

Philadelphia's General Fund Budget: A Citizen's Guide

Pennsylvania
Intergovernmental
Cooperation
Authority

October 2010

Table of Contents

- Overview
 - ▶ [*Background Information*](#)
 - ▶ [*Revenues and Expenditures*](#)
 - ▶ [*Is the Budget Balanced?*](#)
 - ▶ [*Expenditures by Line Item*](#)
 - ▶ [*Expenditures by Program Category*](#)
 - ▶ [*Expenditures by Class*](#)
 - ▶ [*Overall Revenues*](#)
 - ▶ [*Tax Revenues*](#)
 - ▶ [*Historical Trends*](#)
- [Expenditures](#)
- [Revenues](#)
- [Historical Trends](#)
- [Personnel Levels](#)
- [Inter-City Comparisons](#)
- [Glossary and Sources](#)

Background Information

Philadelphia's General Fund Budget: A Citizen's Guide is designed to help better inform the public about the City of Philadelphia's budget. The City's General Fund supports the core operations of government and is primarily financed through tax revenues. It accounts for all resources except those for which a dedicated fund has been created.

Expenditure and revenue data presented in this report are drawn from the City's *Supplemental Report of Revenues and Obligations* for fiscal years 2002 through 2009, and the *Five-Year Financial Plan* for Fiscal Year 2011 through Fiscal Year 2015, as approved by the PICA Board in August 2010. Other data sources are listed in the final section of the report.

If you have any comments or questions, please contact PICA at 215-561-9160 or send us an email at info@picapa.org.

Revenues and Expenditures

Projected FY11 General Fund revenues: \$3.849 billion

- ▶ 34.3 percent higher than FY02
- ▶ 1.6 percent higher than in FY10 ¹

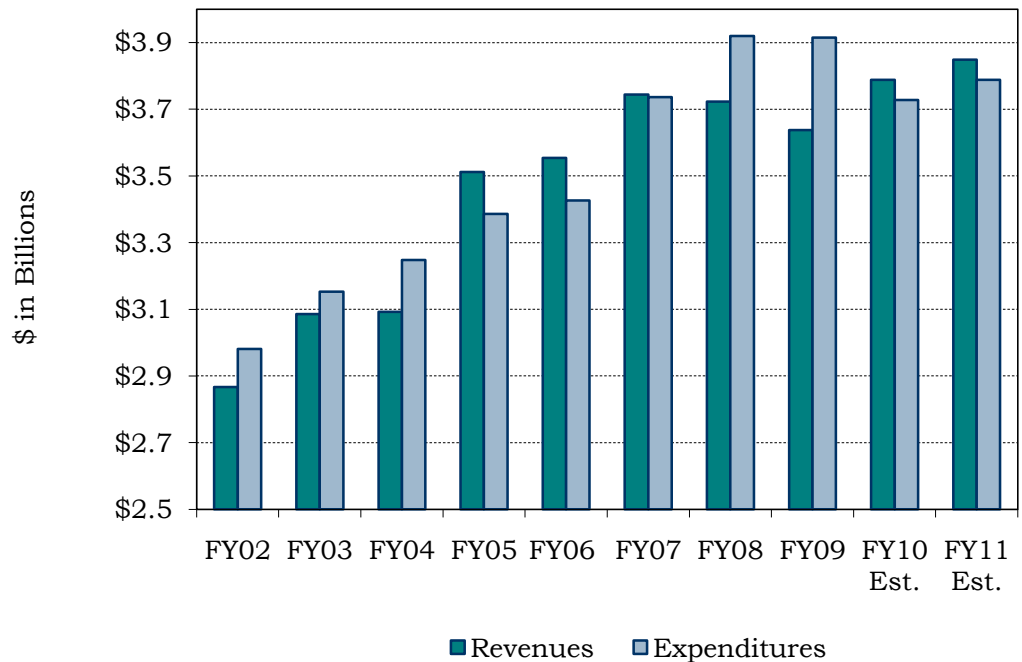
Projected FY11 General Fund expenditures: \$3.788 billion

- ▶ 27.1 percent higher than FY02
- ▶ 1.6 percent higher than FY10 ²

Regional Inflation³

- ▶ 25.1 percent growth from FY02 through FY11
- ▶ 1.1 percent growth from FY10 through FY11

General Fund Revenue and Expenditures, FY02-FY11



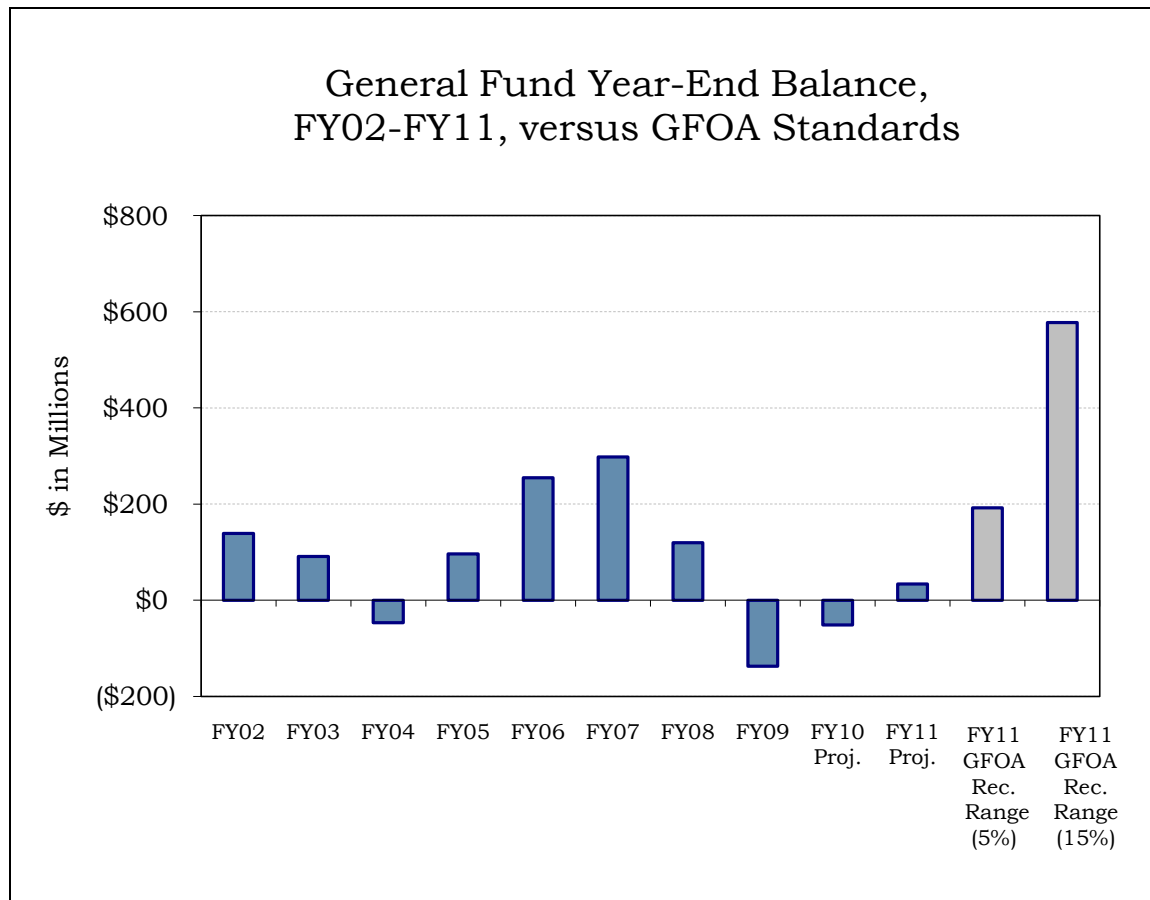
¹ For details of the growth in revenues, see slide 34.

² For details of the growth in expenditures, see slide 36.

³ As measured by the Consumer Price Index - All Urban Consumers for the Philadelphia region. FY11 estimated based on data through August.

Is the Budget Balanced?

- The Government Finance Officers Association (GFOA) recommends that governments maintain a year-end general fund balance of at least 5 to 15 percent of operating revenues.
- City of Philadelphia year-end General Fund balance trends:
 - ▶ FY07 actual: \$297.9 million surplus (8.0 percent of revenues)
 - ▶ FY08 actual: \$119.5 million surplus (3.2 percent of revenues)
 - ▶ FY09 actual: \$137.2 million deficit (3.8 percent of revenues)
 - ▶ FY10 projected: \$51.7 million deficit (1.4 percent of revenues)
 - ▶ FY11 projected: 34.0 million surplus (0.9 percent of revenues)
- The GFOA minimum recommended FY11 fund balance for Philadelphia would range from \$192.5 to \$577.4 million.

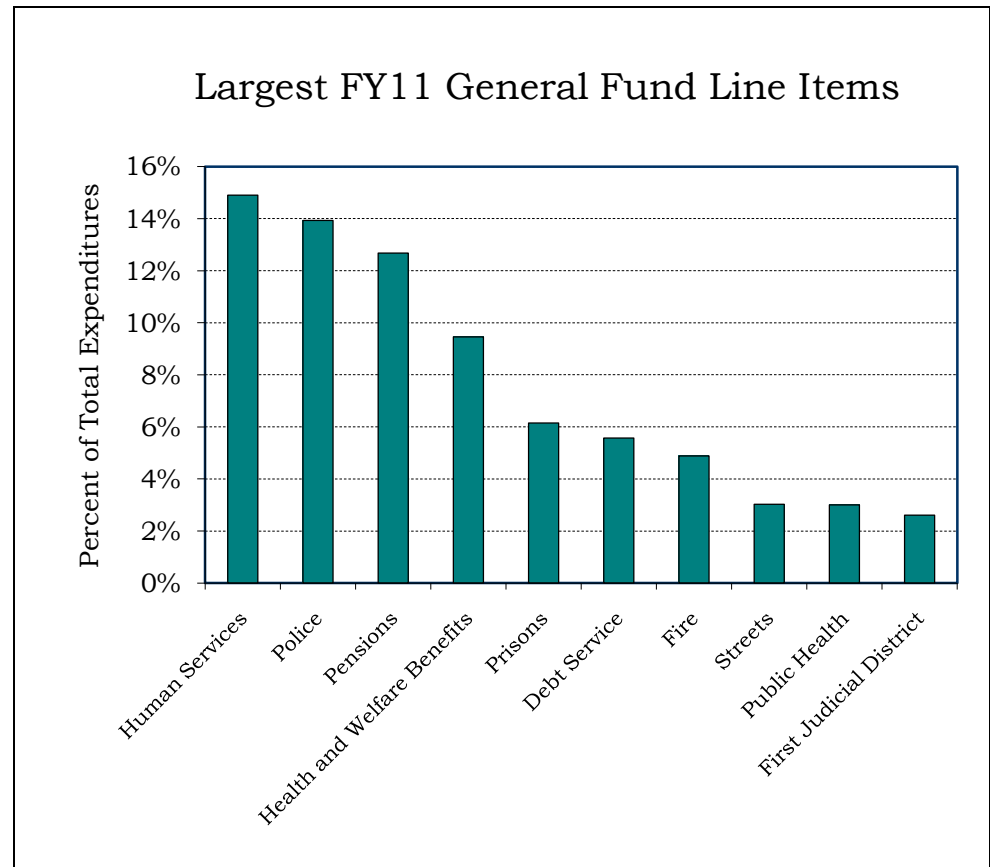


Expenditures by Line Item

The ten largest line items in the FY11 General Fund budget account for 76.2 percent of all spending. They are:

- ▶ Department of Human Services – \$564.4 million
- ▶ Police Department – \$527.6 million
- ▶ Pensions -- \$480.0 million
- ▶ Employee Health and Welfare Benefits – \$358.1 million¹
- ▶ Prisons System – \$233.1 million
- ▶ Debt Service – \$211.0 million
- ▶ Fire Department – \$185.0 million
- ▶ Department of Streets – \$114.7 million
- ▶ Department of Public Health -- \$113.7 million
- ▶ First Judicial District – \$99.1 million

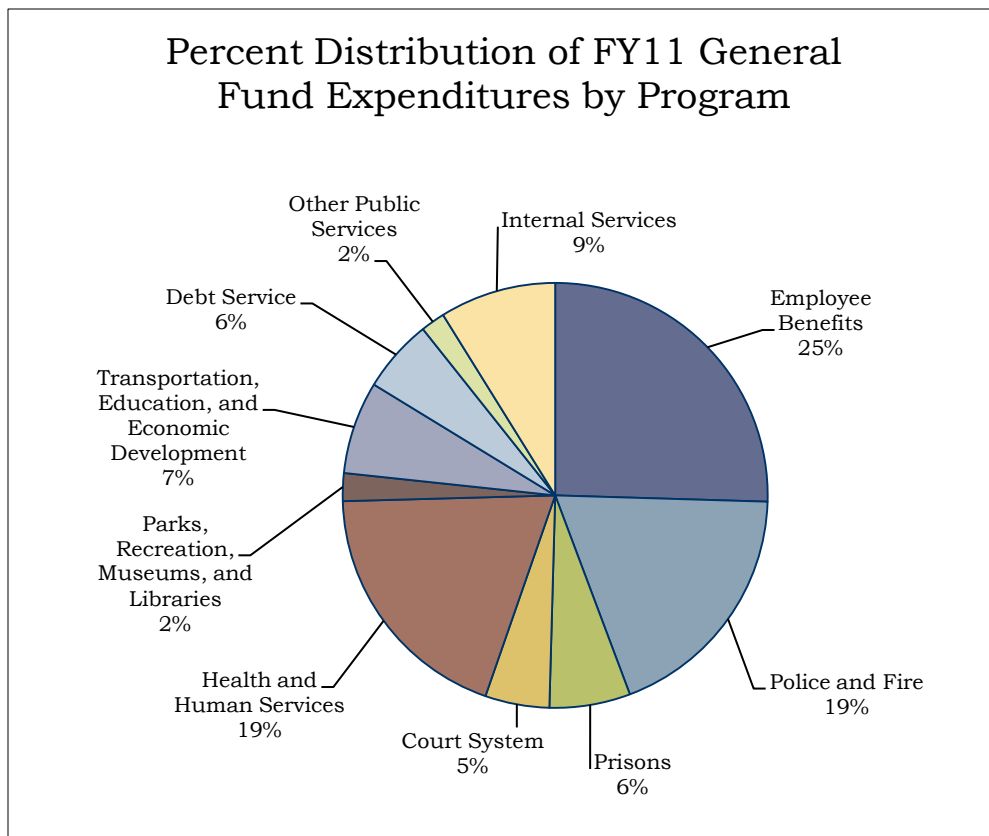
¹ The FY11 budgeted amount is reduced by \$25 million to reflect savings that are projected to be achieved through new labor contracts.



Expenditures by Program Category

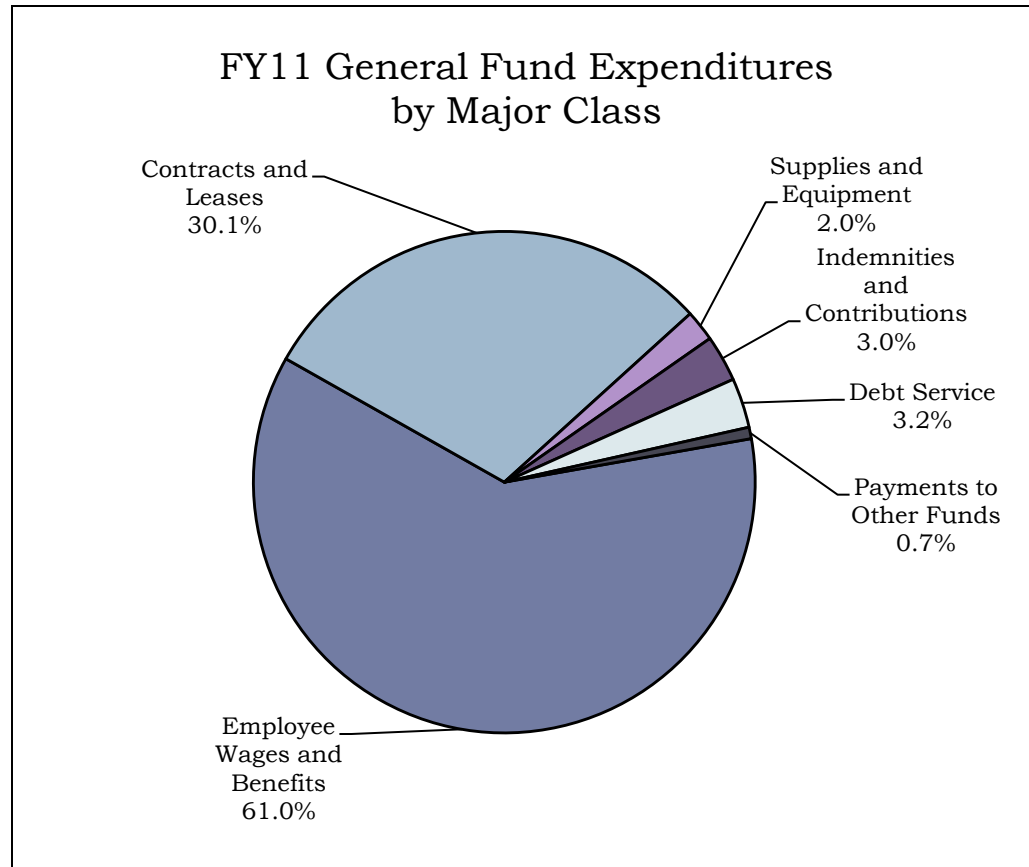
From a program perspective, the largest areas of spending within the General Fund in FY11 are:

