City Council of Philadelphia

Finance and Budget Team:

Summary and Analysis of the Mayor's Proposed FY19-23 Five Year Plan

(updated as of 3/27/18)

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Intro

The following report is an internal assessment of the Administration's proposed FY19-FY23 Five-Year Plan (FYP), including analyses on: proposed changes in expenditures and revenues, budgetary trends for the City of Philadelphia, budgetary trends for the School District of Philadelphia (SDP), areas of concern in respect to projections, and an update on the local economy. As you will see, the majority of proposed revenue and expenditure increases are related to the need to address SDP's projected $900 million deficit – projected through FY23. This report does not offer any recommendations for funding, but instead attempts to inform Council on the latest budgetary trends, budget proposals, and potential impacts to certain constituents based on preliminary information received from the Administration, in the City's proposed FY19-FY23 FYP, the latest City and School District Quarterly Managers Reports, and other data received from the City and School District.[1]

Five Year Projections of City Finances

As highlighted in our Mid-Year Report, the General Fund Balance is anticipated to end the fiscal year higher than originally projected. Based on the current projections in the FYP, **the City's General Fund Balance is expected to end FY18 with $183.6 million** – above the Adopted figure of $75.5 million, but slightly below the projection of $203.3 million included in the mid-year Quarterly City Manager Report.

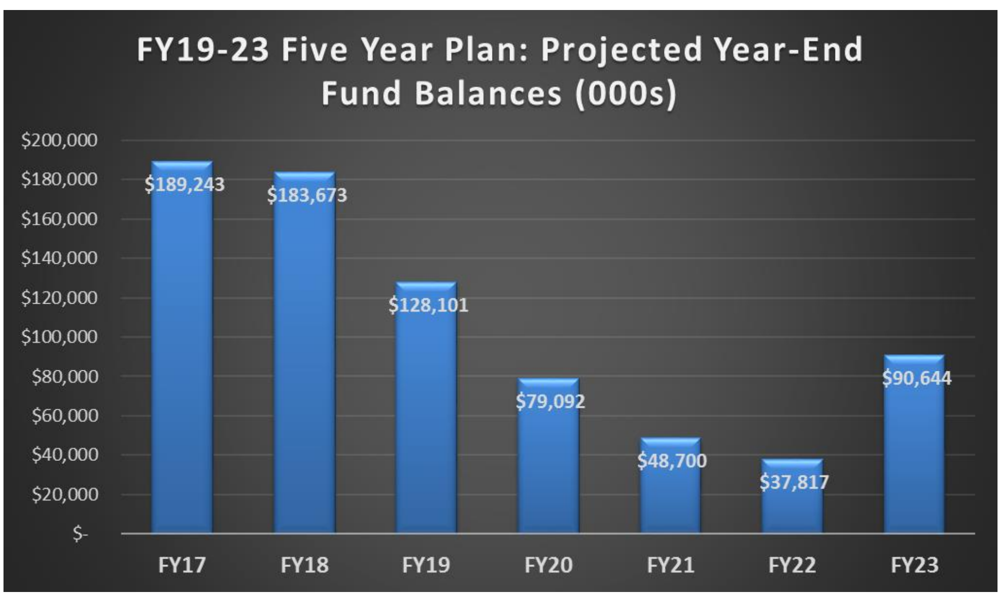

Figure 1

[1] http://phlcouncil.com/budget2019

As shown above in *Figure 1*, **the Fund Balance is projected to fall to a low of $37.8 million in FY22.** For reference, in FY22, the City's goal for a Fund Balance equaling 6-8% of expenditures would approximately equal between $304.4 and $405.9 million, based on the FYP's assumed growth in expenditures.

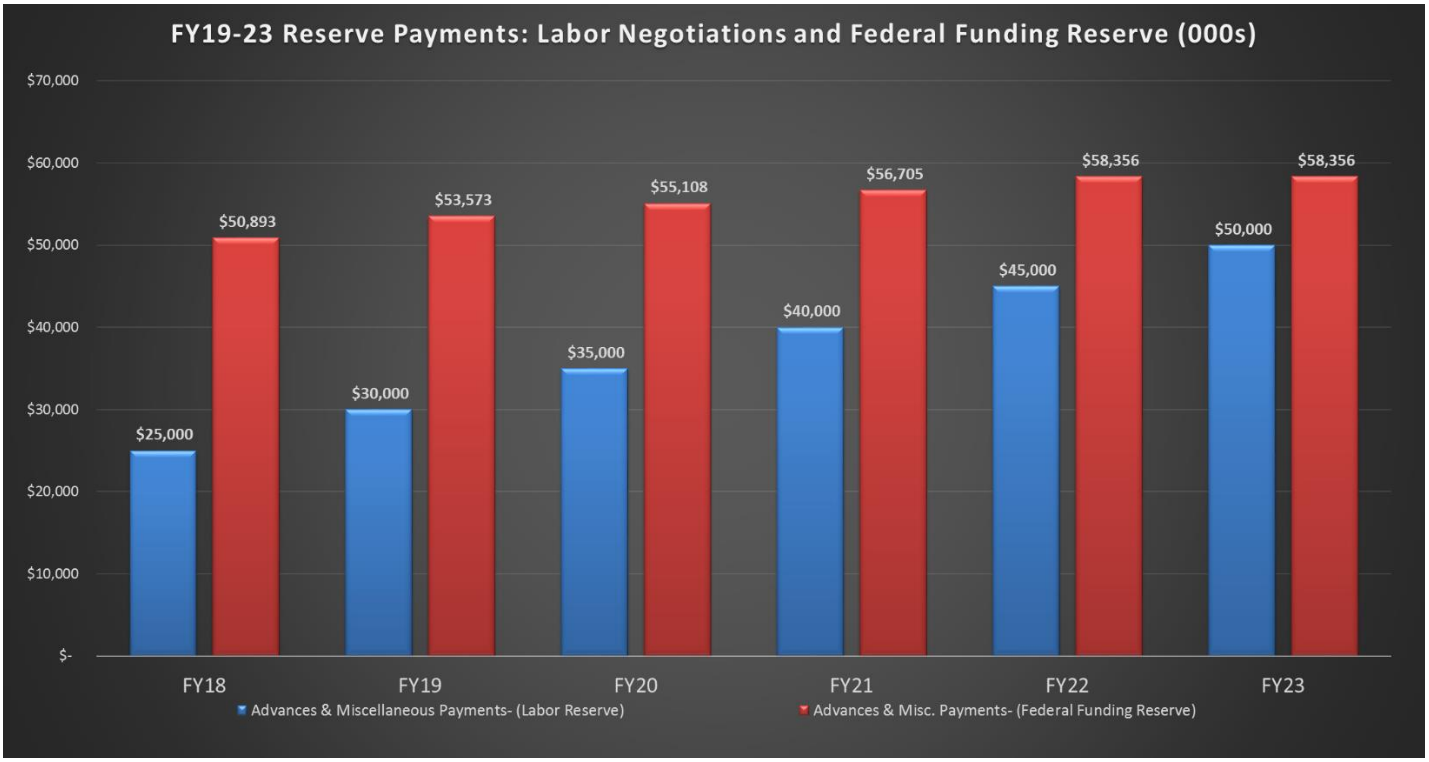

Figure 2

There are additional funds that appear "above-the-line" which offer potential additional resources for the General Fund Balance. The first item that provides additional liquidity are payments marked for *Labor Reserve.* The FYP anticipates additional resources needed for Personal Services as a result of labor negotiations, and thus records these resources as pre-funded expenses. However, since these negotiations have not come to a resolution, the final cost may not eclipse the cumulative $225 million in Labor Reserve payments in the FYP. Please note that this budgeting technique for the labor reserve is considered conservative and appropriate, given the previous cost of approximately $285 million from the previous contract negotiations in 2016.

The second above-the-line reserve "payment", shown in *Figure 2* above, is the *Federal Funding Reserve*. These reserves were created in anticipation of potential cuts to the Federal and/or State Government's budget, which could translate to lower revenues for the City due to less availability of other government funds. **We believe this method of budgeting is appropriate, considering the President's desire to both cut funding to the Department of Housing and Urban Development (HUD), and eliminate the Community Development Block Grant (CDBG). There are also other potential funding threats to the reserve – including, but not limited to, the current, unresolved court challenge to the City's change in assessments stemming from last year.**[2][3]

As shown in *Figure 3* – assuming projected revenues and expenditures remain constant – **if the Federal Funding Reserve payments flowed to the General Fund Balance as opposed to being used as an expense, the General Fund Balance would increase every year, increasing from approximately $234.6 million in FY18 to**

[2] NIHLC: 'President Trump Calls Drastic Cuts to Affordable Housing': February 2018
[3] WHYY: 'Recent Court Ruling Opens the Door for Homeowners to Appeal Tax Bill', March 2018

approximately $423.6 million in FY23. However, even if the entirety of the Federal Funding reserve were not needed for General Fund expenses, it would take to FY23 to meet the goal of a 7% Fund Balance – as a percentage of expenditures, which is still well below the recommended 17% Fund Balance level; please also keep in mind that 14 of the nation's largest cities maintained Fund Balances of 17% – or two months – of annual expenditures in 2016, according to PEW.[4]

