Weitzman School of Design, April 30, 2021 ([source](#)).

are expected to resume pre-pandemic service levels while operating on still reduced budgets. The lack of a strategic vision for these cuts has the potential to worsen government efficiency rather than strengthen it.

Additionally, the City's has failed to correct problems and inaccuracies with its property tax system, as noted in a January 2019 report by the Controller's Office.⁵¹ Since that report, the City has not released new citywide assessment values, citing model inaccuracies and operational difficulties. Assessment inaccuracies disproportionately impact low-income Philadelphians in majority-minority neighborhoods, increasing their tax burdens unfairly. The City has suggested the shift to the automated assessment system known as CAMA will correct the system's flaws, but there is good evidence⁵² to believe that inaccuracies and racial disparities will continue to exist without additional proactive efforts.

Recommendations

This is an opportune time to invest in increasing efficiency within City government by implementing reforms and tools that will ensure accountability for the City's spending. This accountability begins with the City's ARP funding. The City should release a detailed spending plan for ARP funds and create a public portal to track ARP investments over time, similar to New York City's Sandy Funding Tracker.⁵³ The plan should define clear spending goals while the portal can be used to publicly report progress. Given the pandemic's disproportionate impact on the city's already disadvantaged communities, spending should be tracked across the city's neighborhoods to ensure a truly equitable recovery.

The City should also address inefficiencies that pre-date the pandemic, particularly its rising overtime costs. Typically, increased staffing levels will result in decreased overtime costs since overtime is often used as a tool to manage staffing shortages. However, the City's inflation-adjusted overtime spending per employee increased from \$6,162 in FY11 to \$9,278 in FY20, an increase of more than 50 percent. It is worth noting that this increase occurred at the same time that staffing levels increased. If the City were able to decrease overtime costs to its FY11 level, it would result in \$73 million in annual savings.

Additionally, the City needs to increase scrutiny on departmental operations, especially in departments with increases, to ensure resident tax dollars are being invested strategically and effectively. The City should analyze recent spending increases to determine drivers of above average cost increases. One example is the Fire department – the FY22 proposed budget for the Fire department is \$22 million higher than the current year's funding level. The rationale for that increase provided in the mayor's budget documents is to "maintain current service levels." This

⁵¹ "The Accuracy and Fairness of Philadelphia's Property Assessments," Controller's Office, January 2019 ([source](#)).

⁵² "Why Automated Home Valuation Technology Errors Disproportionately Affect Majority-Black Neighborhoods," Urban Institute, March 5, 2021 ([source](#)).

⁵³ The Sandy Funding Tracker is available [here](#).

increase is on top of the \$24 million that was already added during FY21 to fund increased overtime costs in the Fire department.

As noted previously, the mayor's proposed FY22 budget has several departments still operating at pre-pandemic levels with reduced budgets. The City should restore funding to the Free Library and Parks and Recreation after large cuts were made to their FY21 budgets in response to the pandemic. In FY21, the budget for the Free Library was cut by \$6.1 million (13.4 percent), while the budget for Parks and Recreation was cut by \$10.1 million (15.6 percent). While the FY22 proposed budget restores most of the cuts, these departments could benefit from fully restored or increased funding. Performance metrics suggest increased demand for Parks and Recreation and Free Library services prior to pandemic, and in fact, Philadelphia's parks have never been busier nor public spaces more widely used.⁵⁴ Restoring these budgets to their FY20 levels would require \$16.2 million in annual funding starting in FY22, which is \$6.1 million more than proposed in the mayor's FY22 budget.

The proposed FY22 budget also includes budget cuts for many back-office departments that provide essential administrative functions.⁵⁵ Offices such as Human Resources, Fleet, Public Property, Procurement, and Records saw large pandemic-related cuts, ranging from 7 to 23 percent. Not only does the mayor's budget propose to permanently extend these cuts but it also includes additional FY22 reductions. These departments provide essential functions, such as vehicle repair and building maintenance, that are critical to prevent long-term, systemic operational challenges for the City. In addition, front line services such as Streets, Parks and Recreation and others rely on these back-office departments for support. As such, the impact of these cuts could extend beyond back-office operations to front-line services, and ultimately, Philadelphia residents. The savings from these cuts, which total \$15.7 million annually, are much smaller than the potential savings from overtime management detailed above. The pandemic-related FY21 cuts, totaling \$12.5 million, and the newly proposed FY22 cuts, totaling \$3.2 million should be fully restored unless a strategic rationale can be provided as to why the changes will not hurt operations.