- ▶ Employee benefits: \$964.9 million
 - Pension payments: \$480.0 million
 - Health and welfare: \$358.1 million
 - Other employee benefits: \$126.8 million
- ▶ Health and human services: \$728.8 million
- ▶ Police and Fire: \$712.6 million
- ▶ Internal services: \$335.1 million
- ▶ Transportation, education and economic development: \$267.0 million
- ▶ Prisons: \$233.1 million
- ▶ Debt service and long-term leases: \$211.0 million
- ▶ Court system: \$185.1 million
- ▶ Parks, recreation, museums and libraries: \$80.3 million
- ▶ Other public services: \$70.0 million



Expenditures by Class

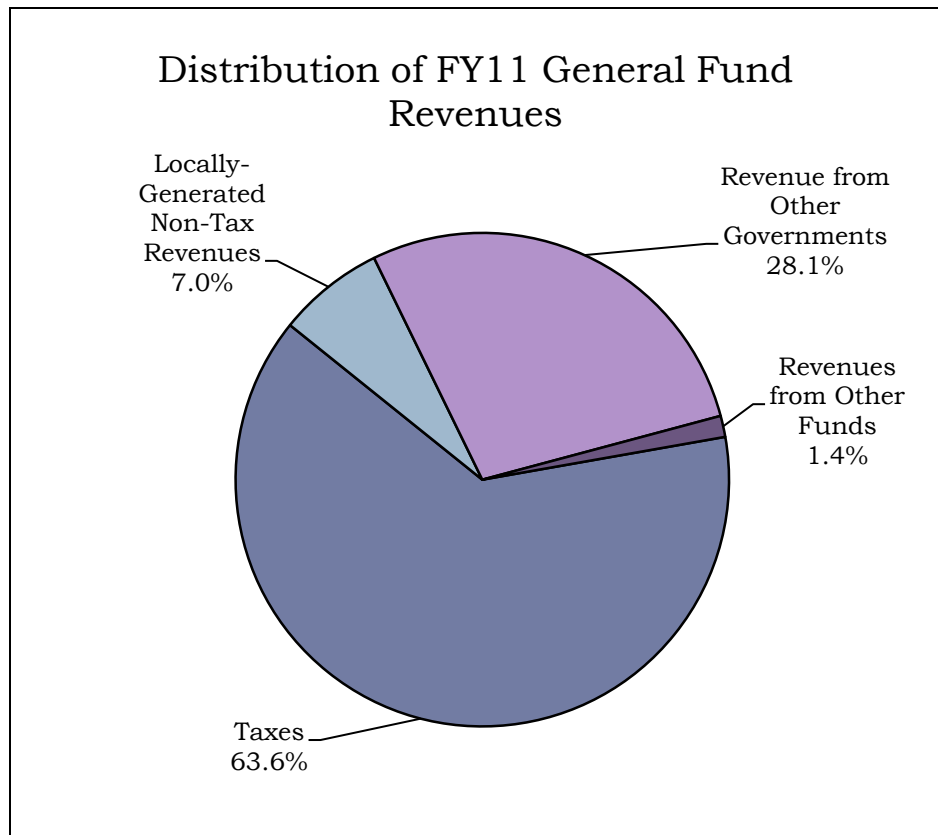
- From an expenditure class perspective, the FY11 General Fund budget breaks down as follows:
 - ▶ Employee wages and benefits: \$2,309.3 million
 - ▶ Contracts and leases: \$1,140.2 million
 - ▶ Supplies and equipment: \$76.0 million
 - ▶ Indemnities and contributions: \$113.2 million
 - ▶ Debt service: \$121.4 million¹
 - ▶ Payments to other funds: \$28.0 million



¹Excludes long-term leases

Revenues

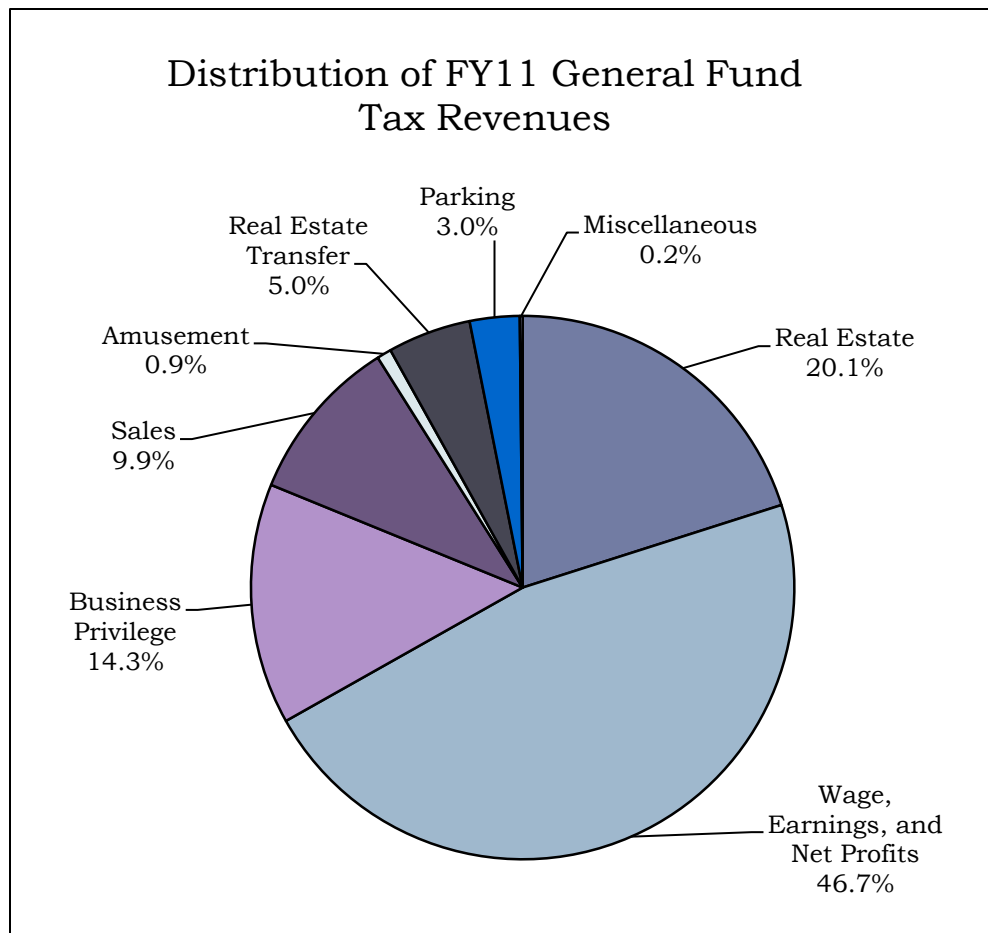
- The major categories of projected FY11 General Fund revenues are as follows:
 - ▶ Taxes: \$2,446.3 million
 - ▶ Revenue from other governments: \$1,080.3 million
 - ▶ Locally-generated non-tax revenue: \$269.3 million
 - ▶ Revenue from other funds: \$53.3 million
- Revenue from other governments includes \$295.6 million in PICA City Account revenue, which derives from a dedicated portion of the City wage tax. If PICA City Account revenue were classified as taxes, taxes would make up \$2,741.9 million or 71.2 percent of projected FY11 General Fund revenue, and revenue from other governments would make up \$784.7 million or 20.4 percent of revenue.



Tax Revenues

- Taxes account for \$2,446.3 million in projected FY11 General Fund revenue. They include the following:
 - ▶ Wage, earnings, and net profits taxes: \$1,143.5 million¹
 - ▶ Real estate tax: \$491.4 million
 - ▶ Business privilege tax: \$350.7 million
 - ▶ Sales tax: \$241.8 million
 - ▶ Real estate transfer tax: \$121.2 million
 - ▶ Parking tax: \$72.5 million
 - ▶ Amusement tax: \$21.1 million
 - ▶ Miscellaneous taxes: \$4.1 million
- Miscellaneous taxes include taxes on outdoor advertising and smokeless tobacco.

¹PICA City Account revenue derives from a portion of the wage, earnings, and net profits taxes paid by city residents but is classified by the City as revenue from other governments. If this revenue source were classified as a tax, total FY11 wage, earnings, and net profits tax revenue would be \$1,439.2 million or 52.5 percent of total tax revenue.



Historical Trends

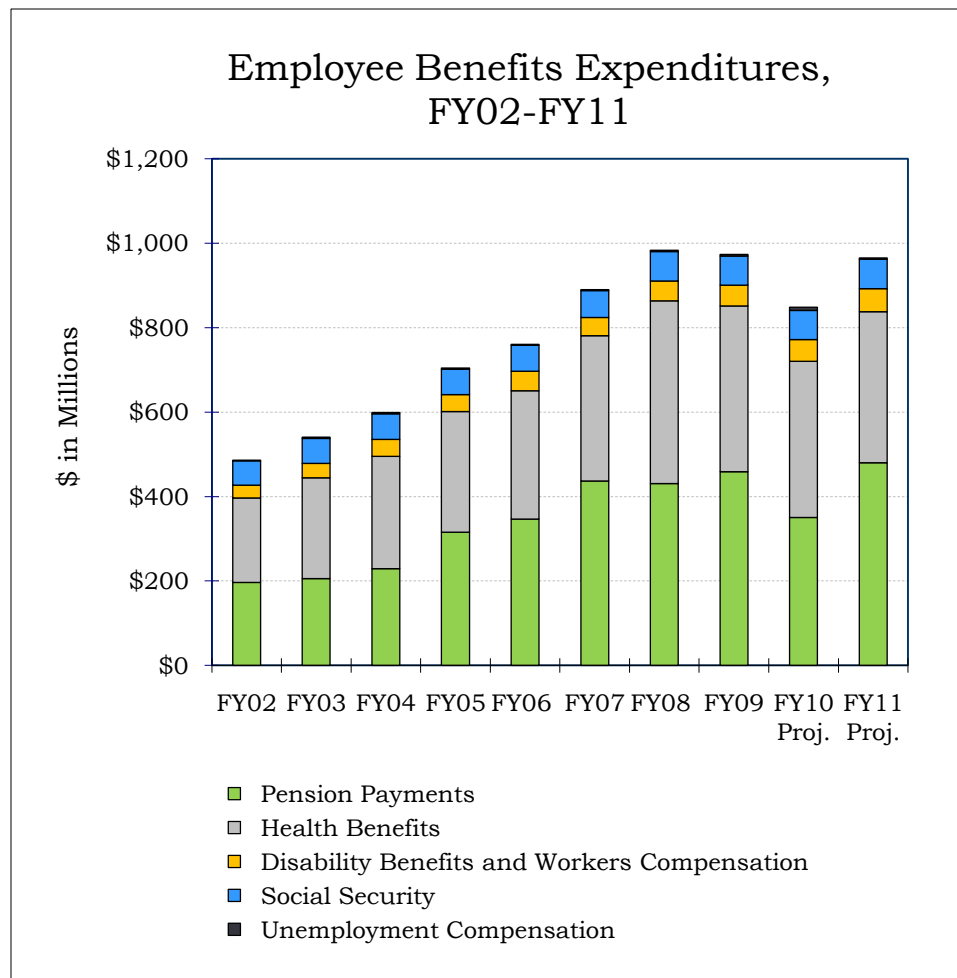
City General Fund Budget Trends Over the Past Decade	
Revenues	Between FY02 and FY11, the General Fund has become slightly less reliant on tax revenue, and slightly more reliant on revenues from other governments, primarily due to new State funding for wage tax relief supported by State gaming revenues.
Tax Rates	City-financed wage and business privilege tax cuts were made each year from FY96 through FY09. In FY10, these reductions were suspended due to the fiscal crisis, and the City sales tax rate was raised from 1 to 2 percent. In FY11, the City portion of the real estate tax increased from 3.305 percent to 4.123 percent.
Spending	Spending on employee benefits, prisons and debt service have comprised an increasing share of the budget since FY02. Employee benefits have increased from 16.3 percent of General Fund spending in FY02 to 25.5 percent in FY11.
Workforce	From the end of FY02 to the end of FY10, the City's full-time General Fund workforce was cut by 2,114 positions or 8.9 percent.
Long-Term Obligations	Long-term obligations – including debt service, lease obligations, and payments toward the unfunded pension liability – have increased from 13.9 percent of General Fund spending in FY02 to 17.9 percent in FY11, leaving the City with less budget flexibility and reducing the funding available for other priorities.
Pension Costs	Even with the State-authorized deferral of pension contributions totaling \$155 million in FY10 and \$80 million in FY11, General Fund pension costs increased 144 percent from FY02 to FY11, while the funded ratio of the pension fund (the actuarial calculation of the ratio between assets and liabilities of the fund) decreased from 77.5 percent to a projected 45 percent.
Impact of 2008-2009 Recession	Suspension of annual cuts in the wage and business privilege taxes. Increases in City taxes on sales and real estate. Over the three-year period from FY08 to FY11, a decline of 3.4 percent in total General Fund expenditures, or 7.5 percent excluding costs for pension benefits, prisons, and debt service. Stock market losses reduced the funded ratio of the pension fund.

Expenditures

- Overview
- Expenditures
 - ▶ [Employee Benefits](#)
 - ▶ [Human Services](#)
 - ▶ [Police](#)
 - ▶ [Prisons System](#)
 - ▶ [Debt Service](#)
 - ▶ [Fire](#)
 - ▶ [Health and Mental Retardation](#)
 - ▶ [Streets](#)
 - ▶ [Courts](#)
- Revenues
- Historical Trends
- Personnel Levels
- Inter-City Comparisons
- Glossary and Sources

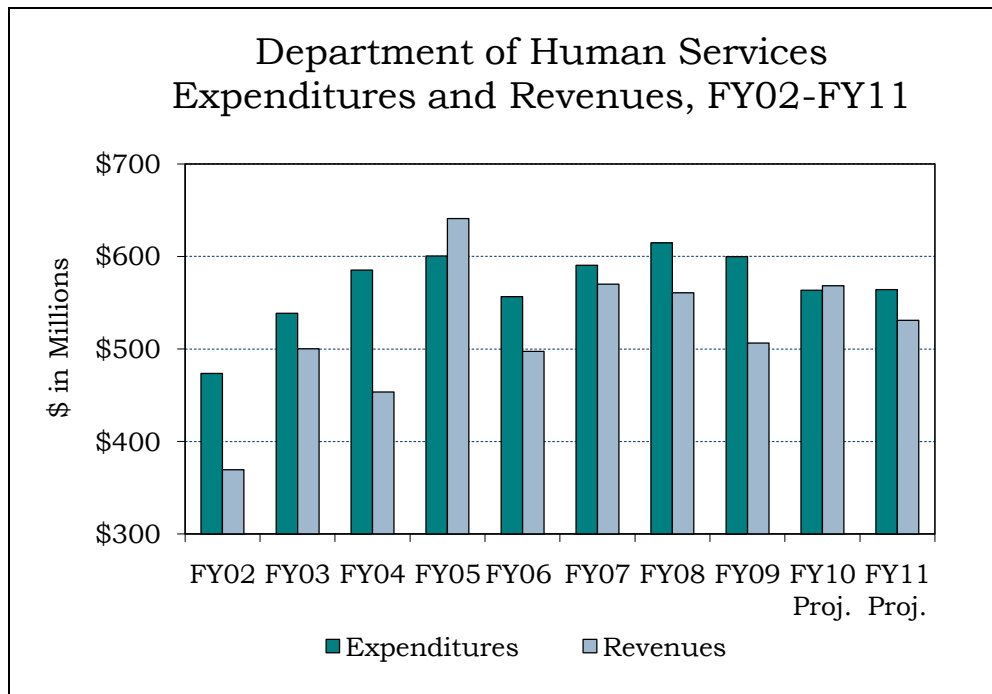
Employee Benefits

- Employee benefit costs increased at a compound annual growth rate of 12.5 percent from FY02 through FY08. All other General Fund costs grew at only 2.8 percent annually during this period.
- Benefit costs declined 1.0 percent in FY09 due to fewer personnel, arbitration awarded reductions in required per-employee payments to union-administered health benefits funds, and non-recurring costs associated with the settlement of the City's health and welfare payments in FY08.
- In FY10, benefit costs declined an additional 12.8 percent, primarily due to the State-authorized deferral of \$155 million in pension costs and reductions in arbitration awarded per-employee health payments.
- In FY11, costs are projected to increase 13.8 percent, an increase entirely attributable to increased pension costs. The City is authorized to defer \$80 million in pension costs in FY11. The FY11 projection assumes that \$25 million in cost savings will be achieved through new labor contracts with the International Association of Fire Fighters and non-uniformed unions.
- Maintaining a sustainable growth path for employee pension costs after FY11 is essential to maintaining the City's overall financial stability.