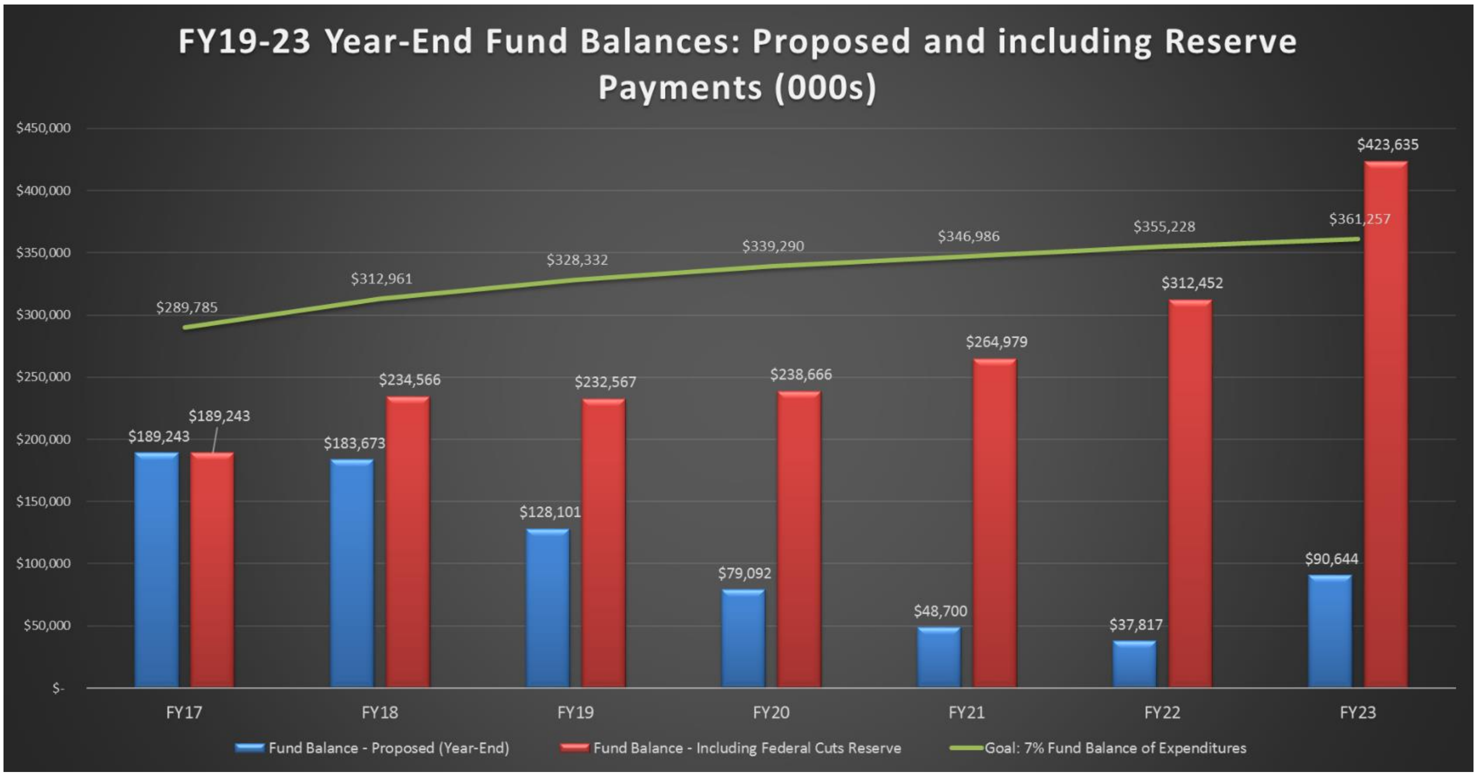

Figure 3

[4] PEW Charitable Trusts: 'The Fiscal Landscape of Large U.S Cities', December 2016

Proposed Changes to Expenditures and Revenues

Spending Proposals

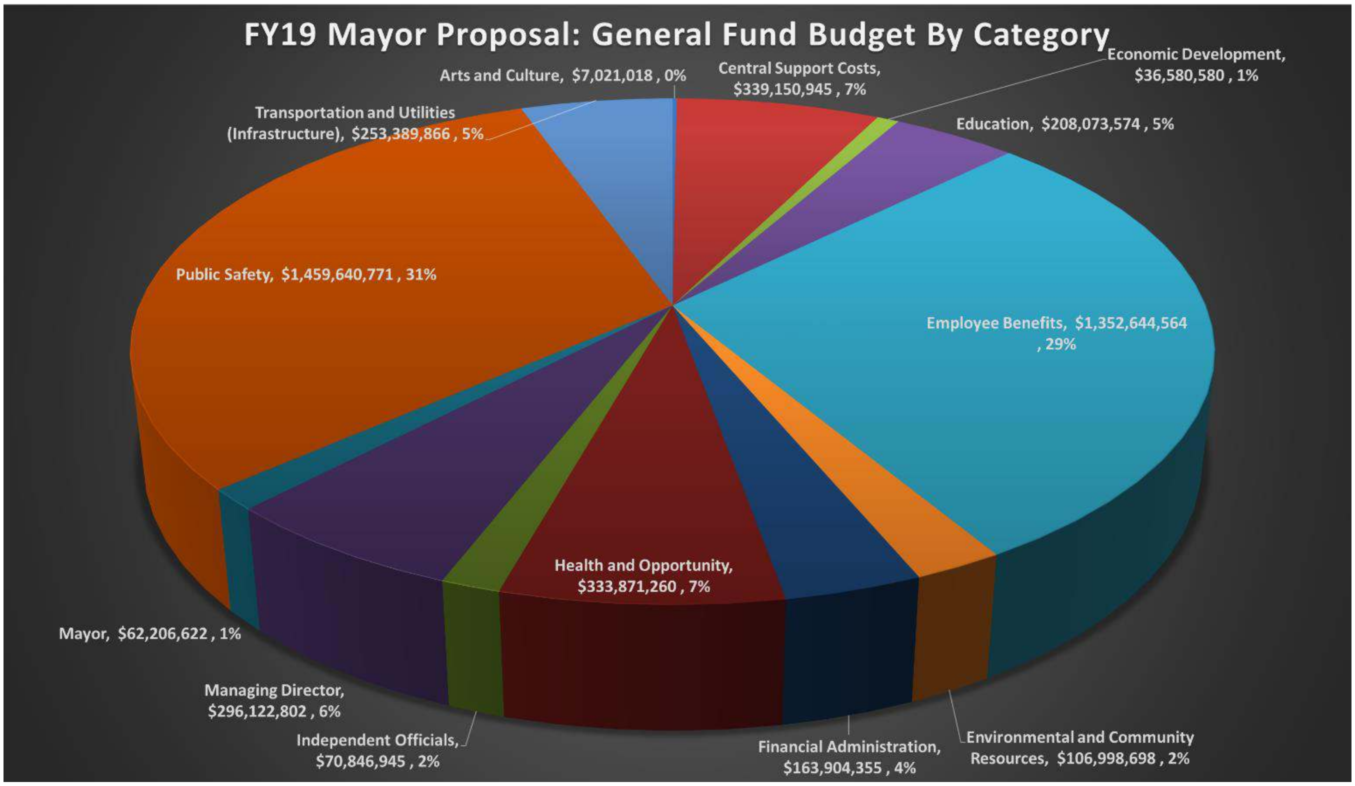

Figure 4

As shown above in *Figure 4*, **the largest category of expenses is for the purposes of Public Safety**. Public Safety, which is projected to account for 31% of General Fund expenditures, includes the following departments: the Police Department, the Fire Department, the District Attorney, the First Judicial Court of Pennsylvania, the Department of Prisons, Licenses and Inspections, and Legal Services (Public Defender).

The Mayor has proposed several important increases in spending in the proposed Five-Year Plan; the largest non-education related increases in spending are for Public Safety. **The increase in Public Safety spending includes $100 million – spread throughout the Five-Year Plan, in order to raise and maintain the number of sworn officers to the pre-recession level of 6,525.** In addition to the increased Class 100 spending, the proposed FYP includes $750,000 for a Police-Assisted Diversion Program in the East Division. The Mayor has proposed $10 million in capital increases for the purchase of vehicles and the new "Logistics Hub" for the Fire Department. The proposed FYP also includes additional investments – including a projected $10 million increase in FY19 for additional emergency responders, training, and restoring battalion chiefs.

The largest spending increase in the General Fund is for the contribution (or grant) to the School District of Philadelphia. **The contribution to the School District, which is a voluntary grant directly from the City's General Fund, is expected to increase by $71.8 million in FY19 to $176.2 million.** Over five years, the proposed increase in this line item, which rises to $255.9 million in FY23, equals an aggregate of $604.6 million in additional funding to the School District (see *Figure 5*).