Finally, the City should fully implement the recommendations from the previous report⁵⁶ by the Controller's Office on the city's property assessments, with special focus on addressing racial disparities in the assessment values. Once assessments are more accurate, the City must also increase the transparency for the algorithms on which the system relies. Philadelphia should follow the examples of other municipalities such as Washington, DC and Cook County, Illinois (Chicago). In particular, after serious inaccuracies were revealed in Cook County's assessments,

⁵⁴ "Philly Parks Dept: City parks saw 50% more visitors in 2020," WHYY, December 26, 2020 ([source](#)).

⁵⁵ The City Controller's Office received a \$571,814 budget reduction in FY21, which was made permanent in the proposed FY22 budget. The Office is advocating to City Council for the full restoration of these funds to guarantee the office can perform its audit function.

⁵⁶ "The Accuracy and Fairness of Philadelphia's Property Assessments," Controller's Office, January 2019 ([source](#)).

the county worked to correct assessment flaws and publicly release the entirety of the methodology and software behind their modeling.⁵⁷

Conclusion

Many of Philadelphia’s social and economic challenges – public safety, poverty, public health – have affected generations of residents. While these challenges impact every resident of the city, their effects are most acutely felt by Philadelphians living in majority-minority neighborhoods. The COVID-19 pandemic not only exacerbated these preexisting problems, but also reduced the City’s financial resources needed to address them. While the City is set to receive \$1.4 billion in ARP funding to replace lost revenue and maintain key government services, this once-in-a-lifetime infusion of funds is also a critical opportunity to revitalize the city’s economy and address the deep-rooted challenges faced by the city’s residents.

First and foremost, the City should use a portion of the \$1.4 billion to fill the tax revenue shortfall caused by the pandemic. In May 2021, the City will receive the first half of its ARP funding (\$698 million). The Mayor’s Budget Office announced a projected budget shortfall of \$450 million for FY22. After accurately estimating the tax revenue shortfall for FY21,⁵⁸ the Controller’s Office projected a smaller revenue shortfall of up to \$284 million for FY22. However, the City could still fill the larger \$450 million deficit in FY22 and set aside \$390 million of the \$1.4 billion for future tax shortfalls as the economy recovers from the effects of the pandemic, with \$250 million reserved for FY23, \$100 million reserved for FY24, and \$40 million reserved for FY25 (half a year before ARP funds expire). These estimates are likely conservative, as projections recently released by the Controller’s Office indicate that revenues should fully recover by the end of calendar year 2023 (halfway through FY24). As the city’s economy recovers in the coming years, future shortfalls should be substantially smaller than the FY22 deficit.

The Controller’s Office believes that the City should develop a detailed spending plan for the remaining \$554 million in ARP funds with clear metrics of success and publicly track and evaluate progress toward its goals. As detailed in this report, the City should prioritize investments in a few key areas: public safety, poverty, public health, and business recovery and development. Investments in these key areas could lead to significant progress on many of the city’s most urgent challenges. Additionally, this report includes recommendations for tackling longstanding government inefficiencies, ensuring taxpayer money is spent efficiently and effectively.

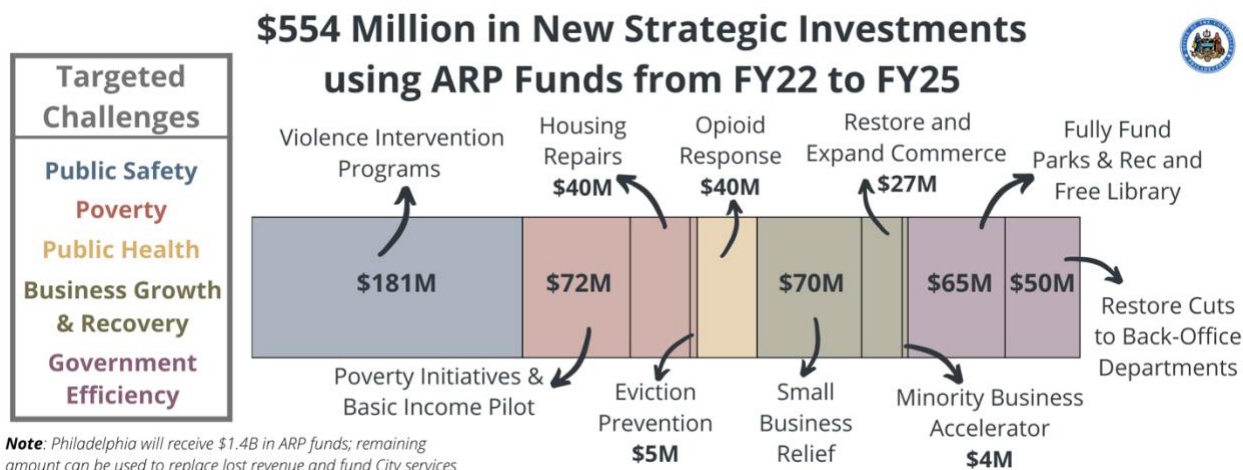
After accounting for existing funding in the adopted FY21 budget,⁵⁹ the new funding necessary for these investments totals \$146 million in FY22 and \$554 million over the next four fiscal years

⁵⁷ “The Tax Divide: How flaws in Cook County property tax assessments harmed the poor and helped the rich,” Chicago Tribune, September 21, 2020 ([source](#)).

