



“IN THE KNOW:” WHAT YOU NEED TO KNOW ABOUT THE CITY BUDGET

A high stakes game is being played behind the walls of City Hall, a game that will be conducted largely out of sight, but which will have enormous consequences for everyone who lives and works in Philadelphia. It will affect the neighborhoods you live in, the roads you drive on, the taxes you pay, the services you get from your government. It’s a battle shrouded in politics and clashing personalities, but with a prize of nearly \$4 billion in your tax dollars – who gets to spend it, who gets to keep it, and who gets left holding an empty bag.

Crunch time starts now on the city’s next spending plan. City Council has just one month to come up with its version of the budget and get it on the mayor’s desk. And the decisions members make this time will be particularly difficult and important because this is third straight year the city has faced a large budget hole – in this case around \$150 million – brought on in large part by the continuing economic downturn. First step? On Monday, May 3, Council will begin the public discussion with a hearing on a proposal to raise property taxes.

Starting today, the Committee of Seventy will offer a special series of our “**IN THE KNOW**” feature to help you understand the process, the politics, and consequences of this budget game, an annual fight that may seem arcane and dull, but which will help dictate the kind of city we all live and work in for decades to come. We’ll start with an overview of what’s going on now.

Why Does a Budget Even Matter?

Sure, it sounds boring, full of numbers and facts and figures, but the city’s annual budget is in fact a roadmap to how city government will spend your tax dollars. It affects everything from the hours at the libraries to the amount of debt your grandchildren will be paying off when they grow up. The total budget is \$3.9 billion, and that’s real money.

Who gets to decide all this?

The mayor proposes the annual budget and the City Council must approve it. In theory, the two share the task of setting priorities and working out the mechanics. In reality, Council has been driving the train lately, in part because this mayor has precious few allies among the members. When enough Council members get together, they can force the mayor to accept their version of the budget. They did it last year and they appear to be shaping up to do it again this year.

What does this \$3.9 billion pay for?

We’re talking about all the routine city business – police, fire houses, trash collection, issuing licenses, doing inspections, running courts and prisons, and that sort of thing. There is more of course. The school



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system, for example, is almost entirely independent and spends another \$3.2 billion. Then there are a bunch of smaller funds, including for the airport and for construction of buildings and roads. If you pile on the costs for independent entities like SEPTA and the Port Authority, the actual cost of running things in Philadelphia is a lot higher. But this \$3.9 billion is the main budget that funds all the direct city services.

So what's happening now with this budget you're talking about?

Council is getting ready to hammer out its own version of the budget. Mayor Michael Nutter sent out his proposal in March, but Council has made clear it is not going to accept what he wants. Council must have a budget plan approved by May 31. The mayor has to either sign or reject that plan by July 1. If he rejects it, Council has the power to force it into effect, but at least 12 of the 17 members must vote to do it.

What happens if the mayor and Council can't agree?

That would be very bad. In theory, the city government could come to a grinding halt on July 1, the start of the new "fiscal year." But this won't happen. Even last year, when a political fight in state government in Harrisburg delayed several key parts of the city's budget-balancing plan for months after the deadline, the city found a way to keep city services running, though it was painful and messy.

What does the mayor want this year?

He wants to raise taxes to cover the \$150 million budget deficit: a \$300-per-household fee for trash collection and a 2-cent-per-ounce tax on sugary drinks (but you diet soda fans are safe – no tax on those). Those tax hikes alone would raise \$146 million.

What do the Council members want?

They certainly don't want what the mayor wants. It appears they've already dismissed his tax proposals and they are openly talking about a temporary 12 percent property tax hike and a tax on some tobacco products. They may also consider cutting some vacant city jobs or even raising the widely-hated business taxes, which the city has been trying to cut for a decade.

Why doesn't Council like the mayor's proposed taxes?