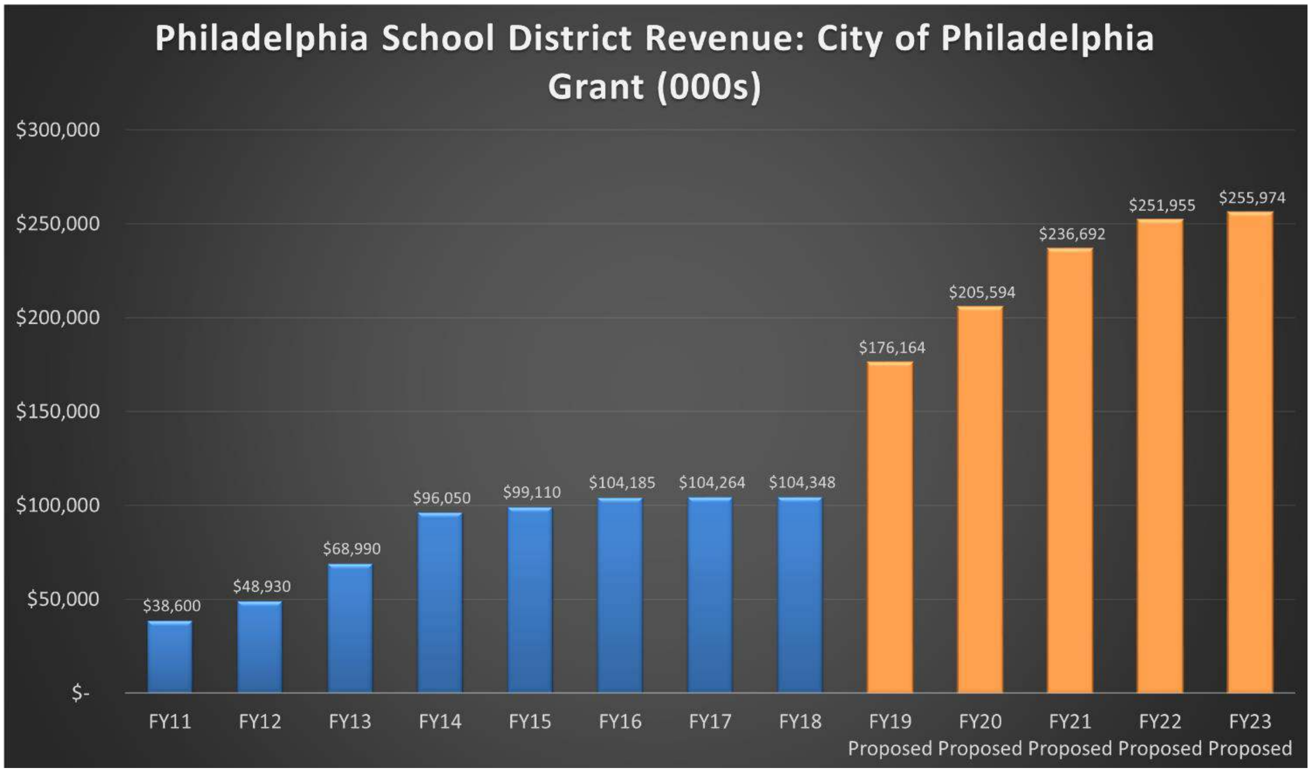

Figure 5

Revenue Increases

The Mayor's original proposed FY19-23 Five-Year Plan included four separate proposals for addressing the City and School District's deficit concerns: **an 11.3% increase to the Realty Transfer Tax ($66M), a 6% increase to the Real Estate Tax (including an increase in the Homestead Exemption from $30,000 to $40,000 Homestead Exemption; this rate increase would send approximately $475M to the School District), a slow-down of Wage Tax reductions ($340M), and reductions in proposed department appropriations.**

As of March 22nd, the Mayor's proposals have been updated to consist of the following: **a 10.1% increase to the Realty Transfer Tax, a 4.1% increase in the Real Estate Tax (including an increase in the Homestead Exemption from $30,000 to $45,000), the same slow-down of Wage Tax reductions as proposed above, and similar reductions in proposed department appropriations.**

The remaining gap in the deficit for the School District – that is, the gap not covered by the proposed increase in City Contribution to the School District – is proposed to be filled by a 4.1% increase in the Real Property Tax. This 4.1% increase raises the taxable rate on all property from 1.3998% to 1.4572%. The entirety of the 4.1% increase is being proposed to be placed on the *School District portion* of the Real Estate Property Tax, which would make the new tax rates 0.6317% for the City and 0.8255% for the School District. **Note, the 4.1% increase in the Property Tax rate will correspond with a $15,000 increase in Philadelphia's Homestead Exemption.** The new exemption would lower the taxable value of an owner-occupied home by $45,000, lowering the taxable assessment for the purposes of calculating the Property Tax liability by that amount.

As highlighted below in *Figure 6*, if the tax rate and exemption are both increased, owner-occupied homes under $410,801 in value will see a reduction in their property tax bills *only if* the property's assessment does not change.

However, the Office of Property Assessment (OPA) has projected that the increase in total property value (assessments) for FY19 will be approximately 11%. If an owner-occupied property's assessment increases by 11% - which is equal to the overall projected total property value increase – the new break-even point is approximately $120,000, meaning that all homes valued $120,000 or less would receive a tax decrease under this scenario (conversely, homes valued at approximately $120,000 or more under this scenario could expect to receive a tax increase). A home valued at $128,100 – which is the current median value of a home in Philadelphia – would realize an annual savings of $162.27 under the new proposal, independent of an assessment increase; **however a home valued at this same amount would realize an annual increase of $43.06 in their tax bill if their assessment increases by the projected 11%.**[5]

Commercial and rental properties – which do not qualify for the Homestead Exemption – would universally see increases. **Although an owner-occupied home would see a decrease in their tax bill, a $300,000 non-owner-occupied property (e.g., commercial, rental), would see an annual increase of $653.08 in their property taxes – or $54.42 a month under the current proposal and projected assessment increases.**

Mayor Proposal: Break-Even Scenario for Owner-Occupied Home		
	FY18	Proposal 2 - FY19
Home Value	$ 410,801	$ 410,801
Homestead Exemption	$ 30,000	$ 45,000
Taxable Value	$ 380,801	$ 365,801
Tax Rate (%)	1.3998%	1.4572%
Annual Property Tax	$ 5,330.45	$ 5,330.45
Annual Increase	$ -	
Monthly Increase	$ -	

Figure 6

Mayor Proposal: Scenario 1 for Owner-Occupied Home, with Assessment Increase			
	FY18	Proposal 1 - FY19	Proposal 2 - FY19
Home Value	$ 108,318	$ 120,233	$ 120,233
Homestead Exemption	$ 30,000	$ 40,000	$ 45,000
Taxable Value	$ 78,318	$ 80,233	$ 75,233
Tax Rate	1.3998%	1.4838%	1.4572%
Annual Property Tax	$ 1,096.30	$ 1,190.50	$ 1,096.29
Annual Change		$ 94.20	$ (0.00)
Monthly Change		$ 7.85	$ (0.00)

Figure 7

Mayor Proposal: Scenario 2 for Owner-Occupied Home, with Assessment Increase			
	FY18	Proposal 1 - FY19	Proposal 2 - FY19
Home Value	$ 300,000	$ 333,000	$ 333,000
Homestead Exemption	$ 30,000	$ 40,000	$ 45,000
Taxable Value	$ 270,000	$ 293,000	$ 288,000
Tax Rate	1.3998%	1.4838%	1.4572%
Annual Property Tax	$ 3,779.46	$ 4,347.53	$ 4,196.74
Annual Change		$ 568.07	$ 417.28
Monthly Change		$ 47.34	$ 34.77

Figure 8

Mayor Proposal: Scenario 3 for Commercial Property, with Assessment Increase			
	FY18	Proposal 1 - FY19	Proposal 2 - FY19
Home Value	$ 300,000	$ 333,000	$ 333,000
Homestead Exemption	$ -	$ -	$ -
Taxable Value	$ 300,000	$ 333,000	$ 333,000
Tax Rate	1.3998%	1.4838%	1.4572%
Annual Property Tax	$ 4,199.40	$ 4,941.05	$ 4,852.48
Annual Change		$ 741.65	$ 653.08
Monthly Change		$ 61.80	$ 54.42

Figure 9

The Realty Transfer Tax, which is a split between the buyer and seller of a property on the final sale value, is proposed to increase by 9.8%, up to 4.413% for properties sold within Philadelphia (1% of which goes to the State). The Realty Transfer Tax has performed well over the last decade, buoyed by the large volume of sales. As shown in *Figure 12*, the Really Transfer Tax has continued, year-over-year, to outperform projections. However, note that this revenue is dependent on both property purchases *and* the value of the properties being transferred, meaning that the revenue is sensitive to market conditions. The Mayor's proposal projects a 6.25% *decrease* in the value of sales for FY19; when offset by the proposed 0.31% rate increase, the tax could **raise approximately $27.18 million in additional revenue for FY19**. From FY20-23, the proposal assumes an average of 2.67% growth in the tax base (see *Figure 11* from FYP), which is projected to raise an additional $27.7 to $30.2 million annually.