Human Services

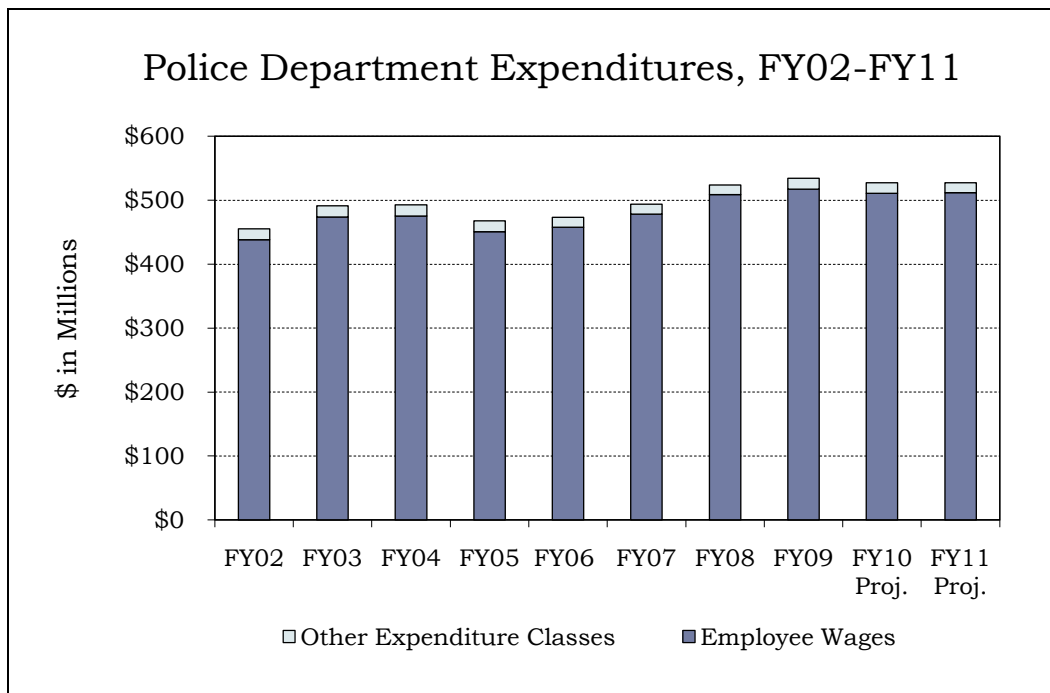
- After increasing at compound annual growth rate of 4.4 percent from FY02 through FY08, Department of Human Services (DHS) spending is projected to decline 8.2 percent (\$50.4 million) from FY08 through FY11.
- The reductions in expenditures have been made possible in part through initiatives to reduce the number of children in placement and the average length of time in placement.
- Fluctuations in annual DHS revenue reflects variable timing of State and federal reimbursements.
- DHS direct expenditures less revenue are projected at \$63.9 million in FY11.



Performance Measures	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Children in Placement	7,786	7,895	7,668	7,087	6,369	6,483	5,844	5,525	4,762
Adoptions Finalized	472	654	750	607	528	390	351	432	561
Youth Study Center (Avg. Daily Pop.)	112	91	101	102	112	111	133	127	106

Police

- Police Department spending increased at a compound annual growth rate of 2.3 percent from FY02 through FY09.
- Spending is projected to decrease 1.3 percent (\$6.7 million) from FY09 through FY11 primarily due to reductions in overtime costs.
- In the FY11 budget, 97.0 percent of Police Department spending is for employee wages, including overtime.

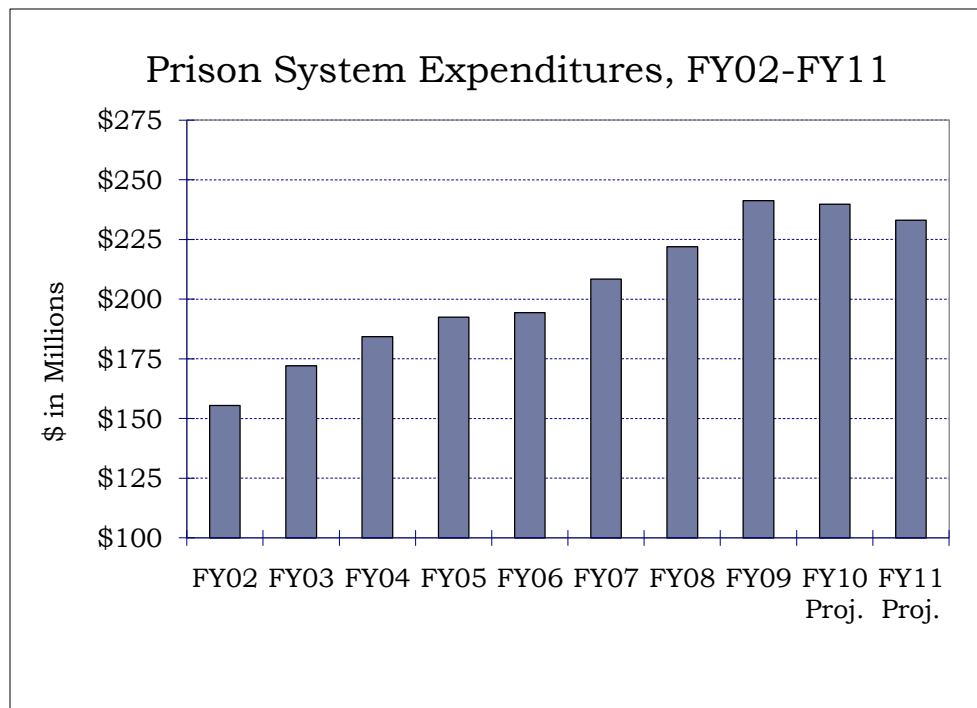


Performance Measures	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Arrests (Thousands)	77.7	66.1	68.5	67.8	69.2	73.6	75.8	77.3	85.6
Homicides	318	308	344	352	386	424	350	313	306
Part 1 Offenses (Thousands) ¹	90.1	81.0	83.1	81.5	83.3	85.9	82.7	79.0	75.1

¹ Part 1 Offenses include: homicide, rape, robbery, assault, burglary, larceny and motor vehicle theft, and arson.

Prisons System

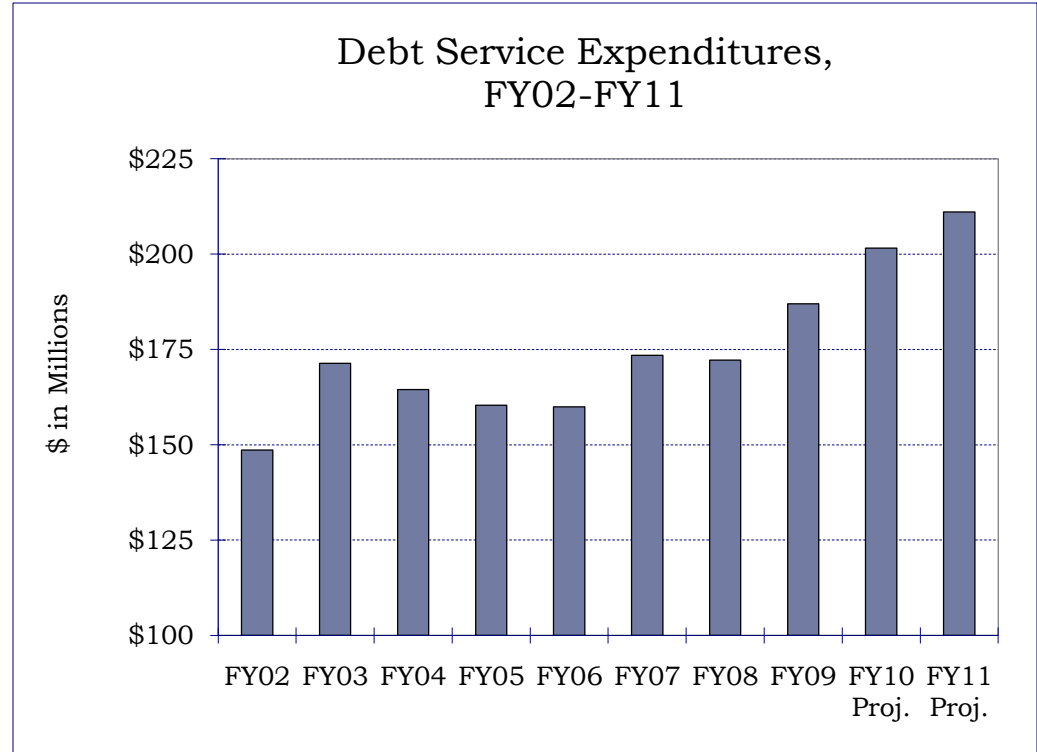
- Prison System expenditures increased at a compound annual growth rate of 6.5 percent from FY02 to FY09, the result of an increasing prison population.
- Prisons spending is projected to decline 3.4 percent between FY09 and FY11, the result of a declining prison census.
- Since 2008, the City has undertaken initiatives to control the prison population and reduce recidivism, to improve criminal justice outcomes and control costs. The City has also streamlined the hiring process for correctional officers to maintain necessary prison staff levels and reduce overtime costs.



Performance Measure	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Average Daily Inmate Census	7,638	7,628	7,738	8,141	8,425	8,796	9,121	9,554	8,804

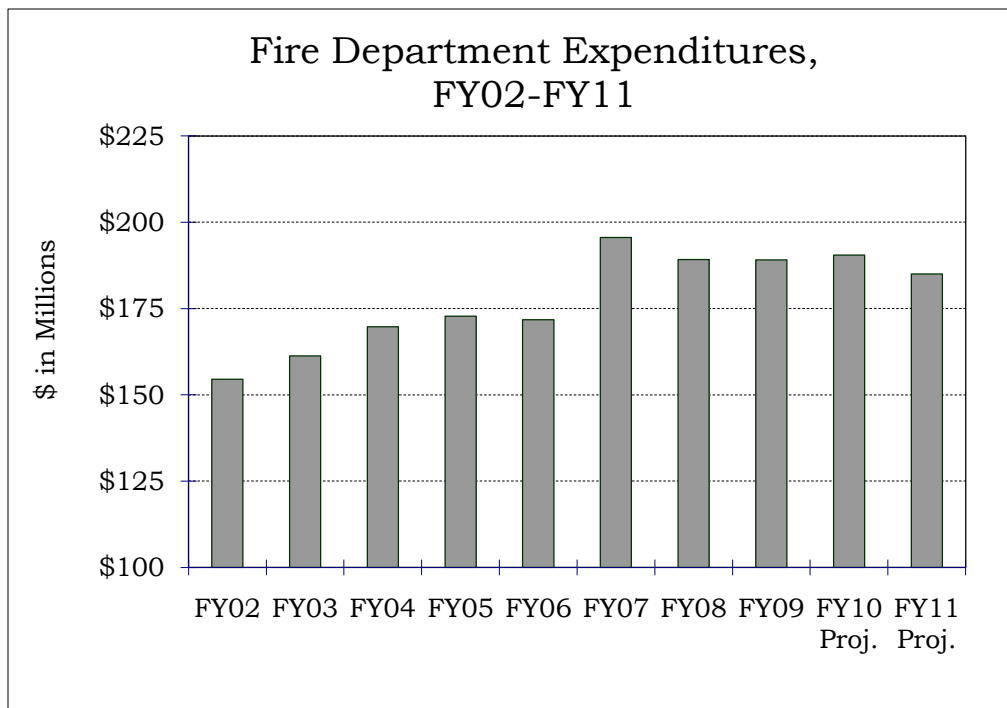
Debt Service

- From FY02 through FY11, General Fund debt service expenditures increased at a compound annual growth rate of 4.0 percent per year, more rapidly than the 2.7 percent rate for total General Fund expenditures.
- Since FY06, debt service costs increased 32.0 percent, more than three times the 10.6 percent increase in total General Fund spending.
- Debt service costs have increased 42.0 percent since FY02, due largely to three major debt issues: \$347 million for stadiums in FY02; \$296 million for the Neighborhood Transformation Initiative in FY03 and FY06; and \$150 million for cultural corridors in FY07.



Fire

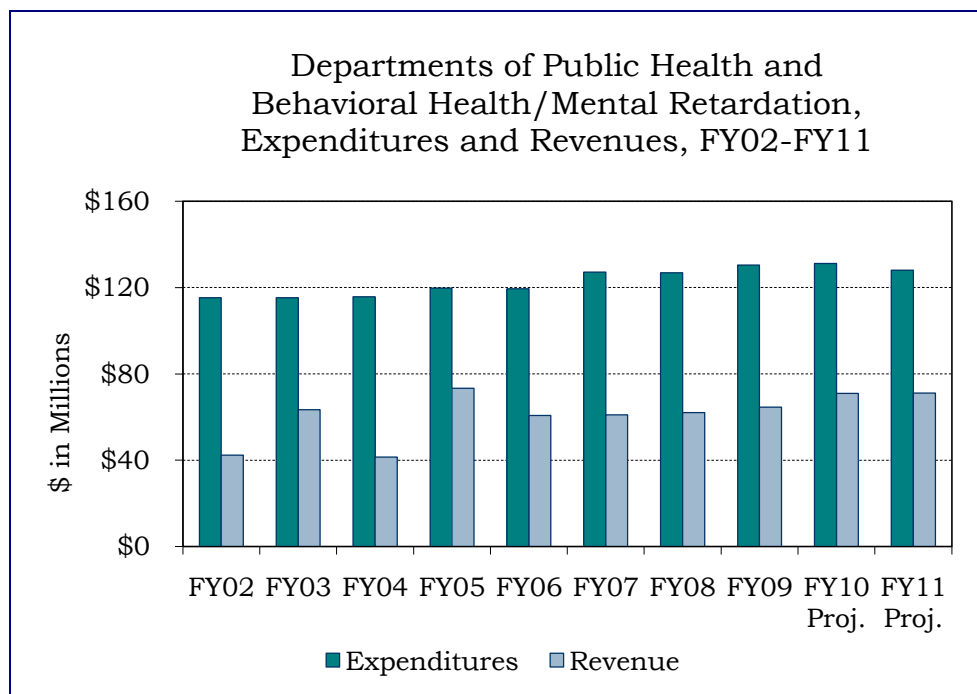
- Fire Department expenditures increased at a compound annual growth rate of 4.8 percent from FY02 to FY07.
- The FY11 projected obligation level is 5.4 percent below the FY07 peak, reflecting the elimination of 5 engines and 2 ladder companies and periodic facility brown-outs.
- The proportion of departmental spending allocated to emergency medical services (EMS) has increased from 14.9 percent in FY02 to an estimated 19.1 percent in FY10, reflecting fewer structural fires and increasing demand for EMS services.
- The reduction in structural fires in recent years is likely the result of stronger fire codes for new construction and the impact of prevention programs funded by the department.



Performance Measures	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Structural Fires	2,526	2,465	2,330	2,191	2,141	1,918	1,719	1,633	1,362
Emergency Medical Services Runs (000s)	188.2	195.5	200.8	206.7	209.7	216.6	215.2	217.4	222.9

Health and Mental Retardation

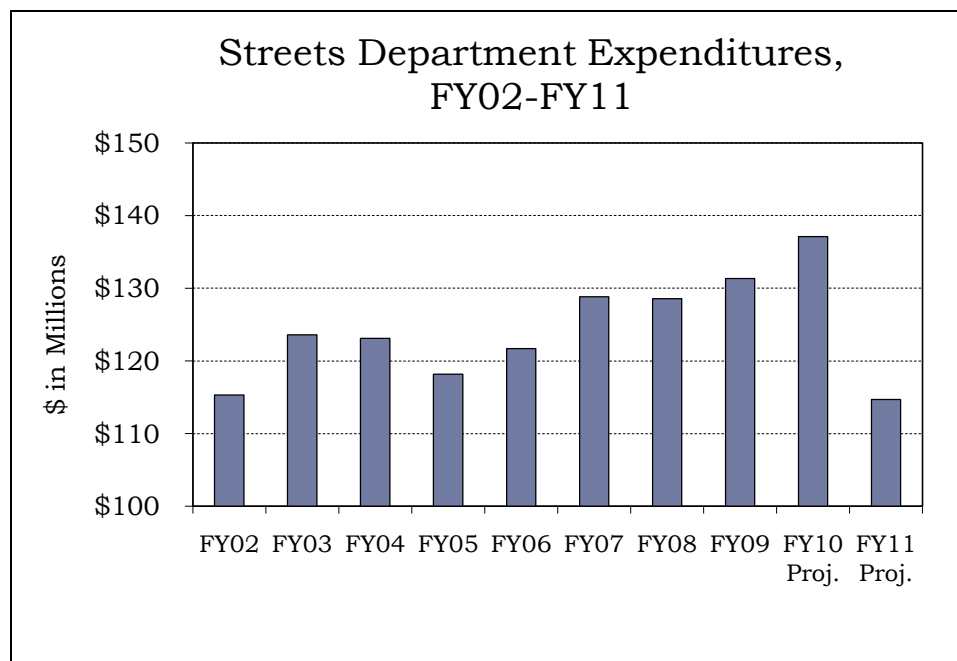
- The FY11 budget includes \$56.9 million in direct unreimbursed expenditures for the City's Department of Public Health (DPH) and Department of Behavioral Health and Mental Retardation Services.
- Approximately \$23.9 million of these direct unreimbursed (tax-supported) costs support the DPH District Health Centers.
- The percent of uninsured visits to the Health Centers decreased from FY01 to FY05, due to coverage expansions and initiatives to increase enrollment in insurance programs. Since FY05 the percentage of uninsured visits has remained roughly constant.



