



# Alternative Proposals for Closing the FY11 Budget Gap Fairly and Responsibly

May 3, 2010



# The Fiscal Challenge At Hand

## **The Challenge:**

- Close a \$79.3M budget gap and provide an appropriate fund balance (\$20M) for FY11 for a total of \$100M.

## **Guiding Principles:**

- Preserve key services to citizens, while pushing government to become more efficient.
- Tackle the budget problem through a reasonable combination of spending reductions and revenue measures.
- Pursue revenue measures that are progressive, fair, predictable, apply to a broad base, and have clear sunset provisions.



# Concerns about Administration's Budget Proposal<sup>1</sup>

- **PROPOSAL:** Impose a new trash fee of \$300/year on all property owners (projected to raise \$107M/year).
  - **ISSUE:** Trash fee is **even more regressive** than the 19% property tax increase the administration proposed last year. Protections available to low-income homeowners and senior citizens for property taxes would not apply. Fee would **not be deductible** on federal income taxes, unlike property tax.
- **PROPOSAL:** Impose a new business privilege tax for retailers selling sugar-sweetened beverages (projected to raise \$77M/year).
  - **ISSUE:** Proposed tax **may be illegal** and will be challenged in court. Tax likely will not achieve stated public health goals. **Targets one sub-set** of businesses, counter to taxation principles.
- **PROPOSAL:** Make spending reductions of only \$33M out of a \$3.9B budget. Fund new programs and increase the size of the City's workforce year after year – adding 200 positions in FY11 and 174 more in FY12.
  - **ISSUE: Does not budget savings** from ongoing collaborative work on criminal justice issue, technology-related efficiencies, etc. **Grows bureaucracy** while making taxpayers foot the bill.



# Budget-Balancing Alternatives

- There are **multiple options** for solving the \$120M budget challenge for FY11.
- The Administration's proposal – with \$143M in new taxes and fees in FY11, rising to \$184M/year in new revenue in FY12 – makes **taxpayers shoulder the load** and reduces spending by only \$33M, **less than 1% of the budget**.
- Of the \$33M in reductions included in the proposed FY11 budget, \$27.5M is attributable to:
  - Emptying out the final \$3M left in the Productivity Bank
  - Shifting \$9.5M in spending from the operating budget to other sources (e.g., the capital budget and Acute Hospital Tax Assessment fund)
  - \$15M in prison costs savings due to population decline attributable to the work of the Criminal Justice Advisory Board (CJAB)
- In other words, the \$33M represents **supplantation** (i.e., not a spending reduction) and **already-realized savings**, not belt-tightening by City government.



# Budget-Balancing Alternatives

- The City needs to **operate more efficiently** in the current fiscal crisis, rather than simply reaching into the pocketbooks of citizens to fund expanding government.
- During budget hearings, Council has identified almost **\$50M** in spending reductions that do not have a significant impact on services, such as funding for **hundreds of new or unfilled positions**.
- The following pages outline examples of spending reductions identified during budget hearings, and describe how these reductions still allow for **filling many vacant positions in key service-delivery areas**.
- **Complete details** of the spending reductions identified are provided in the attached appendix.



# Budget-Balancing Alternatives

- The potential spending cuts would allow a **tax cut of \$100M** from the Administration's budget proposal.
- This would **keep money in the hands of residents** and local businesses as the City rides out the economic downturn.
- The following pages also describe the revenue measures under consideration in Council, including closing the remaining budget gap of approximately \$43M with revenue measures that **return any surplus funds to taxpayers.**



# Spending Smart to Save Money

- During budget hearings, Council has gone through the budget **department-by-department** and **position-by-position** to identify potential savings.
- Council asked departments what functions would be performed by any vacant or new positions scheduled to be filled next year and how the work is being done today.
- In some cases, departments demonstrated that it would **save money** (by reducing overtime or contracting costs, for example) to fill the position.
- But in most cases where the work is being done by existing employees – who deserve praise for their efforts – filling the position during the ongoing fiscal crisis is **not essential**.
- Furthermore, the proposed capital budget includes \$125M in new spending on technology – a significant and overdue investment – that should enable the City to operate **more efficiently at less cost** over time. These savings were not included in the Administration's proposed budget/five-year plan.



# Potential Spending Adjustments for Key Departments

- **Public Health**

- Adjustment: **\$571,000 reduction** based on savings in reduced overtime and reduced contracted out services from filling vacant positions (per Administration estimate).
- Provides funding to fill the **50+ vacant/new positions** requested by Administration – such as registered nurses, medical assistants, pharmacists, sanitarians, and lead abatement workers – that are performing **essential public health functions**.