[5] Philadelphia Inquirer: 'Banking on City Cash, Philly School District Introduces $3.2 Budget', March 2018

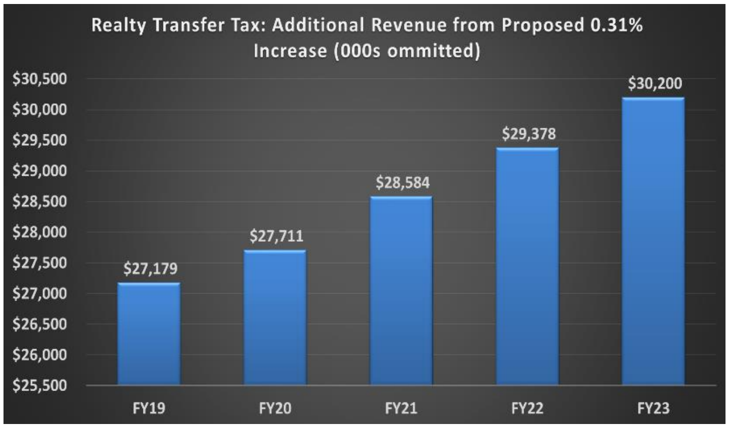

Figure 10

Projected Base Growth Rate for Real Property Transfer Tax			
FY18-22 *Adopted*		FY19-23 *Projected*	
2018	4.32%	2018	16.11%
2019	3.39%	2019	-6.25%
2020	2.62%	2020	1.96%
2021	2.48%	2021	3.15%
2022	2.98%	2022	2.78%
		2023	2.80%

Figure 11

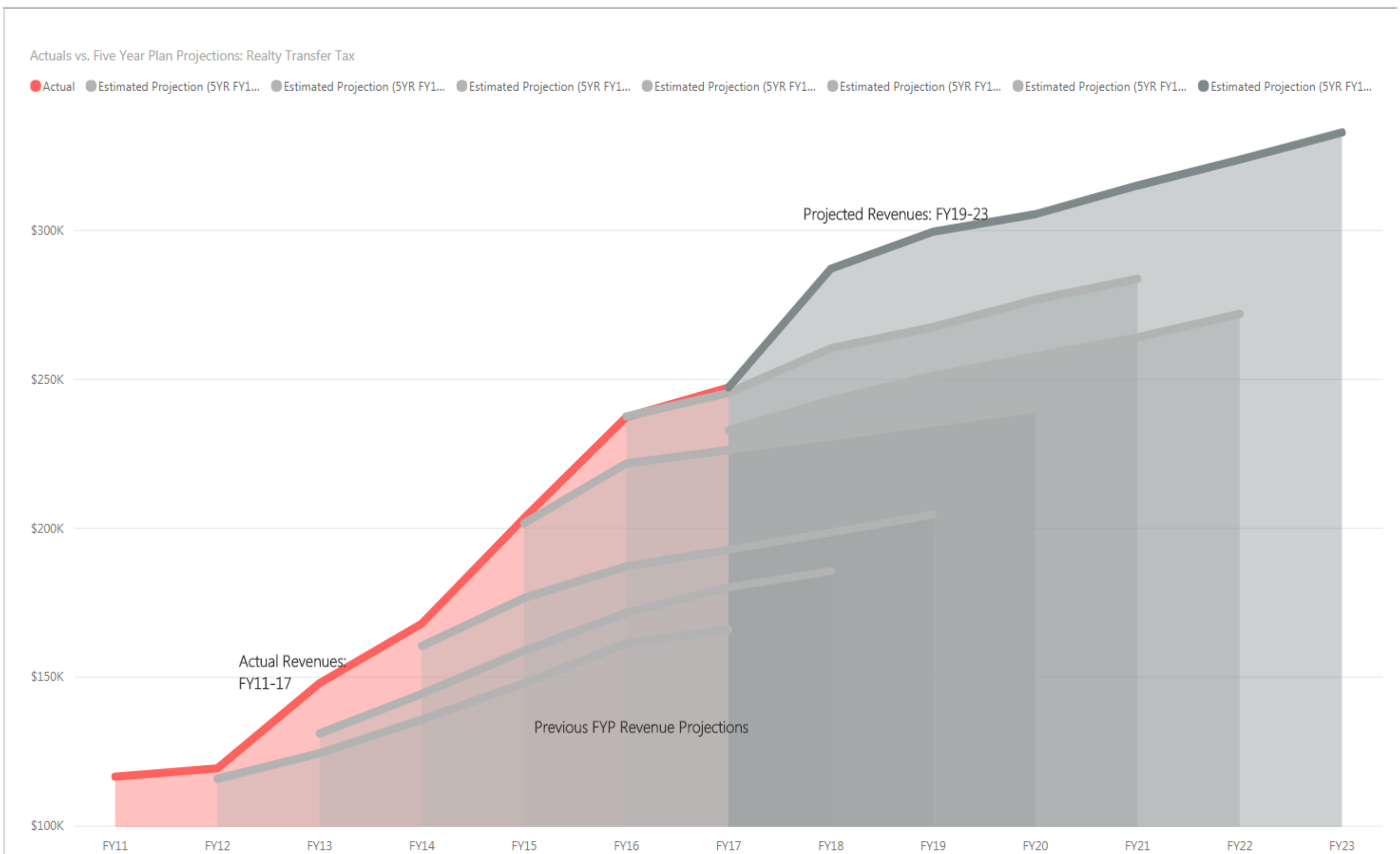

Figure 12

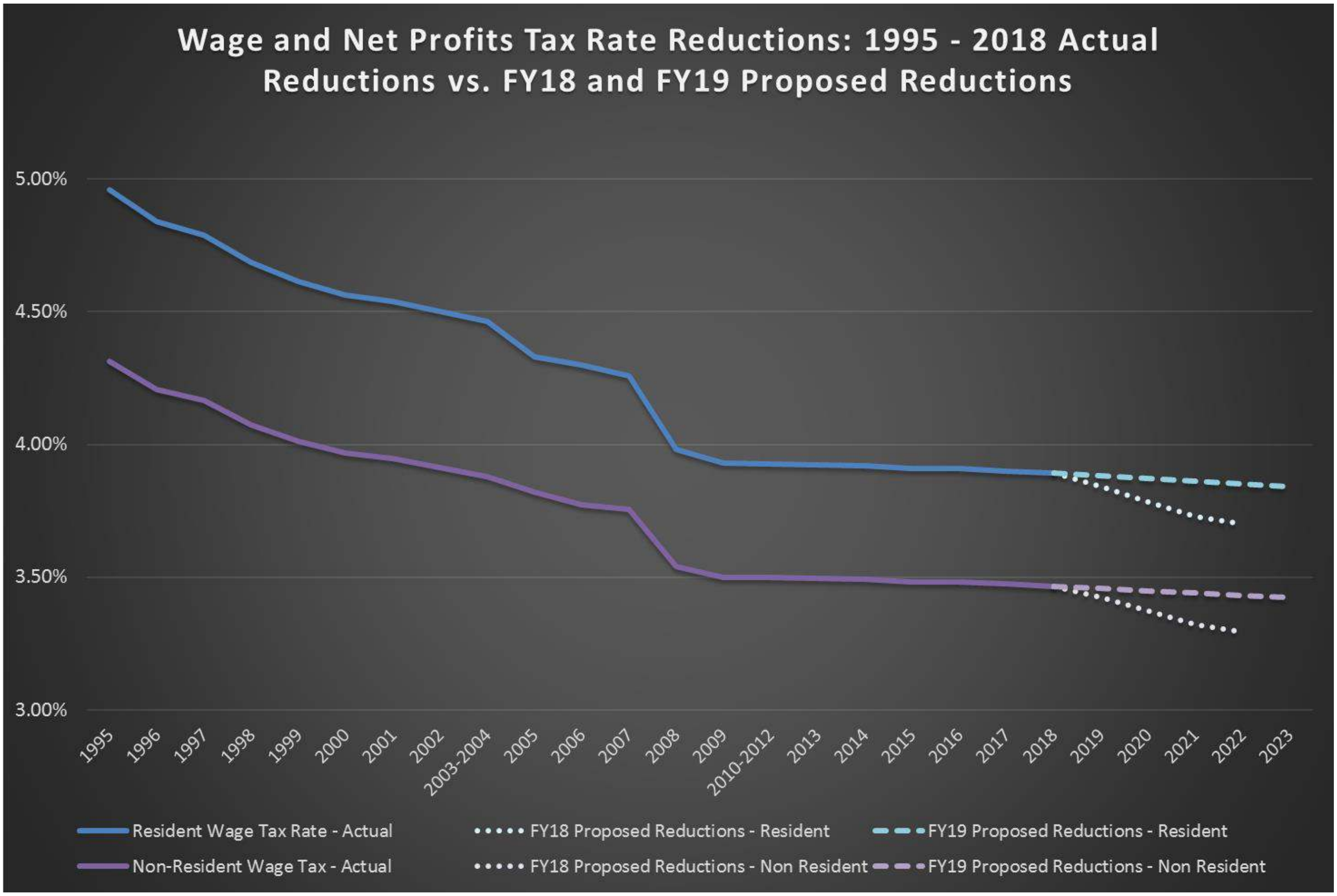

Figure 13

In 1995, the Mayor and City Council began the long-term process of reducing the Wage and Net Profits Tax, and Business Income and Receipts taxes. If we assume that rate reductions contributed to an increase of the City's tax base by 25%, we can estimate the value of these cuts at approximately $2.5 billion. **The resident and non-resident Wage taxes have been reduced by 20% - down from their peak of 4.96% and 4.3125% to the current 3.8907% and 3.4654% - respectively.** The Mayor's proposal would, as shown in *Figure 13*, slow down the rate reductions proposed in the FY18-22 Five-Year Plan. **Note: even with the slowdown of rate reductions, the proposed reductions are worth $88.1 million from FY19-23, compared to a scenario in which the rates were frozen.**