Members say the trash tax, which would be a flat fee added to the property tax bill is unfair in two ways: the fee is the same no matter how big or small your property is and they say it would hit the poor harder than the rich, even if the mayor offers a discount for low-income homeowners. The soda tax, they say, is way too large (it would add \$1.44 to a six-pack of soda cans) and would hurt business for stores, distributors, and soda packagers.



Wait, didn't we fix the budget deficit with a sales tax hike last year?

You wish. The mayor had hoped to make an extra \$80 million or so from the sales tax hike this year and \$100 million in the next few years. But it looks like the economy has been so bad that he will fall far short of his goal, probably missing the mark by around \$20 million this year.

I hear the recession is over. Why aren't things getting better?

Unfortunately, government revenue tends to lag behind the economy. Even if the economic recovery weren't as slow and unsteady as it is, it would take a long time for the tax money from improved sales, a better housing market, and increasing employment to improve the city's budget picture. And things may feel grimmer this year since the mayor and Council used up many of the easiest options to close budget deficits in 2009 and 2010.

Didn't these same Council members kill a property tax hike last year?

Absolutely. Council members delivered a political beating to the mayor last year when he proposed a temporary 19 percent property tax hike. That is, in part, why the Mayor is reluctant to embrace it again. The other part is that the city's property tax assessment system has just about collapsed, making it harder to justify raising taxes - this is an important issue that is the subject of another edition of "IN THE KNOW":

http://www.seventy.org/OurViews_Bye_Bye_BRT.aspx.

Why did they change their minds about property taxes?

In part, they say the mayor's tax proposals are unfair and too steep. But they also seem to be enjoying tweaking the mayor and staying in control of the budget process by pushing their own ideas. The mayor and the Council members have a frosty relationship at best and that does make a difference in politics.

I read about other cities cutting spending. Why isn't Philadelphia doing this?

The mayor has proposed some cost cutting, including some unpaid days off for city employees, but basically he says he squeezed as much as he could in the 2009 and 2010 budgets, when he eliminated about 800 positions (mostly vacant) and cut spending by around \$220 million per year. After a series of town meetings last year, he concluded that the public doesn't want to get less out of its government, so he has vowed not to impose layoffs or steep service cuts for the 2011 fiscal year.



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Wouldn't some layoffs save money?

Sure they would, but that would mean cutting back some city services and pushing up the city's unemployment rate. And don't forget that the city's 23,000 employees and their union leaders are a powerful political force that no politician wants to annoy, particularly just months away from local elections. Also, three of the four city worker unions are negotiating their new contracts. If the mayor threatened large layoffs, he would have a much harder time getting agreement on some other things he wants, including a new pension system that will save the city lots of money in the far future.

What about cutting other costs?

The mayor tried that last year and he got beaten badly, politically speaking. He wanted to close some libraries and pools, but public outrage (and some angry rhetoric from City Council) forced him to back down. He doesn't seem any too eager to try that again.

If the mayor won't cut costs, will Council do it?

Here, again, is the thorny issue of the relationship between Council members and Mayor Nutter. He and Councilman Bill Green, the main advocate on Council for cost reductions, make no secret of their mutual hostility. That makes it difficult to get any cooperation between two figures who would otherwise seem to be natural allies in selling cost reductions to Council members and the public.

Does that mean there will be no cost reductions?

There probably will be some. City Council is reportedly thinking about eliminating some vacant positions, and may come up with some other ideas. But Council members are also gearing up for reelection next year, so they may be reluctant to impose deep service cuts that will alienate voters or back large layoffs that will offend the labor unions.

Why is government so expensive anyway?

A lot of it is the size of the city's workforce; salaries and benefits eat up 60 percent of the entire budget. Not only is health insurance getting more expensive, the cost of the city's pensions is a growing monster, in part because the city has failed to put enough money into the bank for decades. And the city has been borrowing lots of money in recent decades (including money to keep the pension system afloat) and the interest on that is getting more and more expensive.

Can the mayor and City Council control those costs?