Performance Measures	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
District Health Center visits (000s)	342.7	320.8	319.2	337.8	324.0	323.1	334.1	349.1	349.8
Percent of visits uninsured	63.7	60.4	54.8	51.0	50.1	51.6	51.4	51.2	50.2

Streets

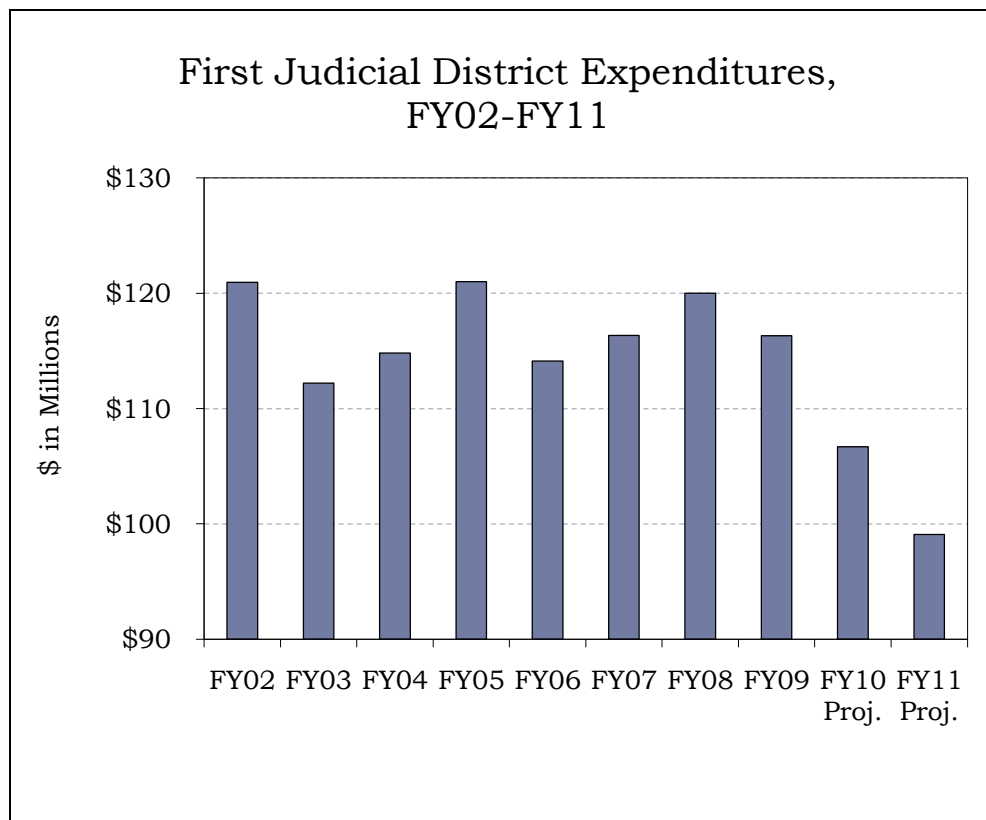
- Department of Streets expenditures, excluding indemnities costs, increased at a compound annual growth rate of 1.9 percent from FY02 through FY09.
- Departmental costs are projected to increase \$5.8 million or 4.4 percent in FY10, reflecting increases in the cost of snow removal which were partially offset by reductions in the cost of waste disposal.
- Waste disposal costs in FY10 were reduced by approximately \$5 million due to reductions in the amount of refuse disposed and increased recycling.
- In FY11, costs are projected to decline \$22.4 million or 16.4 percent due to a projected decline in the cost of snow removal.



Performance Measures	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Refuse Disposed (Tons in Thousands)	761.7	755.3	787.7	785.1	783.0	759.6	730.2	660.9	629.6
Household Recycling Collected (Tons in Thousands)	38.7	45.7	44.3	41.0	40.6	46.4	51.4	75.1	99.4

Courts

- The local court system in Philadelphia, which is known as the First Judicial District (FJD) of Pennsylvania, comprises the Court of Common Pleas, Municipal Court, and Traffic Court.
- Despite court rulings that the State, and not counties, should fund all local court operating expenses, the State has not taken over this funding responsibility.
- Although the City cannot directly control the FJD budget, the City's support for the court system is the result of an annual negotiation between the City and FJD.
- City General Fund support for FJD fluctuated from FY02 through FY08, but is projected to decline 17.4 percent from FY08 through FY11.

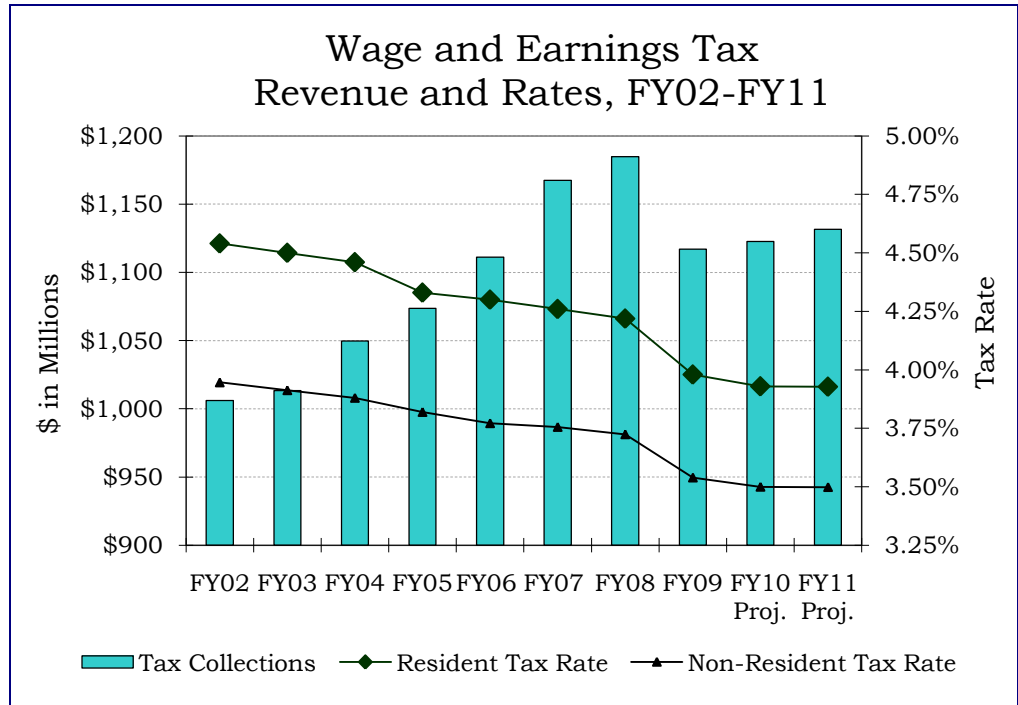


Revenues

- Overview
- Expenditures
- Revenues
 - ▶ [Wage and Earnings Tax](#)
 - ▶ [Real Estate Tax](#)
 - ▶ [Business Privilege Tax](#)
 - ▶ [Sales Tax](#)
 - ▶ [Real Estate Transfer Tax](#)
 - ▶ [Parking Tax](#)
 - ▶ [Amusement Tax](#)
 - ▶ [Locally-Generated Non-Tax Revenue](#)
 - ▶ [Revenue from Other Governments](#)
 - ▶ [PICA City Account](#)
 - ▶ [Revenue from Other Funds](#)
- Historical Trends
- Personnel Levels
- Inter-City Comparisons
- Glossary and Sources

Wage and Earnings Tax

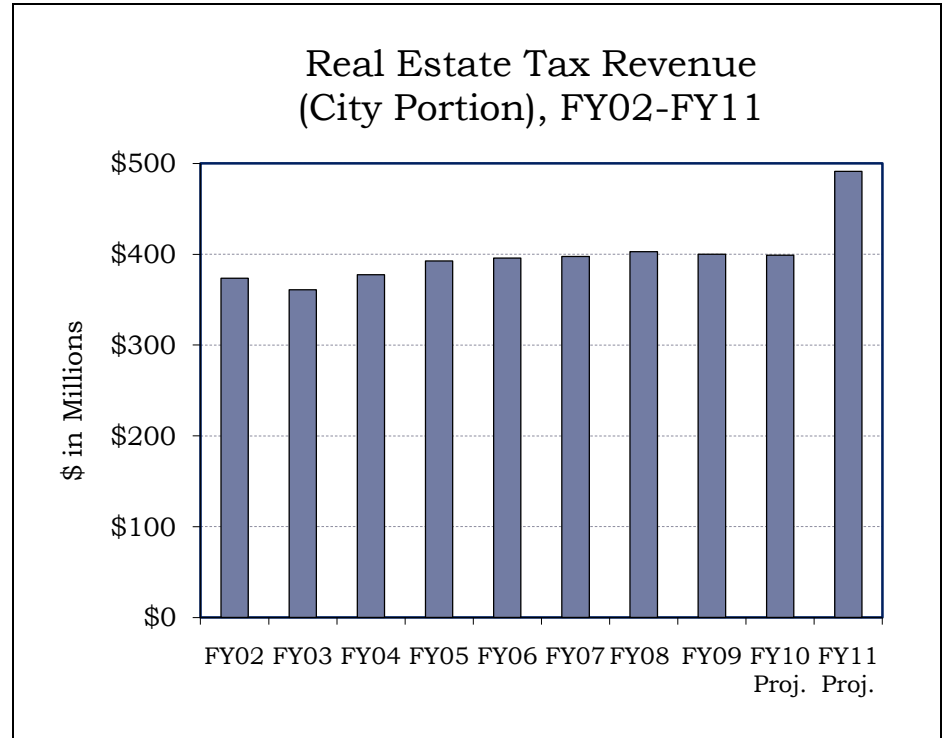
- 29.4 percent of projected FY11 revenues (37.1 percent if the PICA City Account is included)
- A tax on salaries, wages, and other employee compensation. City residents pay it regardless of where they work; non-residents pay the tax on income earned within the city.
- Overall wage and earnings tax revenues are projected to increase at a compound annual growth rate of 1.3 percent from FY02 to FY11.
- The projected 0.5 percent increase in wage and earning tax collections in FY10 reflects increases in delinquent collections due to the City's tax amnesty program. Total tax amnesty program collections through August 2010 were \$9.5 million.
- In 2008, residents of 14 out of 20 largest US cities surveyed by the Government of the District of Columbia are subject to an income tax. Philadelphia's combined state and local tax rate is the highest for families earning up to \$100,000 per year.



Tax Rates (Percent)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Resident	4.5400	4.5000	4.4600	4.3300	4.3000	4.2600	4.2190	3.9800	3.9296	3.9280
Non-Resident	3.9462	3.9127	3.8801	3.8197	3.7716	3.7557	3.7242	3.5392	3.4997	3.4985

Real Estate Tax

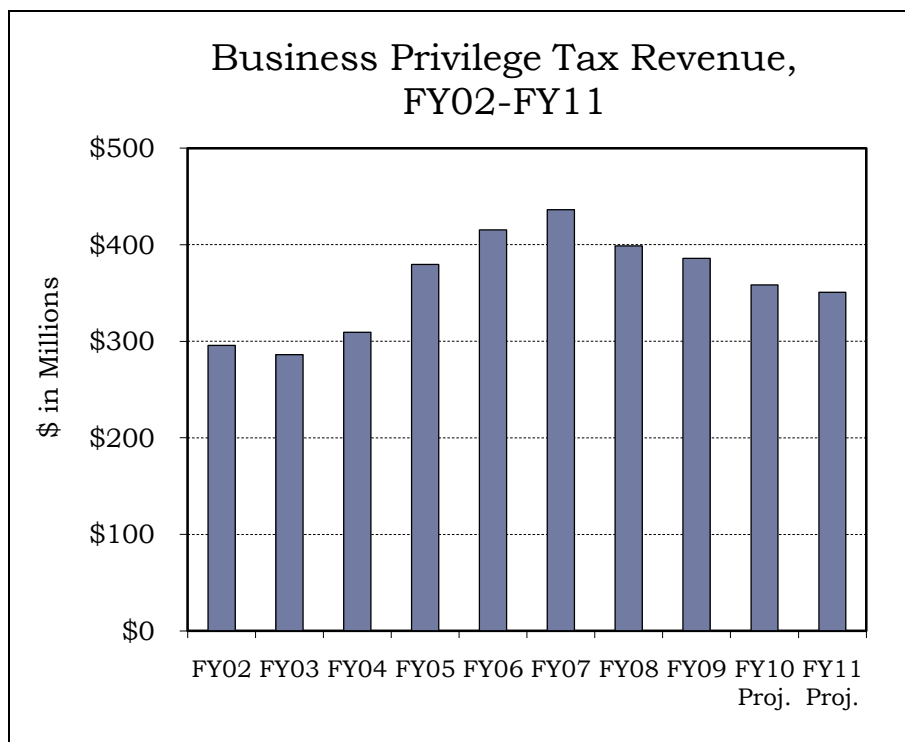
- 12.8 percent of projected FY11 General Fund revenues.
- This tax is imposed for the City and School District of Philadelphia. The City receives 45.4 percent of collections with the remainder going to the School District.
- For the first time since 1990, the combined City and School District real estate tax rate will increase in 2011, from 8.264 percent to 9.082 percent. The increase reflects an increase in the City portion of the tax.
- Revenues from the City portion of the tax increased at a compound annual growth rate of 0.8 percent from FY02 through FY10.
- Revenues are projected to decline \$1.1 million in FY10, despite \$9.9 million in delinquent collections resulting from the City's tax amnesty program. Revenues are projected to increase 23.2 percent in FY11, due to the tax rate increase.



Tax Rates (Percent)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
School District	4.519	4.790	4.790	4.790	4.790	4.790	4.959	4.959	4.959	4.959
City	3.745	3.474	3.474	3.474	3.474	3.474	3.305	3.305	3.305	4.123
Total	8.264	8.264	8.264	8.264	8.264	8.264	8.264	8.264	8.264	9.082

Business Privilege Tax

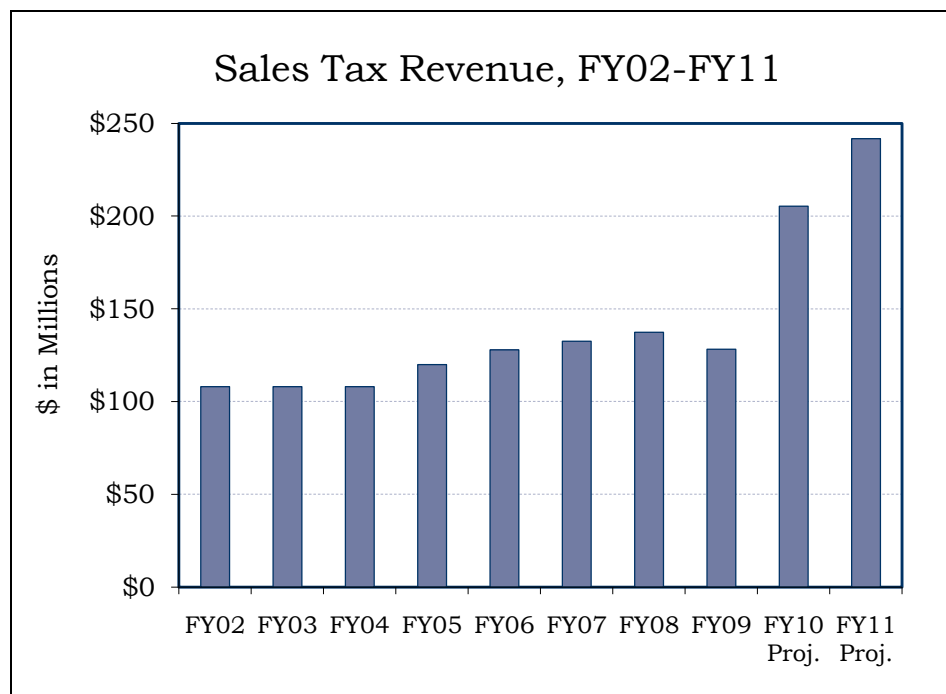
- 9.1 percent of projected FY11 General Fund revenues.
- Individuals, partnerships, associations and corporations engaged in for-profit activity in Philadelphia must file a return.
- BPT revenues are difficult to forecast, as the tax includes two separate levies on net income and gross receipts, and net income is particularly volatile over time.
- The gross receipts tax rate has declined 56 percent since 1995. The net income rate declined slightly beginning in FY08.
- FY10 revenues are projected \$27.8 million below the FY09 level, due to a \$35.9 million decline in current collections which is offset by a \$8.1 million increase in delinquent collections. The FY10 increase in delinquent collections reflects \$23.2 million collected through the City's tax amnesty program.
- In FY11, BPT revenues are projected to decline for the fifth consecutive year, primarily reflecting reduced economic activity. Projected FY11 revenue is 19.6 percent below FY07.