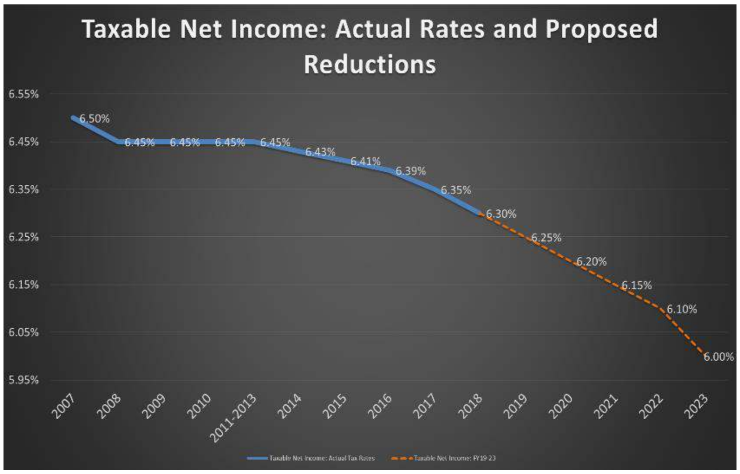

Figure 14

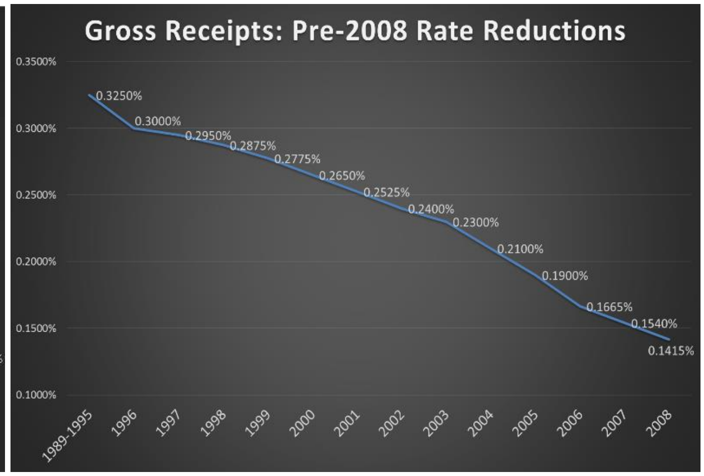

Figure 15

Although the Wage and Net Profits Taxes are proposed to slow down, the tax rate for the BIRT Tax are proposed to continue scheduled declines, **worth $43.3 million over the Five-Year Plan**. The BIRT is comprised of two separate taxes – a 0.1415% tax on Gross Receipts and a 6.30% tax on Net Income. Historically, the burden of the tax has been reduced through reductions in the tax on Gross Receipts. As shown in *Figure 15*, the tax on Gross Receipts has been reduced by 56.45% since 1995, down to 0.1415% from a peak of 0.3%. **In 2008, reductions in the Gross Receipts Tax froze. However, reductions to the Net Income portion of BIRT ramped up in 2013. This tax is proposed to decrease to 6.25% in FY19, with the FY19-23 Five Year Plan proposes reducing the Net Income tax gradually to 6% in FY23.**

<u>Budgetary Trends for the City</u>

As shown in *Appendix A*, the Mayor has budgeted a mix of increases and decreases for the City's large departments. The City's General Fund Budget is increasing from approximately $4.47 billion in FY18 to a proposed $4.69 billion in FY19 – an increase of approximately $211 million. **However, note that the increased spending figure includes $83.5 million in reserve payments, $53.2 million in increased fixed costs for fringe benefits, and an additional $71.8 million for the School District – through the City's Contribution line-item. The departments listed above are collectively growing $88.9 million, or 3.3% when compared to FY18's current projections.**

One notable trend is the impact of the *Target Budget reductions*. As you can see in Appendix A, in the "FY18 Change from Adopted", there are numerous projected decreases in a majority of the departments in the General Fund. **However, increases in spending for the Police Department and Fire Department are still causing a projection of $48.8 million in unbudgeted spending for FY18, mainly fueled by overtime spending.** The increasing presence of Philadelphia as a 'host-city' for large events has put pressure on the Police Department to supply required staff, without pulling resources from various parts of the City. However, as previously mentioned, the largest non-education initiative in the Mayor's proposal is increasing hiring for the Police and Fire Departments, which should address continued issues of overtime spending.

Over the past four fiscal years, the relationship between salaries, vacancies, and overtime costs have improved. As shown below in *Figure 16*, discretionary employee costs have remained stable (excluding benefits), growing at a slower pace than other, non-discretionary costs (e.g., health benefits, pension costs, etc.). **In the last four**

fiscal years, the vacancy rate has dropped from 5.8% to 5.2%, while overtime costs have decreased from 10.4% of employee expenses to 10.0% of employee expenses. If the Target Budget goals listed in the Q2 report are met, the vacancy rate will decrease to 0% (the actual vacancy rate as of the Q2 report is 5.5%) and the overtime costs will make up 8.7% of employee expenses.