Not in the short term, because they are locked in by long-term agreements. It is legally difficult and politically painful to lay off employees or reduce their benefits, and it would be a disaster to consider not paying interest on the city's debt. According to the mayor, he and Council have "only" about 45 percent of the budget, or about \$1.74 billion out of \$3.9 billion, available to use for short-term cuts (though some might say that's a lot of money). Of course, this problem didn't arise by magic – the programs and loans that cost so much now were created and sustained by previous office holders who were not willing to make the painful moves to control long-term costs.

Did the mayor ask the city workers' unions to pitch in to help?

Yes, and they haven't cooperated so far. He asked for contracts that included no raises and that allowed him to require workers to take some days off without pay. He also wanted a new pension system that will cost less for future employees. In the new police contract (the only one of the four contracts that is done yet), the officers managed to get raises and some other perks. The three other unions are sure to demand equal treatment.

Did he get anything at all from the unions?

Yes, though not everyone thinks it is enough. The police contract did give him the right to force officers to take days off without pay, and he also got the new pension system he wanted, which should save money but those savings won't help that much until the officers hired today start to retire. The three other unions will probably have to accept the same conditions (details on how all this worked are in another "IN THE KNOW" edition:

http://www.seventy.org/OurViews_Labor_Costs_and_the_Budget.aspx).

Ok, I think I get the picture. Is there anything else I need to know?

Remember that this process, however much of it is written into the law, is ultimately driven by human beings with their own interests, constituencies, opinions, rivalries, and temperaments. They are also politicians gearing up for local elections in 2011 in which voters will choose the mayor and all 17 Council members. The heat of that election season is just months away. Even those Council members that might choose to retire have to be concerned with their political legacies and the election campaigns of the people who might replace them.

So now I am interested. How can I follow Council as it makes its budget choices?

Formal decisions have to be made in public, and the Council has hearings on the budget and all kinds of legislation. Those meetings are open and are shown on the "government access"



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channel on the local cable system. But much of the negotiating over the final form of the budget will go on out of sight. State law allows Council members to meet privately as long as there are no more than eight members present (they need nine to take an official vote, so state law says that many can't get together unless it is a public session), and the mayor and Council members are free to talk as well.

If these things are being hashed out in secret, why should I bother to follow it?

It's your money they're spending.

Is anyone monitoring how the city spends its money?

Voters certainly can and should do that (and we're trying to help you with that here). But there is only one official agency that checks up on city government and that's known as the Pennsylvania Intergovernmental Cooperation Authority, or PICA, a state panel created after Philadelphia's last great financial crisis, in the late 1990s. Through PICA, the state forces the city to prove every year that the budget is balanced, and that nothing the city is doing now will cause an unbalanced budget for at least another five years.

Is it too late for me to get involved in the process?

Not at all – and in fact the public can matter a lot when people decide to speak up (remember how public outrage forced the mayor to back off his plan to close libraries and pools). Council will be holding a series of public hearings on the budget during the first week of May, maybe even one somewhere out in the community rather than in City Hall. Council will hold a hearing at City Hall on Saturday, May 8 (at 10 a.m.) to hear testimony from people who couldn't make it to the weekday hearings.

And members do listen to what city voters are saying in calls, letters and emails. Even if you can't attend one of the hearings, you can always speak up and let Council members know what you think. They're even allowing people who can't speak in person at a hearing to submit written testimony that will become part of the public record.

For help on how to contact your Council member, please see our guide to the members: http://www.seventy.org/Resources_City_Council.aspx.



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Council's public hearing schedule is available at

http://www.phila.gov/cityCouncil/pdfs/FY_2011_Budget_Hearing_Schedule.pdf.

This is the first installment in the special series of budget "IN THE KNOW" features we plan to release over the next few weeks. Please feel free to e-mail your comments, or requests for Q&As on other topics you care about, to info@seventy.org. We look forward to hearing from you.