Tax Rates	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Net Income	6.50	6.50	6.50	6.50	6.50	6.50	6.45	6.45	6.45	6.45
Gross Receipts	.2400	.2300	.2100	.1900	.1665	.1540	.1415	.1415	.1415	.1415

Sales Tax

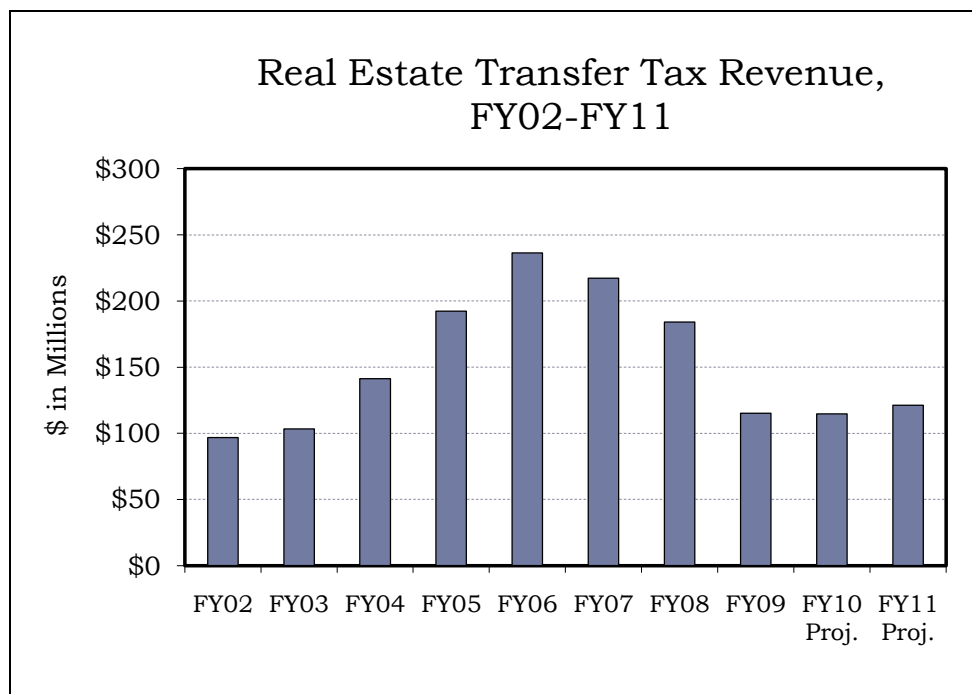
- 6.3 percent of projected FY11 revenue.
- Levied on retail sales of tangible personal property or services, and on the use in Philadelphia of personal property or services purchased at retail. Sales of clothing, most food items, and various services are exempt from the tax.
- Revenue is projected to increase 17.8 percent in FY11, due to the impact of a projected 2 percent growth in the tax base, combined with the impact of a full year of collections at the higher tax rate of 2 percent which became effective in October 2009.
- In 2008, among the 20 largest US cities included in a survey by the Government of the District of Columbia, Philadelphia's combined state and local tax rate of 7 percent was the 11th highest.



Tax Rates	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
City	1%	1%	1%	1%	1%	1%	1%	1%	2%	2%
State	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Total	7%	7%	7%	7%	7%	7%	7%	7%	8%	8%

Real Estate Transfer Tax

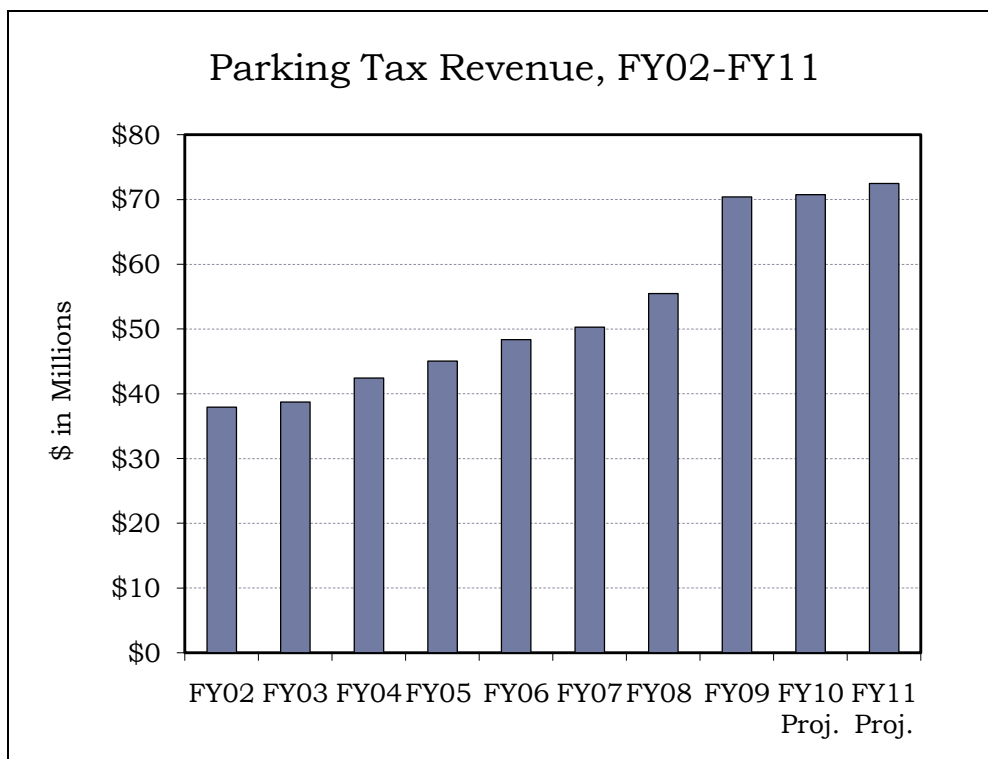
- 3.1 percent of projected FY11 General Fund revenues.
- Levied on sale or transfer of real estate, and applies to the sale or transfer of an interest in a corporation or partnership that owns the real estate.
- Revenues fell 51.3 percent between FY06 and FY09. Reflecting a stabilizing real estate market, revenues are projected to decline by 0.3 percent in FY10, and increase 5.6 percent in FY11.



Tax Rates	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
City	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
State	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%

Parking Tax

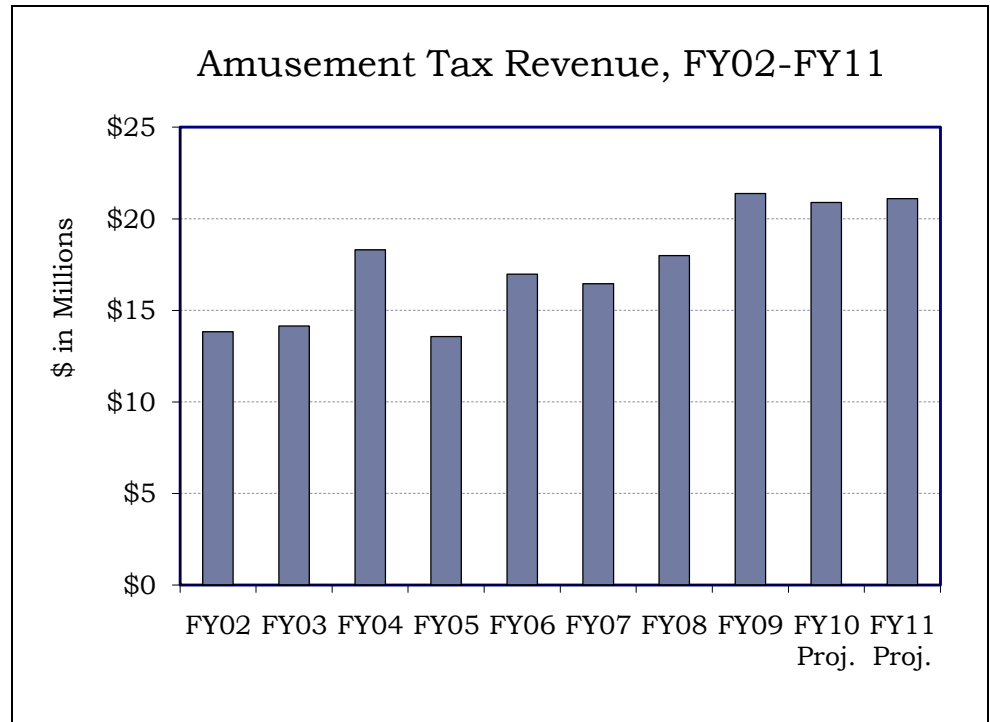
- 1.9 percent of projected FY11 General Fund revenues.
- Levied on gross receipts from all financial transactions involving parking or storing motor vehicles in outdoor or indoor parking lots and garages.
- Rate increased from 15 to 20 percent in FY09



Tax Rate	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Parking Tax	15%	15%	15%	15%	15%	15%	15%	20%	20%	20%

Amusement Tax

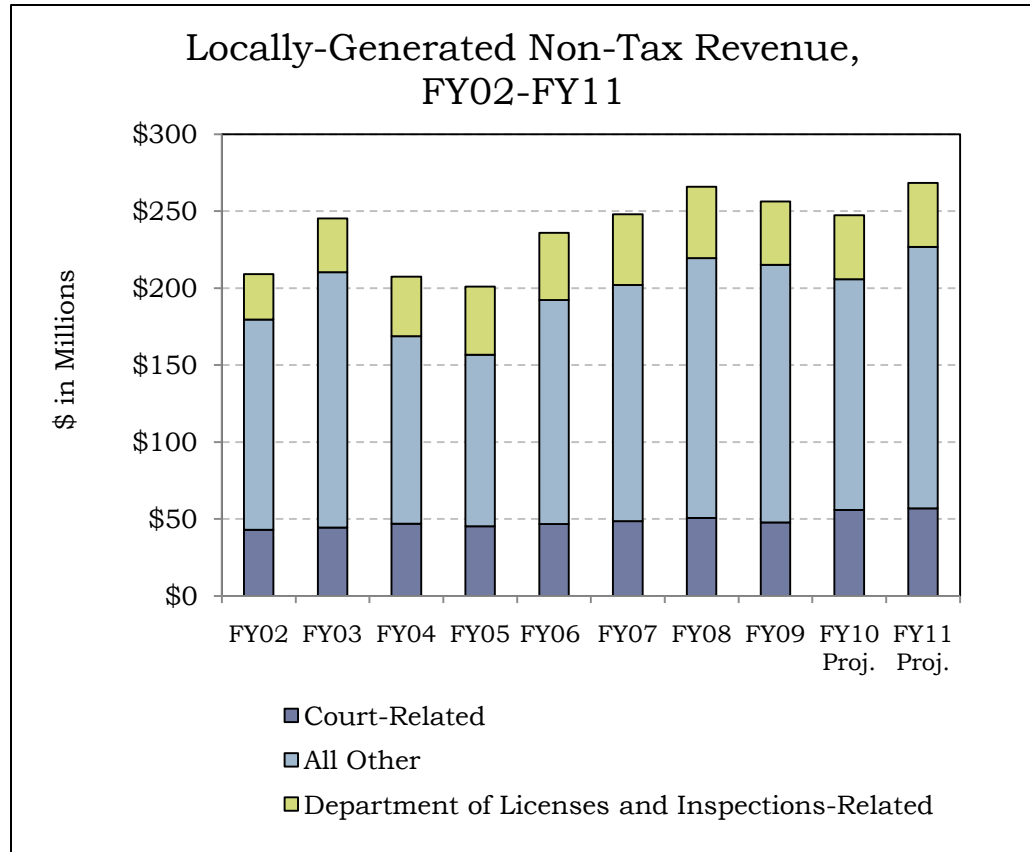
- 0.5 percent of projected FY11 General Fund revenue.
- Imposed on admission fees to any amusement venue in Philadelphia, including concerts, movies, sports events, night clubs and convention shows for which admission is charged.
- Revenue is projected to increase at a compound annual growth rate of 4.8 percent from FY02 through FY11.
- Revenue declined in FY05 because of the National Hockey League Strike, and has increased since FY08 due in part to the success of the Phillies.



Tax Rate	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Amusement Tax	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%

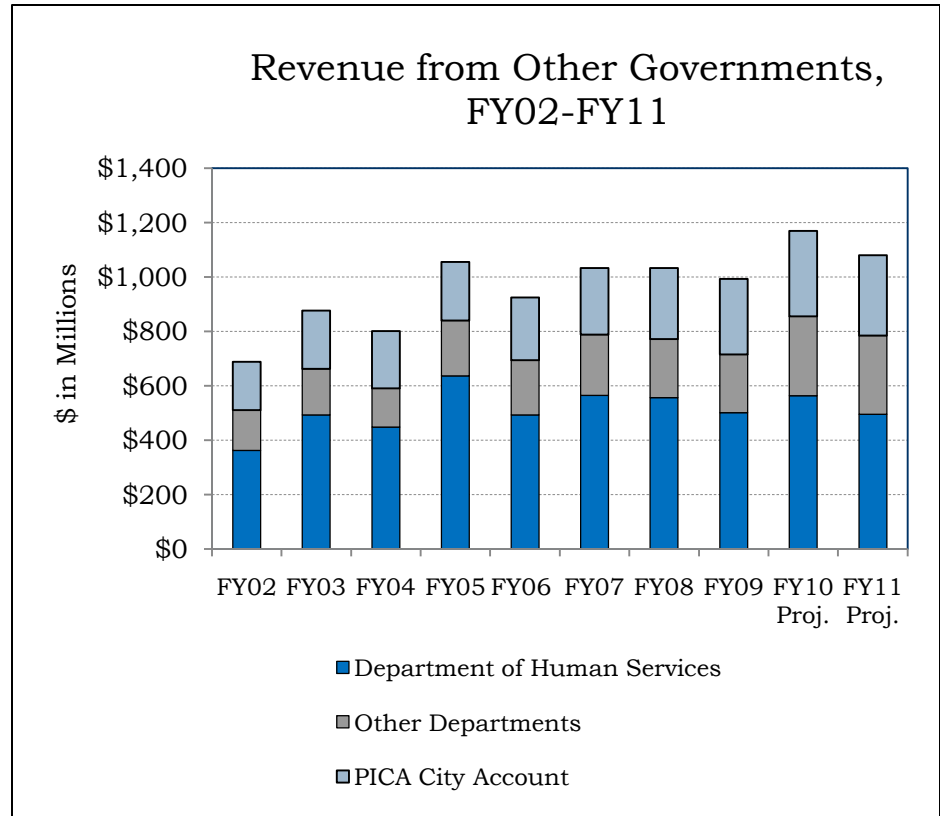
Locally-Generated Non-Tax Revenue

- 7.0 percent of projected FY11 General Fund revenue.
- From FY02 through FY11, locally-generated non-tax revenue is projected to increase at a compound annual growth rate of 2.9 percent.
- Over the FY02-FY11 period, court-related revenue is projected to increase at a compound annual growth rate of 3.2 percent, while Department of Licenses and Inspections-related revenue is projected to increase at 3.8 percent, and all other categories of locally-generated non-tax revenue are projected to increase at 2.5 percent.
- Much of the Department of Licenses and Inspections-related revenue increases are due to rate increases.



Revenue from Other Governments

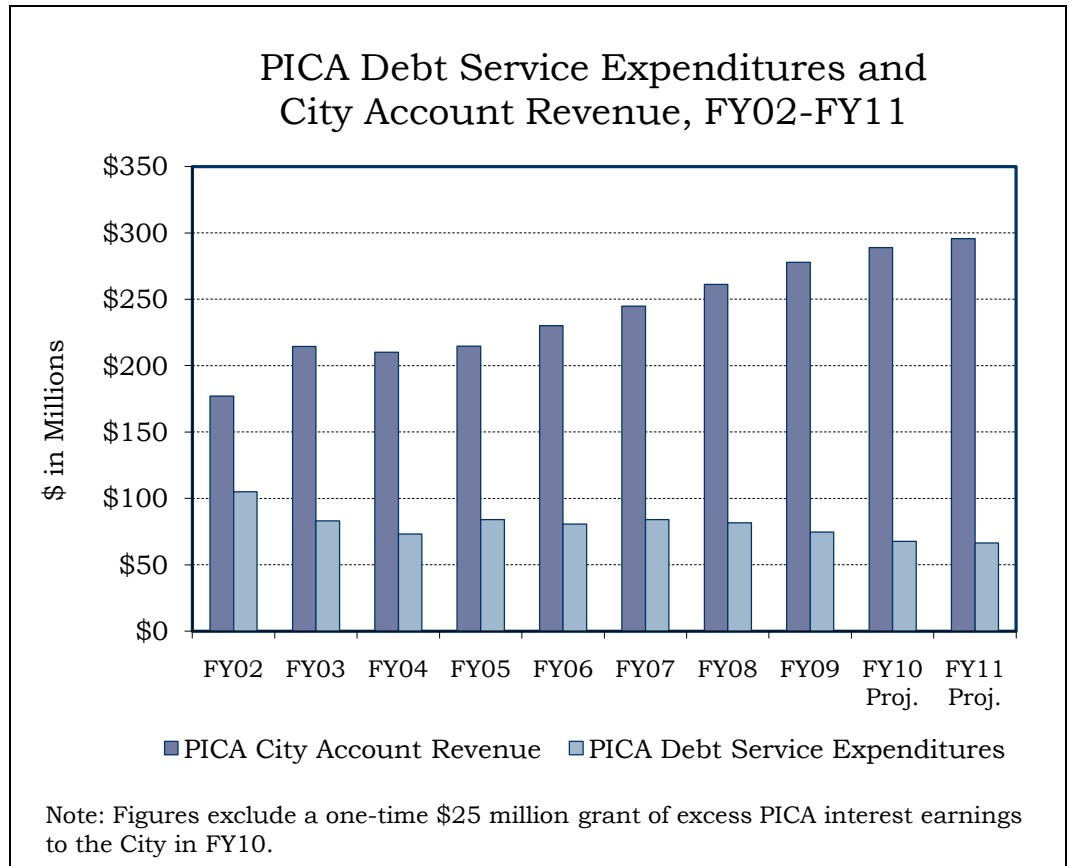
- 28.1 percent of projected FY11 revenue.
- This revenue category is projected to increase at a compound annual growth rate of 5.1 percent from FY02 through FY11.¹
- Over the FY02-FY11 period, approximately half of these revenues were State and Federal reimbursements to the Department of Human Services (DHS) for the cost of child welfare and juvenile justice services. There is considerable year-to-year variation in these reimbursements due to variable timing of the City's receipt of State and Federal funds.
- From FY02 through projected FY11, DHS revenue from other governments increased at a compound annual growth rate of 3.5 percent, while PICA City Account revenue increased 5.9 percent, and all other revenue in this category excluding State revenue for wage tax relief increased 3.5 percent.
- The FY11 fall-off is a result of reduced State and federal funding. Continued reductions will have an impact on City revenue streams.