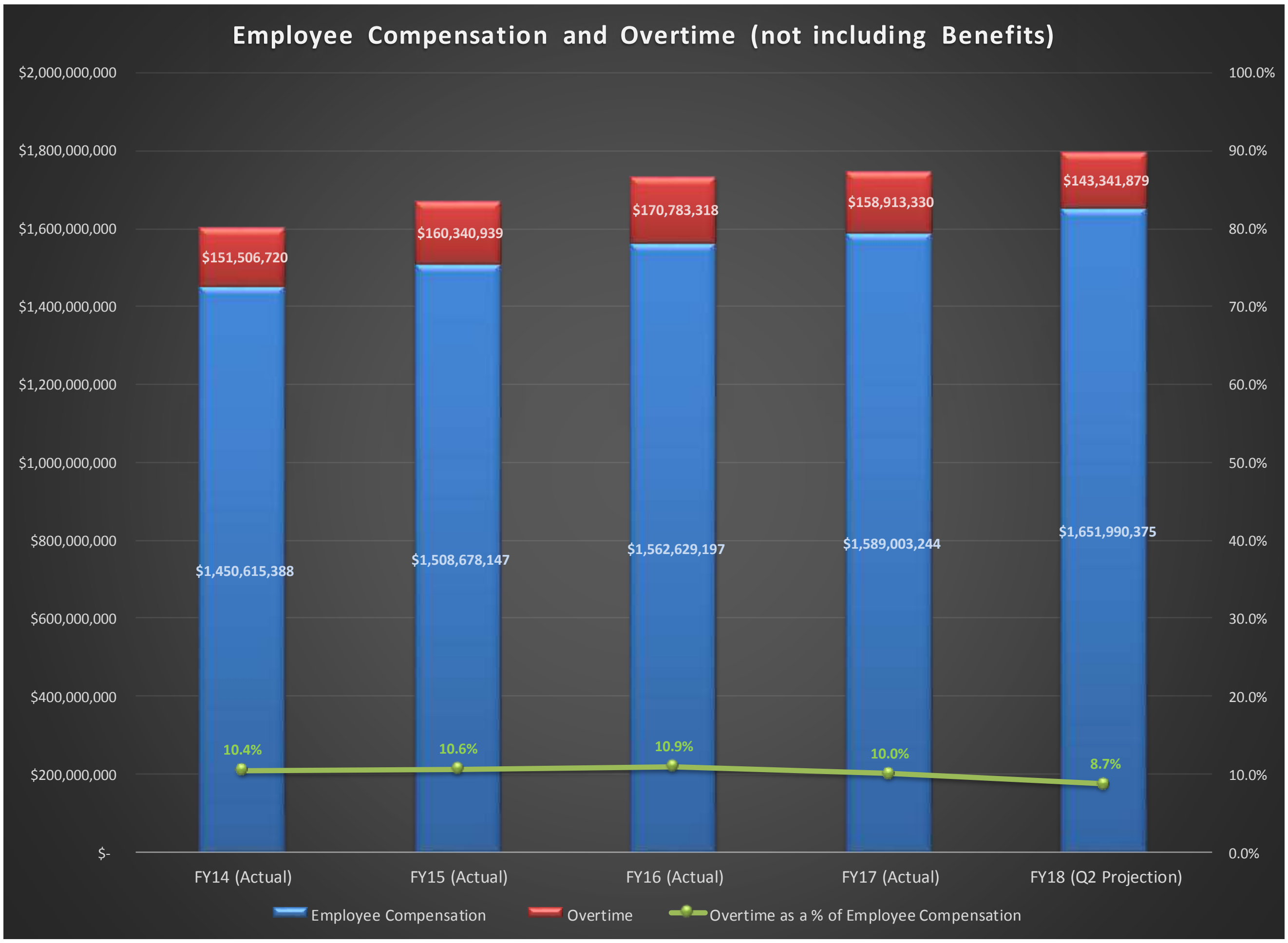

Figure 16

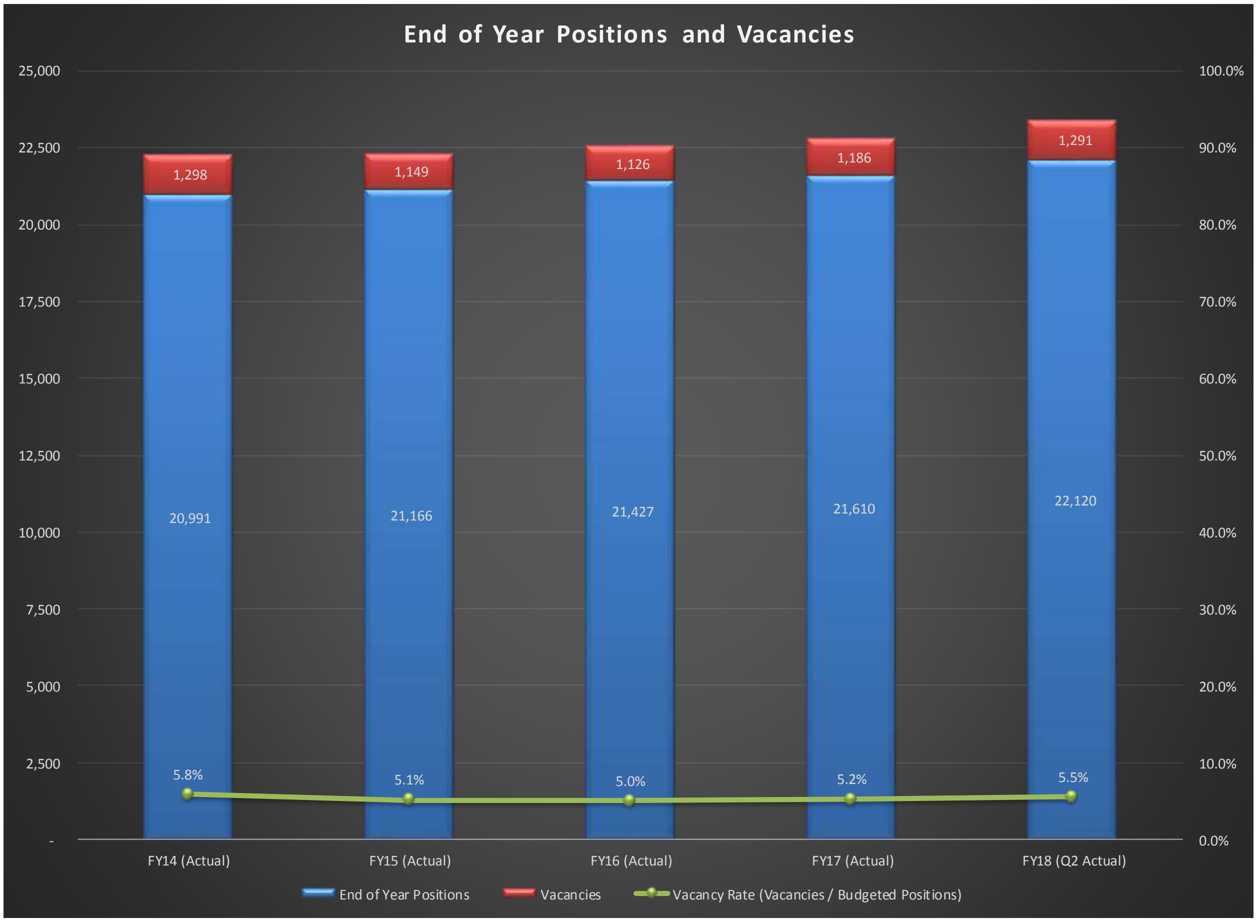

Figure 17

Budgetary Trends for the School District

The biggest cost drivers of the School District's financial outlook are as follows: **decreases in State funding, increases in Charter School costs, rising pension costs, and high fixed-cost facilities.**

The School District of Philadelphia released its Q2 Manager Report on February 15th, 2018. This report, which provides a mid-year financial update, highlights the differences between the June 2017 projections – when the budget was adopted – and the current outlook. The mid-year report for the School District projected a $48.9 million FY18 Fund Balance increase over the adopted projection. This adjustment is driven by an upward $16.6 million adjustment in FY17's ending balance, a projected $74.7 million increase in FY18 revenues, and a projected $42.3 million increase in FY18 expenditures. The FY18 projections have been immaterially adjusted for the FY19 budget and are reflected in *Figures 18 and 19*.

On March 22nd, the School District presented their lump sum budget to the School Reform Commission, for approval.[6] However, since then, the City announced that property assessments were increasing by an average of 11% citywide for FY19. Given this new information, both the City and School District will be revising their five-year plans to reflect the increase in revenue stemming from assessment increases. On March 27th, the School District revised and released their updated Five-Year Plan projections. The following page shows the School District's two

[6] http://www.philly.com/philly/education/philly-school-district-introduces-3-2b-budget-20180322.html

revised forecasts for Fiscal Years 2019 through 2023. The first scenario – *Figure 18* – is a base scenario that only assumes an increase in property assessments. The second scenario – *Figure 19* – assumes both an increase in property assessments *and* the passage of the Mayor's most recently revised tax proposal. **With that said, the new projected deficit at the end of five years (FY23) has been reduced to approximately $660 million, from a peak of approximately $908 million – an improvement of $248 million from assessments alone. The new projected fund balance for FY19 has also increased to approximately $93 million (absent any uptick in revenue stemming from potential tax rate increases from the City), up from approximately $3 million in previous projections.** If the Mayor's most recently proposed tax increases are included in the School District's Five-Year Plan projections, SDP's projected fund balance for FY23 would equal a positive $108.2 million – a positive difference of $768 million over the base scenario.

Philadelphia School District Five Year Plan - No Proposed Tax Increases Included (3.27 UPDATE)

(in thousands)	FY18 Projected Q2	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected	FY23 Projected
Total Revenues and Sources	$ 3,022,580	$ 3,110,504	$ 3,150,973	$ 3,215,483	$ 3,276,306	$ 3,339,332
Total Expenditures and Uses	$ 2,997,527	$ 3,157,551	$ 3,281,997	$ 3,391,954	$ 3,474,616	$ 3,574,696
Adjusted Operating Surplus (Deficit)	$ 10,351	$ (42,414)	$ (144,345)	$ (189,792)	$ (211,631)	$ (207,105)
Beginning Fund Balance	$ 124,697	$ 135,048	$ 92,634	$ (51,711)	$ (241,503)	$ (453,134)
Ending Fund Balance	**$ 135,048**	**$ 92,634**	**$ (51,711)**	**$ (241,503)**	**$ (453,134)**	**$ (660,239)**
Fund Balance as a % of Expenditures	5%	3%	-2%	-7%	-13%	-18%

Figure 18

Philadelphia School District Five Year Plan - Mayor's Proposed Tax Increases Included (3.27 UPDATE)

(in thousands)	FY18 Projected Q2	FY19 Projected	FY20 Projected	FY21 Projected	FY22 Projected	FY23 Projected
Total Revenues and Sources	$ 3,022,580	$ 3,213,204	$ 3,284,173	$ 3,380,583	$ 3,457,506	$ 3,525,632
Total Expenditures and Uses	$ 2,997,527	$ 3,157,551	$ 3,281,997	$ 3,391,954	$ 3,474,616	$ 3,574,696
Adjusted Operating Surplus (Deficit)	$ 10,351	$ 60,286	$ (11,145)	$ (24,692)	$ (30,431)	$ (20,805)
Beginning Fund Balance	$ 124,697	$ 135,048	$ 195,334	$ 184,189	$ 159,497	$ 129,066
Ending Fund Balance	**$ 135,048**	**$ 195,334**	**$ 184,189**	**$ 159,497**	**$ 129,066**	**$ 108,261**
Fund Balance as a % of Expenditures	5%	6%	6%	5%	4%	3%

Figure 19

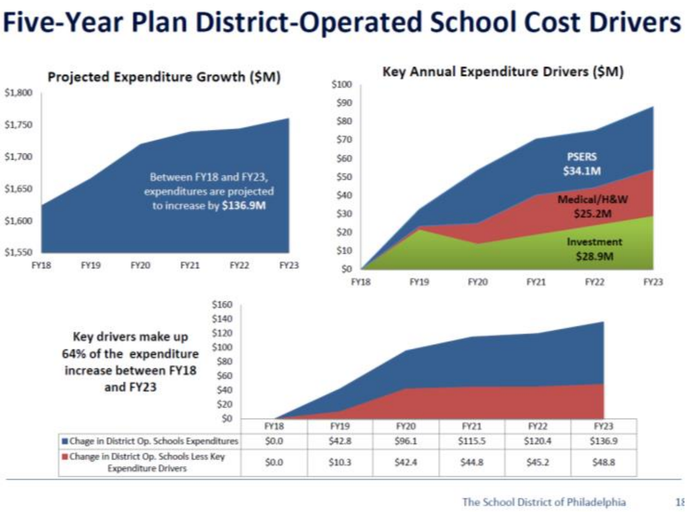

Figure 20

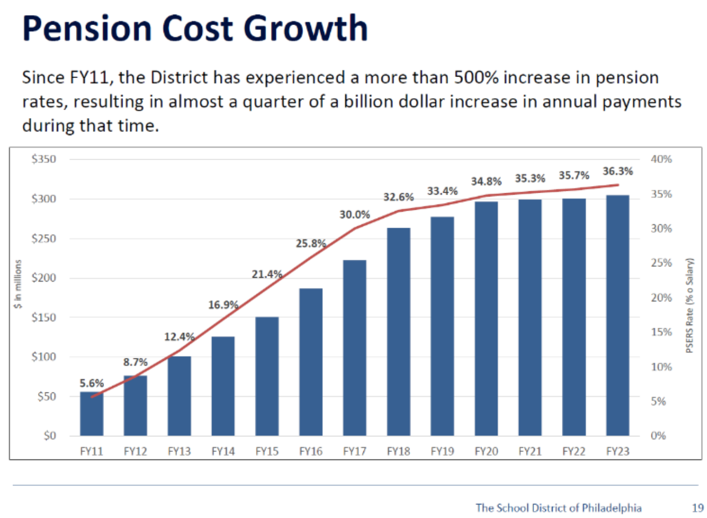

Figure 21

As shown in *Figure 23*, **spending on District-Operated schools has remained flat, while spending on Charter Schools has risen from $280.6 million annually in FY08 to $814.3 million annually in FY17. Considering the School District's approximate $4.5 billion in deferred maintenance costs, the costs of operating a District School are significantly higher than newer Charter Schools, whose population rose by 20,567 since FY11 to 64,868 in FY17, while District enrollment decreased by 20,353 (from 154,482 to 134,129) in this same time period.** At the same time the City experienced enrollment growth in Charter Schools, the State eliminated Charter School Reimbursements in FY12. Not only must the School District make payments to the non-district schools first, but the funding is calculated on the amount spent in District-operated schools, decreasing the spending value of investments. The elimination of this funding stream, in conjunction with growing Charter School enrollment, exacerbated the issue of funding for the School District, as the high fixed-cost District facilities experience low utilization with enrollment declines, which inflates "per-student" costs and requires similar revenue needs to maintain the same level of service.