- **Streets/Sanitation**

- Adjustment: **\$1.5M reduction** based on savings from not implementing “Clean Philly” program expansion. (Note: Preserves **\$500K increase** in Managing Director Office budget for expansion of vacant lot cleaning.)
- Provides funding to fill all **100+ vacant positions requested** – including bridge maintenance workers, heavy equipment operators, and sanitation workers – performing **essential street infrastructure and sanitation functions**.





# Potential Spending Adjustments for Key Departments

- **Parks and Recreation**

- Adjustment: **\$1.6M reduction** based on elimination of 43 new positions. Funding for new positions to be reconsidered next year based on fiscal condition of city.
- General Fund support for department **increased \$1.6M** versus FY10 and Capital Budget funding **increased \$2.5M** for tree planting – yielding a **\$4M increase** department-wide. Additional funds available to be allocated for tree removal and maintenance.
- Provides **full funding** to fill the **dozens of vacant positions** requested by Administration – including 12 recreation leaders, 9 recreation facility caretakers, and 15+ maintenance workers – in **key service-delivery areas** in both parks and recreation.

- **Board of Revision of Taxes (BRT)**

- Adjustment: **\$200,000 reduction** reducing board member pay pursuant to legislation passed by Council and pending referendum question.



# Potential Spending Adjustments for Key Departments

- **District Attorney's Office**
  - Adjustment: **\$1.5M increase.**
  - Provides funding for new **Case Assessment Bureau** that will screen cases for diversion – reducing prison system and court overtime costs by over \$7M – and allow prosecutors to focus on violent offenders. Provides funding for expanded **witness protection** and prosecution of witness intimidation cases.
- **Prisons**
  - Adjustment: **\$9M reduction**
  - Provides sufficient funding to fill **majority of vacant correctional officer/lieutenant/sergeant positions.** Budgets for savings from continued reduction in prison population and time of incarceration enabled by ongoing criminal justice system reform.
- **Police**
  - Adjustment: **\$6.6M reduction (\$5M = overtime reduction)**
  - Provides funding requested by Administration to **keep force at current strength** (6,624 uniformed officers). Achieves savings by reducing funding for unfilled/new civilian positions and further reductions in overtime enabled by ongoing criminal justice system reform.



# Alternative Approach: Revenue Side

- Council has identified revenue that is not reflected in the proposed FY11 budget, including:
  - **\$2M** in new fees and fines related to dumpster bill passed past summer (recurring revenue)
  - **\$3.3M** in revenue from the \$150/year commercial trash fee enacted into law last year (recurring revenue)
  - **\$4M** in interest earnings held in Clerk of Quarter Sessions bank account and due to the City (one-time revenue)
- Multiple revenue options are under consideration in Council. Pending bills include:
  - Bill No. 100284 (9% real estate tax increase)
  - Bill No. 100254 (tobacco/tobacco-related products business privilege tax)



# Alternative Approach: Revenue Side

- With respect to a real estate tax increase, Councilman Green is looking at a real estate tax increase that would be **capped at 5%**.
- The 2011 increase would then be **reduced, dollar-for-dollar**, by the amount collections exceed projections for the City's upcoming tax amnesty program.
- The increase also would be **reduced, dollar-for-dollar**, by the amount collections from local tax sources exceed projections for the first quarter of Fiscal Year 2011 and 2012.
- In this way, taxpayers can be assured that the City is collecting **only as much additional revenue as it needs**.



# Side-by-Side Comparison

- **\$46M more in spending cuts** than Administration, bringing the cut amount to **\$79M**.
- **\$100M less in tax/fee increases** than the Administration.

Budget Item	Administration Proposal	Alternative Proposal
Spending Reductions	\$33M*	\$33M + <b>\$46M = \$79M</b>
New Taxes and Fees	\$143M	<b>\$44.7M</b>
Revenue Items not in Proposed Budget	N/A	<b>\$9.3M</b>
FY11 Fund Balance	\$68M	<b>\$20M</b>

\* Primarily supplantation and already-realized savings.



# Next Steps...

- Council will continue to **seek input** on its budget deliberations from the public, the Administration, and other key stakeholders.
- Council's next public hearing on the proposed budget is scheduled for **Tuesday, May 4, from 1:30-7 p.m.** at City Hall, Room 400.
- Councilman Green is committed to passing a budget that is fair, balanced, strives to deliver services to citizens more efficiently and at less cost, and points the City in the right direction for **future growth and success.**