¹ If State gaming revenue received to support wage tax reduction, a new revenue source beginning in FY10, were excluded, the rate of increase would have been 4.6 percent.

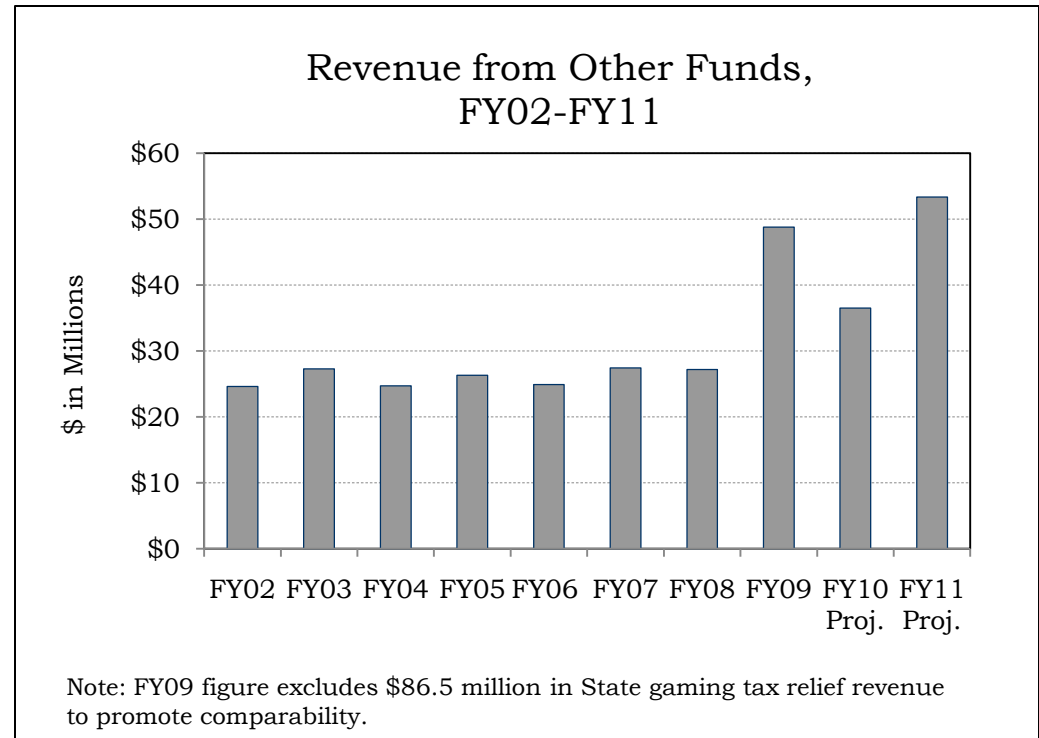
PICA City Account

- PICA City Account revenue is a component of revenue from other governments and equals 7.7 percent of projected FY11 revenues.
- The first 1.5 percentage points of wage, earnings, and net profits taxes paid by city residents are dedicated to PICA. This dedicated tax is known as the PICA Tax. A portion of PICA Tax revenue is used to pay debt service on PICA bonds, and the remainder is paid to the City and is shown in the City budget as PICA City Account revenue.
- Total PICA City Account revenue is projected to increase at a compound annual growth rate of 5.9 percent from FY02 to FY11. This growth exceeds overall wage and earnings tax growth due to reductions in the rate of the City portion of the wage tax, as well as reductions in PICA debt service.



Revenue from Other Funds

- 1.4 percent of projected FY11 General Fund revenue.
- Revenue in this category was unusually high in FY09 due to the return of \$11.8 million in Productivity Bank funds to the General Fund, and a \$10.1 million reimbursement from the Grants Revenue Fund from Help America Vote Act (HAVA) revenue.
- FY11 revenue from other funds is projected to increase by \$16.8 million or 46.1 percent due to increased revenue to support the cost of the 911 system.

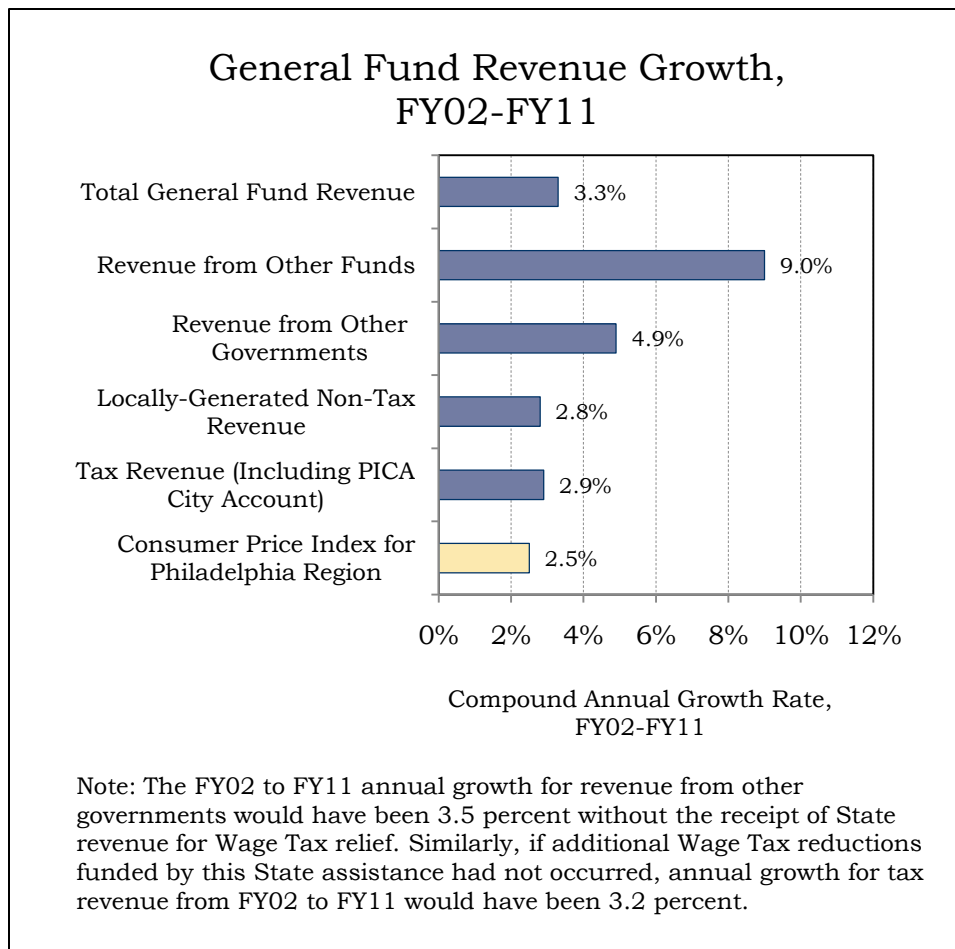


Historical Trends

- Overview
- Expenditures
- Revenues
- Historical Trends
 - ▶ [Revenues](#)
 - ▶ [Tax Rates](#)
 - ▶ [Expenditures](#)
 - ▶ [Long-Term Obligations](#)
 - ▶ [Pension Costs](#)
- Personnel Levels
- Inter-City Comparisons
- Glossary and Sources

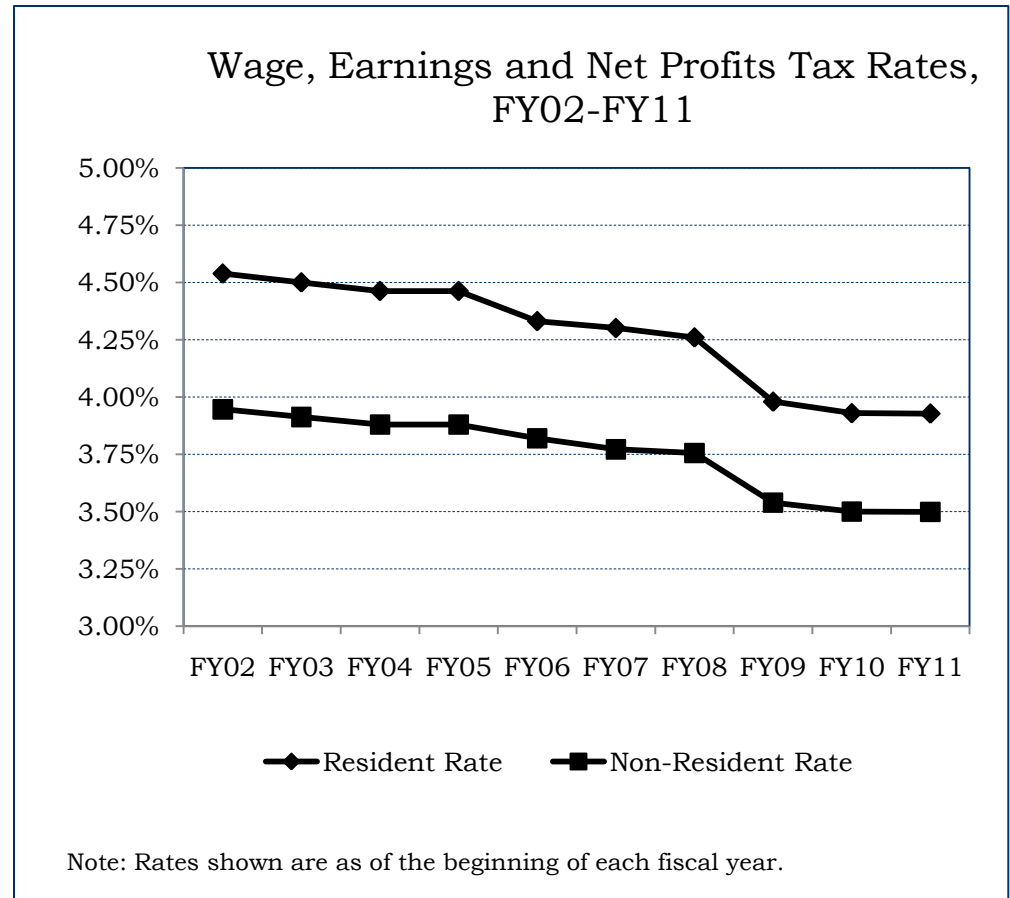
Revenues

- Total General Fund revenue is projected to increase at a compound annual growth rate of 3.3 percent from FY02 to FY11, compared to regional inflation of 2.5 percent over the same period.
- Since FY02, the General Fund has become slightly less reliant on tax and locally-generated non-tax revenues and more reliant on revenue from other governments and funds, an area which is beginning to experience reduced funding levels.
- Tax revenues (including the PICA City Account) made up 72.8 percent of General Fund revenues in FY02 and a projected 71.3 percent in FY11. Taxes would have made up 73.5 percent of FY11 revenues if not for the receipt of State gaming funds which allowed additional wage tax rate reductions beginning in FY09.
- Revenues from other governments (excluding the PICA City Account) made up 19.5 percent of General Fund revenue in FY02 and a projected 20.4 percent in FY11. These revenues would have made up 18.1 percent of revenues if the City had not received State funding for wage tax relief.
- Revenue from other funds grew more rapidly than the other major categories of General Fund revenue due to a significant increase in 911 surcharge revenue.



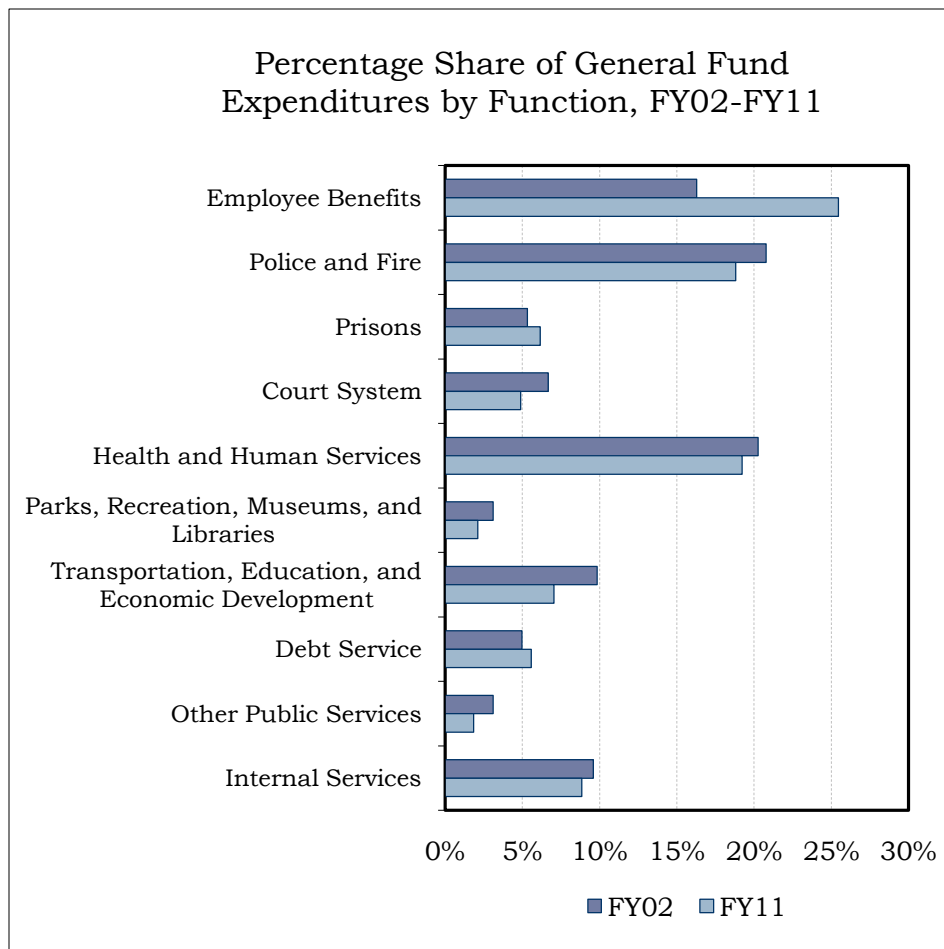
Tax Rates

- From FY02 to FY11, the resident wage tax rate declined from 4.54 percent to 3.93 percent, and the non-resident rate from 3.95 percent to 3.50 percent. Since 1996, the wage tax rate has declined 20.8 percent for residents and 18.9 percent for non-residents.
- From FY96 to FY11, the business privilege tax gross receipts tax rate has declined 53 percent, from 3 mills to 1.415 mills.
- Major reductions in the wage tax rate since FY09 have been funded through allocations of State gaming revenue to the City. The allocation for FY11 is \$86.3 million.
- Wage and business tax reductions were halted in FY10 in response to the fiscal crisis. Since 2008, the City has raised rates of three major taxes: the parking tax was increased from 15 to 20 percent in July 2008, the City sales tax from 1 to 2 percent in October 2009, and the City real estate tax from 3.305 percent to 4.123 percent in 2011.



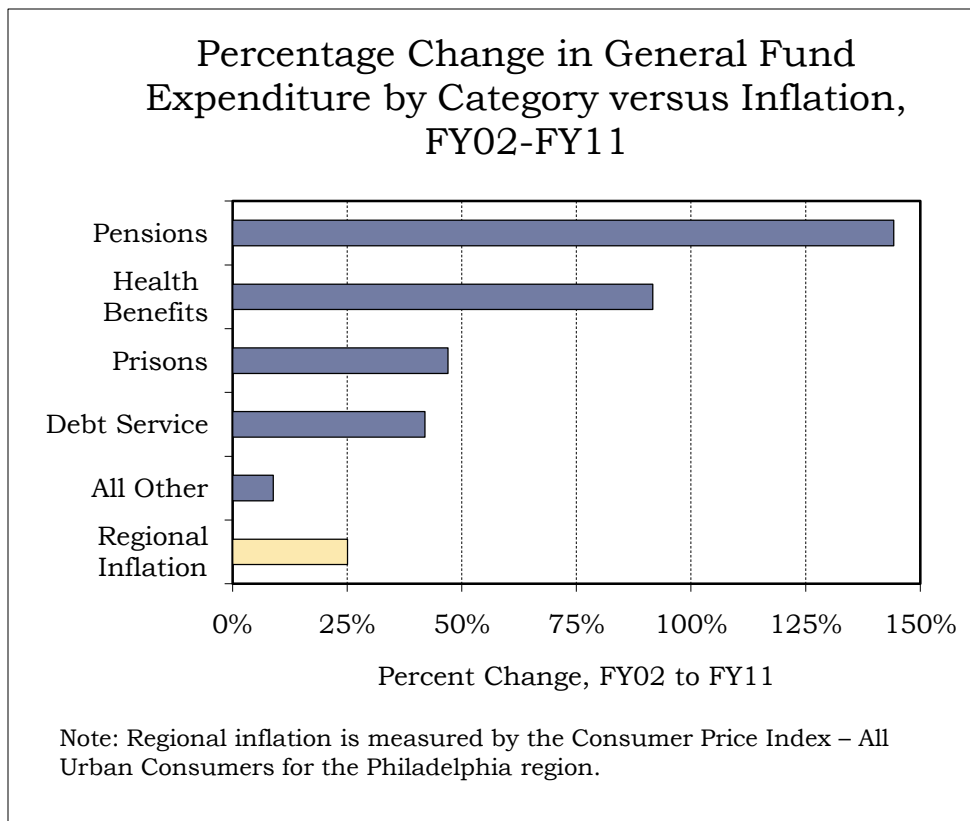
Expenditures

- From FY02 to FY11, spending for employee benefits, prisons, and debt service increased as a percentage of total General Fund expenditures. The largest change occurred in employee benefits, which increased from 16.3 percent of General Fund expenditures in FY02 to 25.5 percent in FY11.
- Over the same period, spending for all other categories decreased as a percentage of the budget, including spending for the police and fire departments, the court system, health and human services, parks and recreation, museums, libraries, transportation, education, economic development, and internal services.
- Without the State-authorized deferral of \$80 million in pension costs in FY11, assuming the overall budget remained the same, benefits spending would have made up 27.6 percent of the FY11 budget.
- If employee benefits had remained at the FY02 level in terms of budget share in FY11, an additional \$347 million would have been available in FY11 for services, tax reduction, capital investment, or other priorities.