⁵⁸ “Analysis of the Continued Impact of COVID-19 on the City of Philadelphia’s Tax Revenues,” March 2021, Controller’s Office, ([source](#)).

⁵⁹ This calculation uses the \$9.7 million in anti-violence funding and \$1.8 million in funding for the anti-eviction program in the adopted FY21 budget.

(the life of the ARP funds). The figure below summarizes the breakdown of new investments across the key areas outlined in this report.



It is worth noting that the City can fund the investments in this report as well as the most important initiatives in the mayor's budget. For example, this report has noted that the City could save \$73 million annually from better overtime management. Over the life of the ARP funds, this amounts to \$291 million in savings. The proposed FY22-FY26 Five Year Plan also includes \$200 million in reserves from FY22 to FY25 for unexpected costs related to the pandemic, while budgeted increases for employee benefits and debt service are larger than recent historical experience.

As the City looks beyond the ARP, it should also begin planning how to sustain these investments as federal relief comes to an end in 2024. A rigorous evaluation process will allow the City to redirect funding to the most successful programs in the future and increase its return on investment. Once ARP funds are fully expended, operational efficiencies such as better overtime management and more strategic spending choices can free up funding to support investments with a proven track record of improving outcomes for residents. These savings could also help to balance the budget to account for potentially permanent impacts of the pandemic on the City's revenue sources, such as the effects of telecommuting on the wage tax base. This proven success will also help attract private and philanthropic funding, which can provide additional support for programs in the long term, as has been the case for violence prevention programs in Chicago. By spending strategically and measuring what works, the City can use the unprecedented ARP funding to not only make progress on its many challenges, but also set itself on a path to sustain the most effective government spending in the long run.

Appendix

Geographic Regions Used in the Peer Comparison Analysis <i>In the analysis, geographic regions vary across indicators based on data availability</i>				
Population Rank	City	County Name (County Seat)	Metro Area	School District^a
1	New York City	Los Angeles County (Los Angeles)	New York-Newark-Jersey City, NY-NJ-PA	New York City
2	Los Angeles	Cook County (Chicago)	Los Angeles-Long Beach-Anaheim, CA	Los Angeles
3	Chicago	Harris County (Houston)	Chicago-Naperville-Elgin, IL-IN-WI	Chicago
4	Houston	Maricopa County (Phoenix)	Dallas-Fort Worth-Arlington, TX	Houston
5	Phoenix	San Diego County (San Diego)	Houston-The Woodlands-Sugar Land, TX	Phoenix
6	Philadelphia	Orange County (Santa Ana)	Washington-Arlington-Alexandria, DC-VA-MD-WV	Philadelphia
7	San Antonio	Miami-Dade County (Miami)	Miami-Fort Lauderdale-Pompano Beach, FL	San Antonio
8	San Diego	Dallas County (Dallas)	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	San Diego
9	Dallas	Kings County (Brooklyn)	Atlanta-Sandy Springs-Alpharetta, GA	Dallas
10	San Jose	Riverside County (Riverside)	Phoenix-Mesa-Chandler, AZ	San Jose
11	Austin	Clark County (Las Vegas)	Boston-Cambridge-Newton, MA-NH	Austin
12	Fort Worth	Queens County (Queens)	San Francisco-Oakland-Berkeley, CA	Fort Worth
13	Jacksonville	King County (Seattle)	Riverside-San Bernardino-Ontario, CA	Jacksonville
14	Columbus	San Bernardino County (San Bernardino)	Detroit-Warren-Dearborn, MI	Columbus
15	Charlotte	Tarrant County (Fort Worth)	Seattle-Tacoma-Bellevue, WA	Charlotte
16		Bexar County (San Antonio)		
17		Broward County (Fort Lauderdale)		
18		Santa Clara County (San Jose)		
19		Wayne County (Detroit)		
20		Alameda County (Oakland)		
21		New York (Manhattan)		
22		Middlesex County (Cambridge)		
23		Philadelphia County (Philadelphia)		
24		Sacramento County (Sacramento)		
25		Palm Beach County (West Palm Beach)		

Note: Population ranks based on 2019 1-year American Community Survey data.

^a Data for 4 top cities (Phoenix, San Antonio, San Jose, and Columbus) is not available at the school district level.