Expenditures

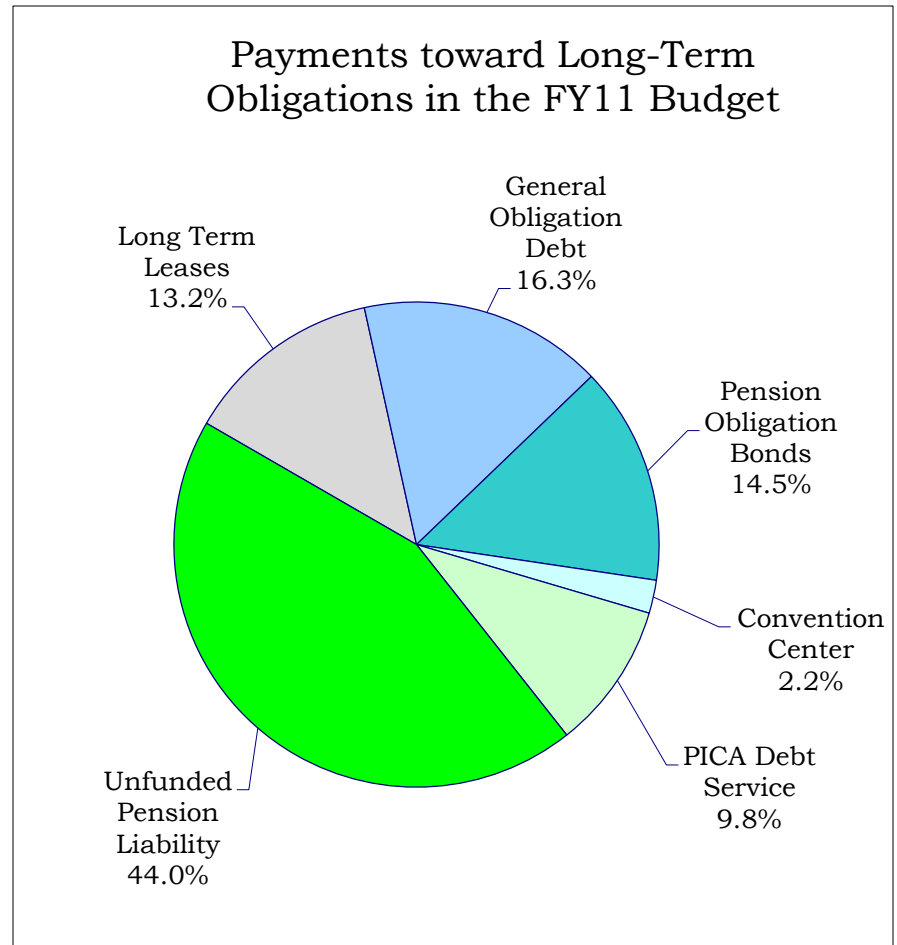
- From FY02 to FY11, there has been a significant increase in the share of the budget allocated to the costs of employee pensions, health and welfare benefits, prisons and debt service. The spending increase for these categories over this ten-year period is:
 - ▶ Pensions: \$283.4 million
 - ▶ Health and welfare benefits: \$183.3 million
 - ▶ Prisons: \$74.6 million
 - ▶ Debt service: \$62.5 million
- From FY02 through FY11, combined spending for pensions, health benefits, prisons, and debt service is projected to increase 85.8 percent. The rest of the budget is projected to increase only 8.9 percent over the same period.
- Regional inflation, as measured by the Consumer Price Index – All Urban Consumers, is projected to be 25.1 percent over this period.



Long-Term Obligations

- In FY11, the City has budgeted payments of \$678.4 million toward long-term obligations, including:
 - ▶ General Obligation debt service: \$110.4 million
 - ▶ PICA debt service: \$66.5 million
 - ▶ Pension Obligation Bonds debt service: \$98.6 million
 - ▶ Long-term leases: \$89.6 million
 - ▶ Payment to reduce unfunded pension liability: \$298.3 million¹
 - ▶ Convention Center subsidy: \$15.0 million
- These payments limit the City's financial flexibility because they cannot be controlled in the short term.
- In FY11, spending for long-term obligations is projected to equal 17.6 percent of total General Fund and PICA debt service expenditures, which exceeds the 15.0 percent goal contained in the City's debt policy.
- If the City had not been granted authority to defer \$80 million in pension payments in FY11, the payment to reduce the unfunded pension liability would have been \$378.3 million, or 49.9 percent of total long-term obligation payments.

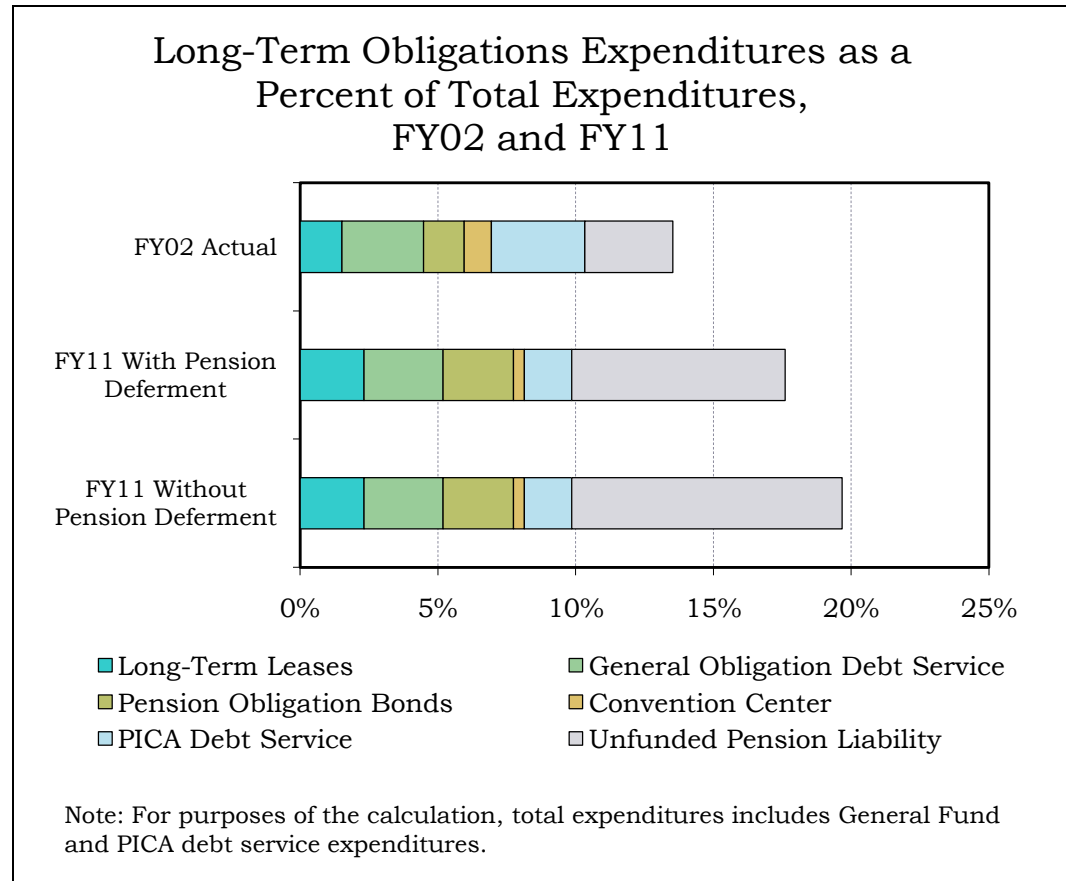
¹ The FY11 budgeted amount less normal cost.



Long-Term Obligations

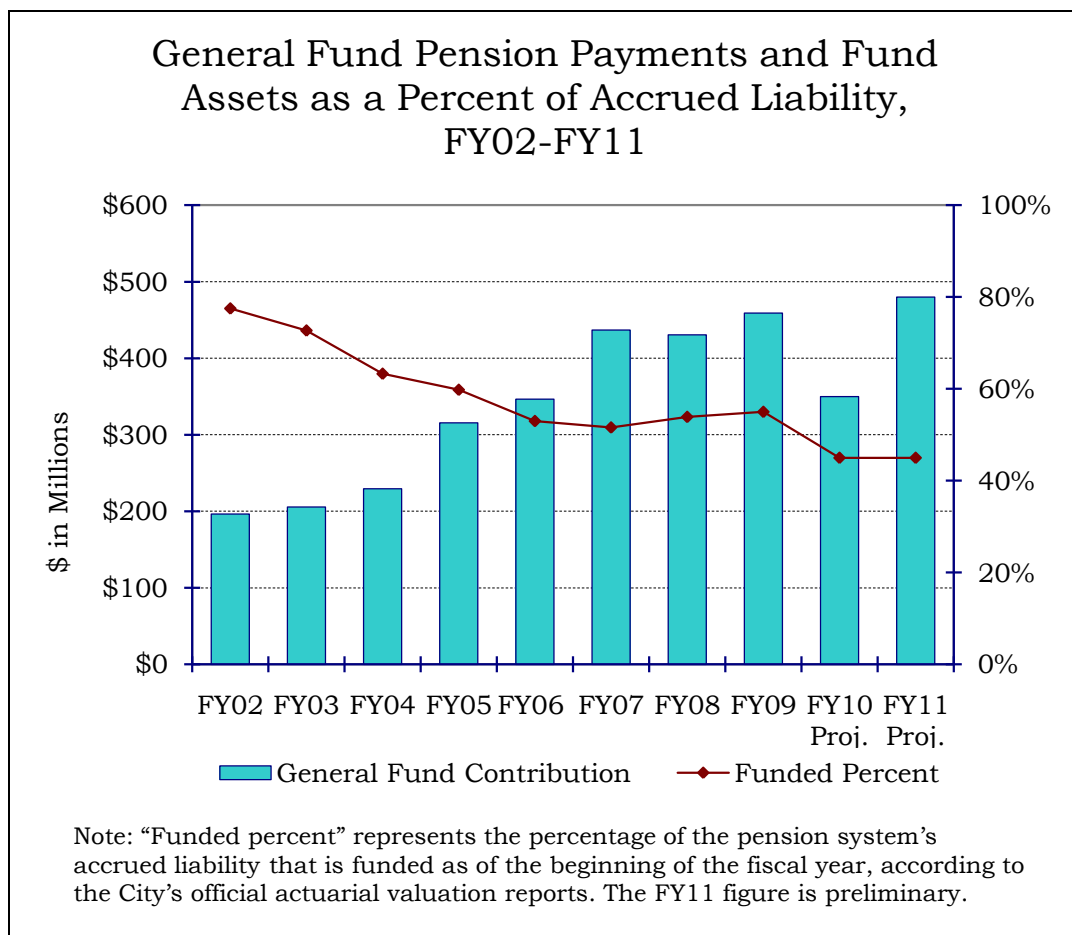
- Payments for long-term obligations have been increasing, from 13.5 percent of General Fund and PICA debt service expenditures in FY02 to 17.6 percent in FY11.¹
- Without the deferral of \$80 million in payments toward the unfunded pension liability, the cost of long-term obligations would have comprised 19.7 percent of total spending in FY11.
- As more and more of the budget is dedicated to costs that cannot be reduced during the fiscal year, the City has fewer and fewer options when it is faced with making mid-year corrections to balance the budget.

¹ Consistent with the City's debt policy, PICA debt service is included in this calculation since this cost represents a fixed, long-term obligation that reduces the City's financial flexibility.



Pension Costs

- The City's pension fund costs (including direct payments to the Pension Fund and debt service on Pension Obligation Bonds) have increased from \$196.6 million in FY02 to a projected \$480.0 million in FY11. Over the same period, the percent of pension fund liabilities that are funded has dropped from 77.5 percent to a projected 45 percent.
- The City now pays to the Pension Fund only the minimum amount required under State law.
- The City's pension obligations have been reduced over the past two years due to a State-authorized deferral of \$155 million in pension payments in FY10 and \$80 million in FY11. Under State law, these deferred amounts must be paid back to the Pension Fund with interest by the end of FY14.



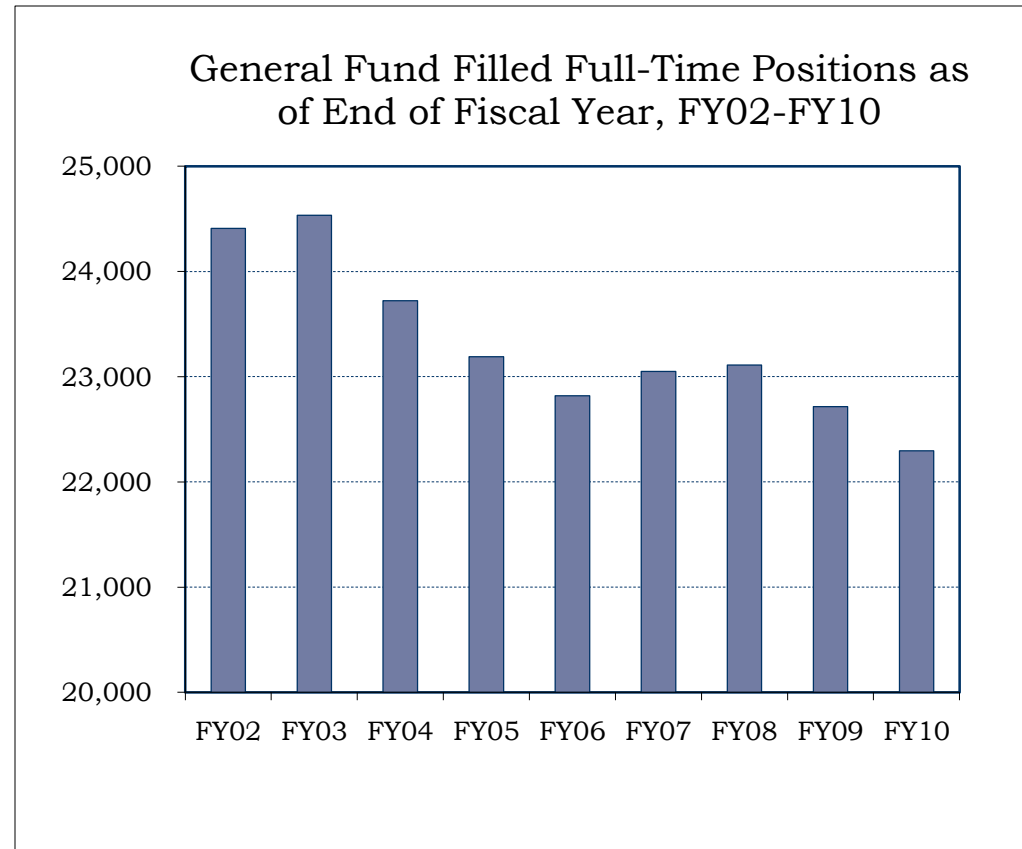
Personnel Levels

- Overview
- Expenditures
- Revenues
- Historical Trends
- Personnel Levels
 - ▶ [Personnel Trends](#)
 - ▶ [Personnel Trends by Agency](#)
 - ▶ [Distribution of Personnel by Agency](#)
 - ▶ [Distribution of Personnel by Program](#)
- Inter-City Comparisons
- Glossary and Sources

Personnel Trends

- Over the past eight years, total filled full-time positions funded through the General Fund declined by 8.7 percent, from 24,411 at the end of FY02 to 22,297 at the end of FY10.

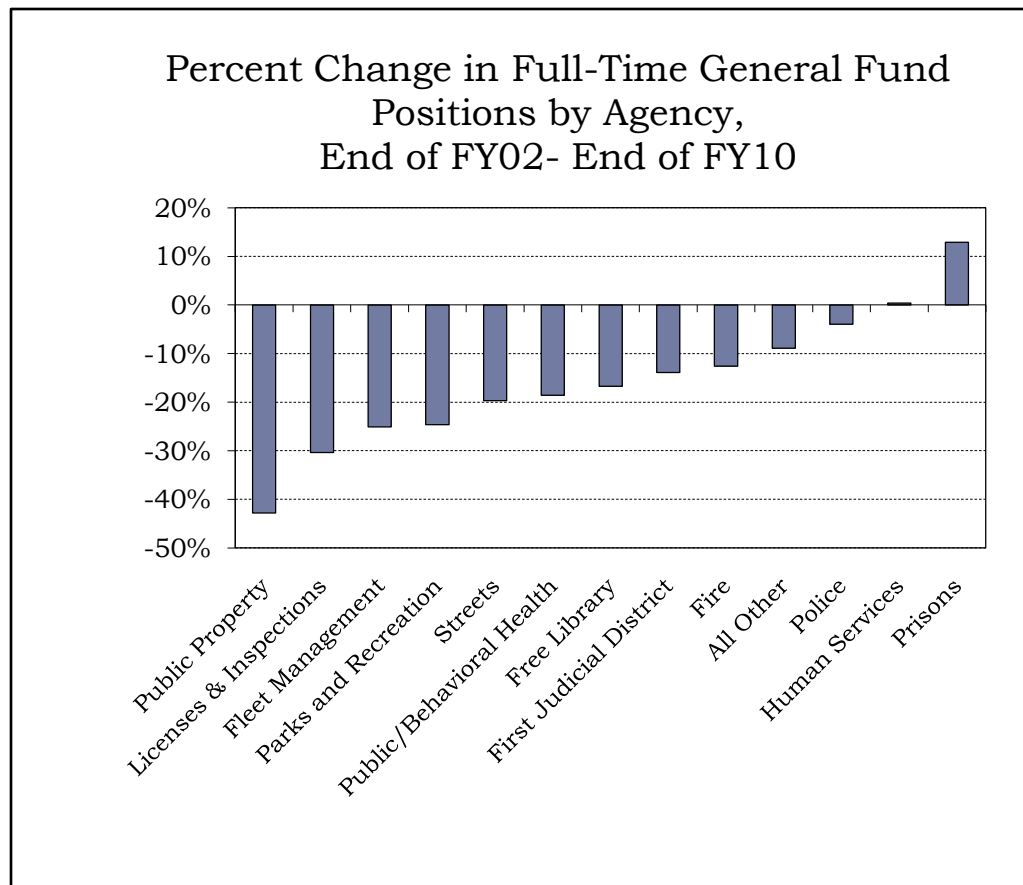
Note: Total City of Philadelphia employment includes employees funded through various funds other than the General Fund, such as the Grants Revenue Fund, Water Fund, Aviation Fund, and Community Development Fund. Including all funds, the total number of filled full-time City positions declined 7.7 percent from 29,096 at the end of FY02 to 26,863 at the end of FY10.



Personnel Trends by Agency

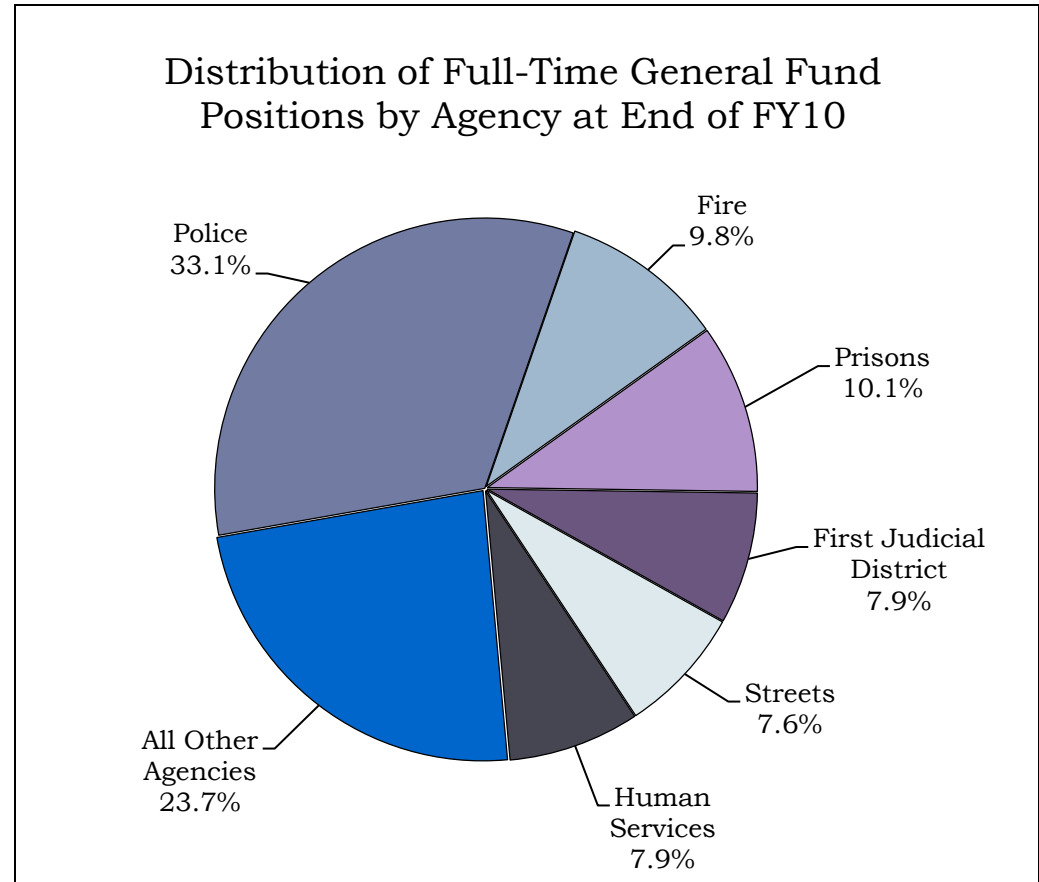
- Among the City's major departments and agencies, all except the Prisons System and the Department of Human Services have seen personnel reductions since FY02:
 - ▶ Streets: -416
 - ▶ Fire: -314
 - ▶ Police: -305
 - ▶ First Judicial District: -283
 - ▶ Parks and Recreation: -193
 - ▶ Public/Behavioral Health: -156
 - ▶ Licenses & Inspections: -133
 - ▶ Free Library: -121
 - ▶ Fleet Management: -98
 - ▶ Public Property: -92
 - ▶ Human Services: +7
 - ▶ Prisons System: +258

- The net change in all other agencies was a decrease of 302 positions.



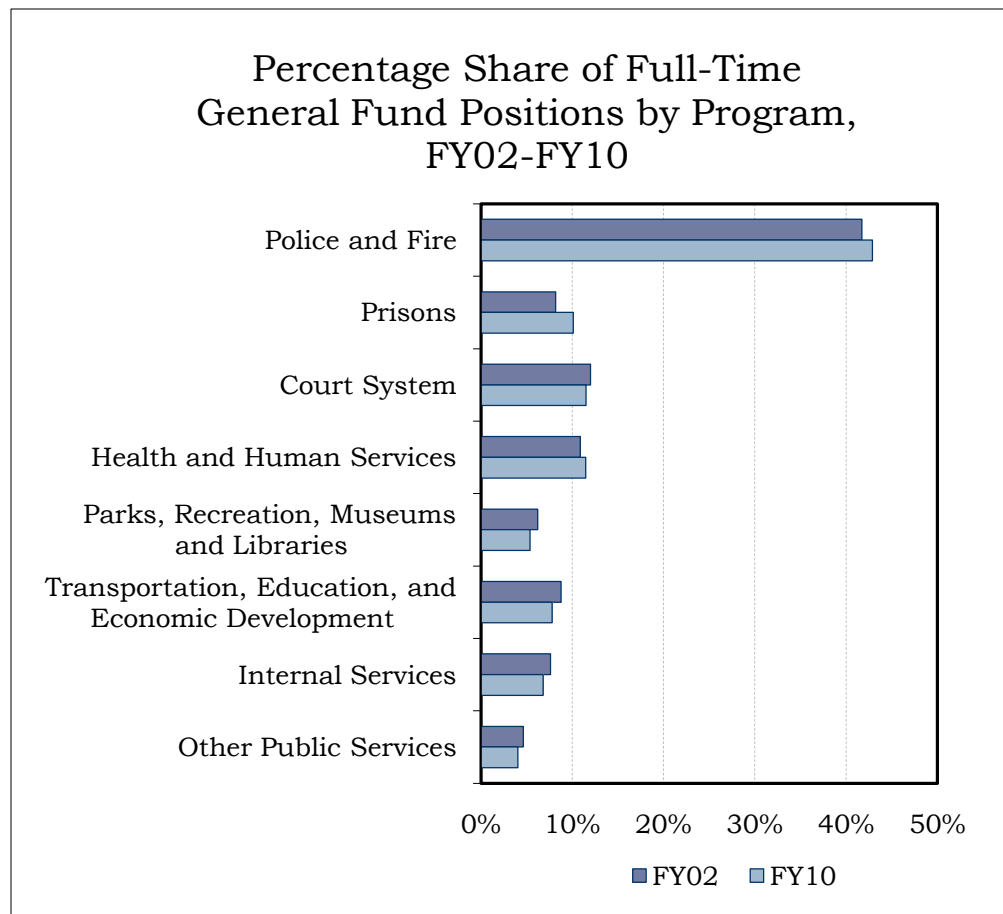
Distribution of Personnel by Agency

- The City agencies that had the most employees at the end of FY10 were:
 - ▶ Police Department: 7,378
 - ▶ Fire Department: 2,187
 - ▶ Prisons System: 2,254
 - ▶ First Judicial District: 1,756
 - ▶ Streets Department: 1,693
 - ▶ Department of Human Services: 1,751
- Those six agencies accounted for 76.3 percent of City full-time General Fund employees.
- Every other agency had fewer than 700 General Fund employees.



Distribution of Personnel by Program

- From a program perspective, between the end of FY02 and the end of FY10, the share of full-time General Fund positions within police, fire, prisons, and health and human services increased, while the share for other program categories decreased.
- The FY10 percentage share for each program category was as follows:
 - ▶ Police and Fire: 42.9 percent
 - ▶ Prisons: 10.1 percent
 - ▶ Court system: 11.5 percent
 - ▶ Health and human services: 11.5 percent
 - ▶ Parks, recreation, museums, and libraries: 5.4 percent
 - ▶ Transportation, education, and economic development: 7.8 percent
 - ▶ Internal services: 6.8 percent
 - ▶ Other services: 4.0 percent



Inter-City Comparisons

- Overview
- Expenditures
- Revenues
- Historical Trends
- Personnel Levels
- Inter-City Comparisons
 - ▶ [Expenditures](#)
 - ▶ [Revenues](#)
 - ▶ [Tax Rates](#)
- Glossary and Sources

Expenditures

- Among the nation's ten largest cities, Philadelphia and New York City have an unusual distribution of expenditures, with a relatively high proportion of their spending for health, housing, and public welfare services, and a relatively low proportion for public safety. This reflects their unusual service provision responsibilities resulting from their status as city-counties.
- Philadelphia also has a large percentage of its spending allocated to corrections, judicial and legal services, functions often paid for by counties.

Percentage Distribution of Major City Expenditures by Program, FY08				
	Health, Housing, and Public Welfare	Public Safety	Corrections, Judicial and Legal Services	Other
New York City	45.1	16.5	5.6	32.8
Los Angeles	10.2	34.2	2.2	53.4
Chicago	11.6	39.1	0.8	48.4
Houston	8.8	43.4	3.3	44.5
Phoenix	7.8	46.3	3.6	42.2
Philadelphia	44.8	15.2	13.1	26.9
San Antonio	11.5	37.1	1.7	49.7
Dallas	7.7	42.8	2.3	47.2
San Diego	20.2	33.3	2.1	44.5
San Jose	1.7	40.1	--	58.2

Source: U. S. Census Bureau, Annual Survey of State and Local Government Finances, 2008. Expenditures include current operations spending for all categories except utilities, transit, air transportation, education, and ports.

Revenues

- Philadelphia's distribution of tax revenue is unusual among large cities. Based on 2008 data, property taxes accounted for 14.1 percent of city tax revenue, the lowest percentage among the ten largest US cities. Individual income tax revenue comprised 53.5 percent of taxes, the highest among the comparison cities. The City's dependence on general sales taxes was the lowest among the ten cities, at 4.8 percent.
- Among the ten largest US cities, only New York City and Philadelphia levy taxes on individual income. New York City's Personal Income Tax is levied on both earned and unearned income, while Philadelphia's Wage, Earnings, and Net Profits taxes are levied on earnings only.
- Two independent tax policy commissions have found that the City of Philadelphia's high reliance on an individual income tax has a detrimental impact on the local economy.

Percentage Distribution of Major City Tax Revenues by Type, FY08				
	Property	General Sales and Gross Receipts	Individual Income	Other
New York City	34.0	12.6	25.3	28.1
Los Angeles	45.4	14.3	--	40.3
Chicago	16.9	13.6	--	69.6
Houston	53.3	28.2	--	18.4
Phoenix	24.3	57.9	--	17.8
Philadelphia	14.1	4.8	53.5	27.6
San Antonio	49.1	32.1	--	18.8
Dallas	57.5	22.9	--	19.6
San Diego	57.5	21.2	--	21.3
San Jose	55.9	13.4	--	30.8

Source: U. S. Census Bureau, Annual Survey of State and Local Government Finances, 2008. Other tax revenues include selective sales, license, corporate net income, documentary and stock transfer, and taxes not elsewhere classified.

Tax Rates

- In Philadelphia, the 2008 combined state and local income tax rate for a household with an annual income of \$50,000 is 7.1 percent, well above that in other large cities.
- Philadelphia's combined state and local sales tax rate is comparable to that in other cities.
- The City's 2.64 percent effective residential property tax rate appears relatively high. However, the comparison may not reflect Philadelphia's relatively low assessments of real estate market value. Philadelphia's actual tax rate could be considerably lower. A more accurate comparison of the City's property tax rate may require improvements in the system of assessing real property. Reforms to the assessment process are now underway, with the establishment of the new Office of Property Assessment in October 2010.

Combined State and Local Tax Rates in 2008			
	Income (Rate at 50,000 income level)	Residential Property (Effective Rate per \$100)	Sales
New York City	1.2%	0.93	8.375
Los Angeles	--	1.10	8.5
Chicago	2.3%	0.67	8.75
Houston	--	2.52	8.25
Phoenix	1.0%	0.88	8.3
Philadelphia	7.1%	2.64	7
Detroit	5.5%	2.11	6
Jacksonville	--	1.60	7
Indianapolis	3.8%	2.93	5
Columbus	4.0%	1.98	6.75

Source: *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison, 2008* (Government of the District of Columbia, September 2009). Cities shown are the ten largest cities included in this report.

Glossary and Sources

- Overview
- Expenditures
- Revenues
- Historical Trends
- Personnel Levels
- Inter-City Comparisons
- Glossary and Sources
 - ▶ [Glossary](#)
 - ▶ [Sources and Notes](#)

Glossary

Compound Annual Growth Rate – A measure of annual growth over a time period which summarizes a series of variable growth rates with a single rate. It represents the annual growth rate that, if constant over a time period and compounded annually, would result in the same aggregate change as actually occurred over the full time period.

Debt Service – Interest and principal payments on City bonds and payments to other government entities that issue bonds on behalf of the City, including the Philadelphia Municipal Authority, Philadelphia Authority for Industrial Development, and Redevelopment Authority. The repayment of bonds issued by these organizations is secured by a lease or contract requiring the City to make payments sufficient to finance interest and principal payments on the debt.

Expenditures – Monies spent by the City in the course of operations during a fiscal year.

Fiscal Year – The City's time period for budget and accounting purposes, which runs from July 1 to June 30. The year correlates to the ending date. For instance, fiscal year 2011 (FY11) ends June 30, 2011.

Fund Balance – The amount of money remaining at the end of the fiscal year after accounting for all of the revenues and expenditures of the completed year added to the fund balance from the previous year.

General Fund – The primary fund supporting the operations of City government. This fund is primarily financed through tax revenue. It accounts for all revenues and expenditures of the City government except those for which a dedicated fund has been created.

Internal Services – Services provided administrative agencies to other City agencies, including the Office of Fleet Management, Department of Public Property, City Controller's Office, Division of Technology, Finance Department, Law Department, Managing Director's Office, Office of Human Resources, and Revenue Department.

Glossary (continued)

Locally-Generated Non-Tax Revenue – Revenue received from sources other than taxes, grants from federal and state government, and inter-fund transfer payments. Includes user fees, fines, rents, proceeds of asset sales, interest earnings, and payments in lieu of taxes from non-profit organizations.

Long-term Obligations – Commitments the City has made that require the expenditure of funds after the current fiscal year. These commitments include outstanding debt, long-term leases, and pension payments to retirees.

Revenue – Funds collected by the City to finance operations during a fiscal year. All types of General Fund revenue are classified into one of four categories: Taxes, locally-generated non-tax revenue, revenue from other governments, and revenue from other funds.

Revenue from Other Funds – Payments to the General Fund from the Water Fund, Aviation Fund, Grants Revenue Fund, and other City funds. These payments are reimbursements for costs incurred by the General Fund to support operations primarily financed through other funds, such as operations of the Philadelphia Water Department, the city's two airports, and activities financed by grants from the federal or state government.

Revenue from Other Governments – Financial assistance received from the federal government, the Commonwealth of Pennsylvania, or other governmental units such as the Philadelphia Parking Authority. This assistance is used to finance specific programs or reimburse specific costs that are paid by the General Fund.

Unfunded Pension Liability – The difference between the amount of money required to pay for all projected City pension benefits for current and future retirees and the amount of money currently in the Pension Fund.

Sources and Notes

Regional Inflation: U. S. Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, for the Philadelphia-Wilmington-Atlantic City region.

Performance Measures: Office of the Director of Finance, Office of Budget and Program Evaluation; Philadelphia Prison System; Office of the Deputy Mayor for Public Safety; Pennsylvania Uniform Crime Reporting System; City of Philadelphia, *Quarterly City Managers Report*, various years.

Historical Trends

- ▶ **Tax Rates:** Revenue Department.
- ▶ **Long Term Obligations:** Municipal Retirement System Actuarial Valuation reports, various years.

Personnel Levels: Office of the Director of Finance, Office of Budget and Program Evaluation, *Quarterly City Managers Report*, various years.