As shown in *Figure 20*, the much-needed investments into the School District's facilities are crowded out by rising personnel (benefits) costs. **Combined, the contribution to Pennsylvania Public School Employees' Retirement System (PSERS) – which has grown from 5.6% as a percentage of salary in FY11 to 33.4% as a percentage of salary in FY19 - and rising medical costs make up two thirds of rising fixed costs for SDP.**

The impacts of the State funding reductions are highlighted on the next page. **As seen in *Figure 25*, the State's share of the School District's funding has decreased from 64.0% in FY11 to a projected level of 53.0% in FY18.** If the School District received flat State funding from FY12-16, the **School District would have received $692 million in additional revenue.**

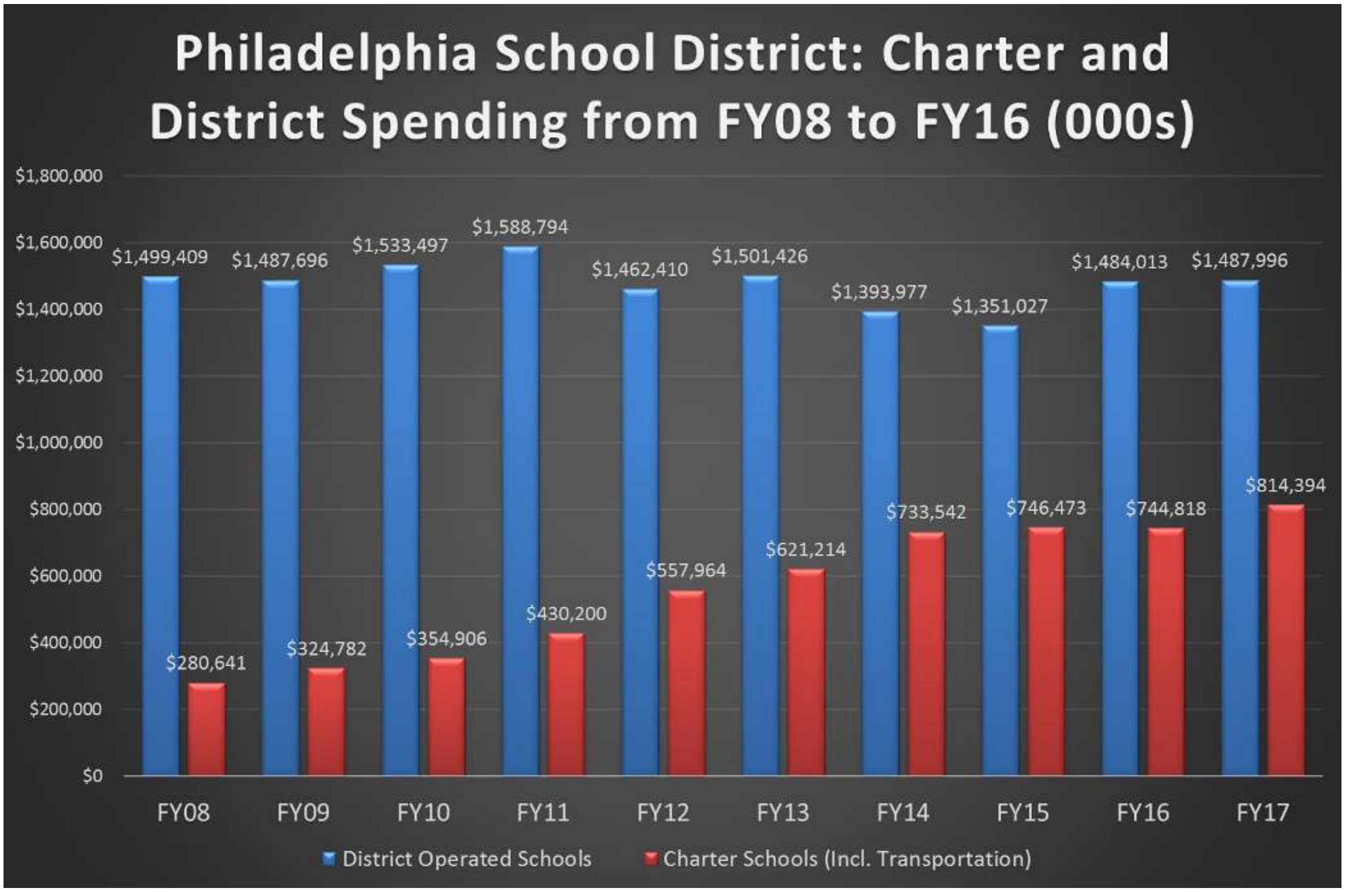

Figure 22

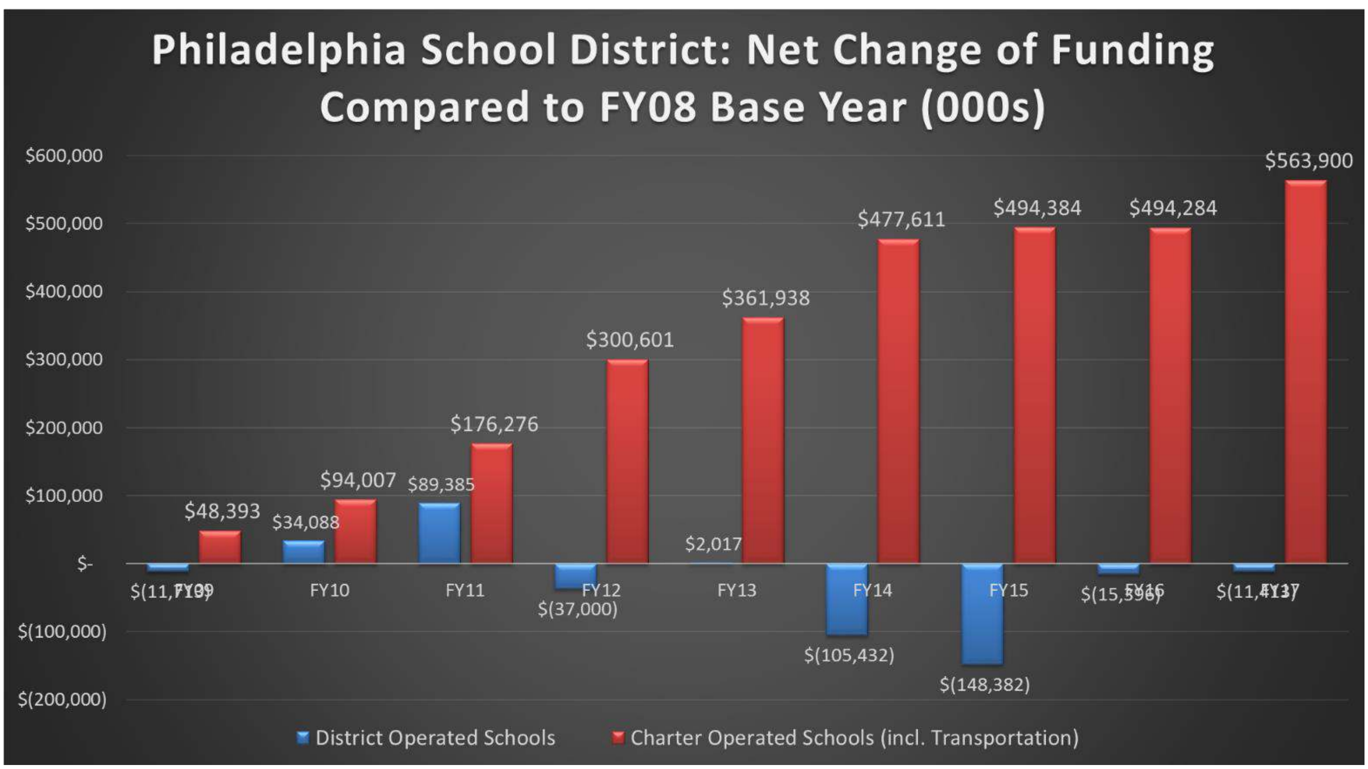

Figure 23

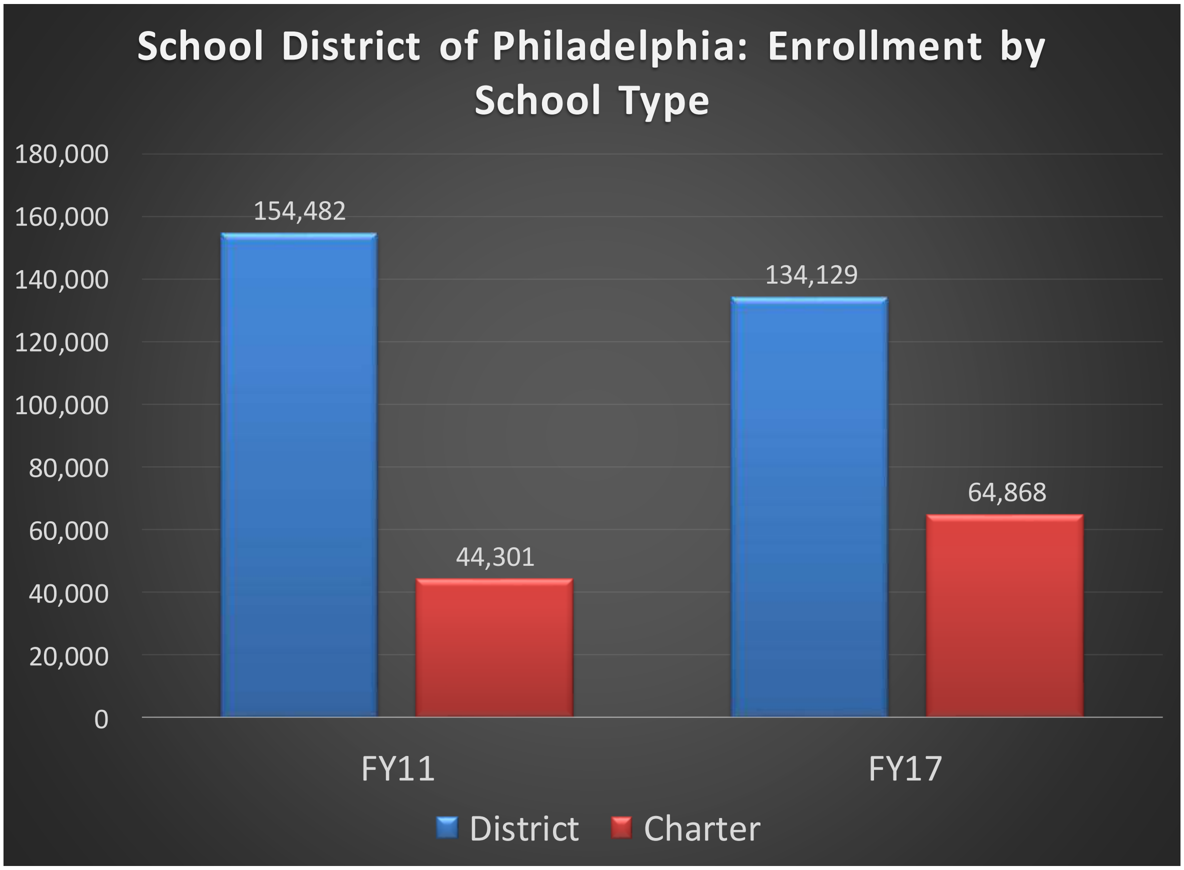

Figure 24

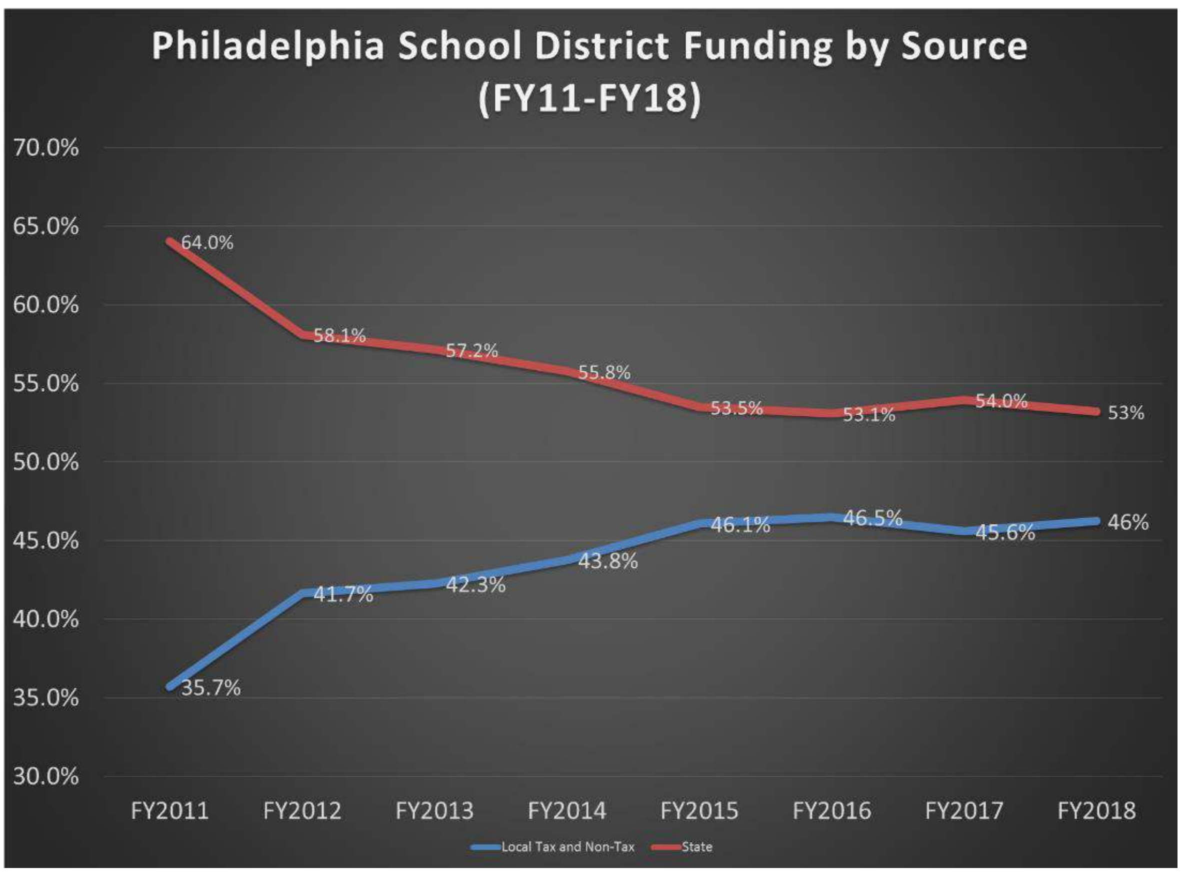

Figure 25

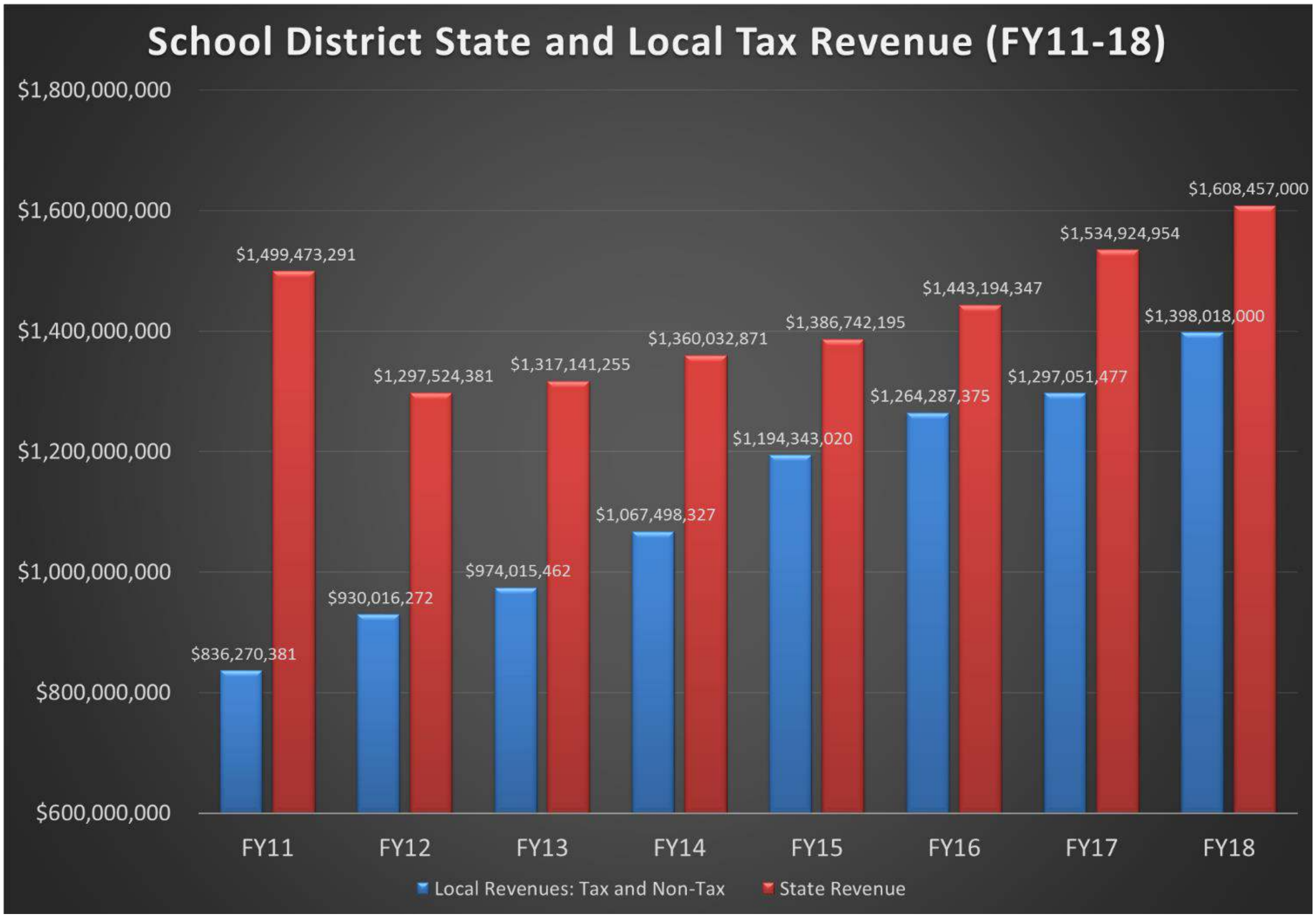

Figure 26

Places of Concern (risk management threats, labor costs, zeroing out affordable housing, and geopolitical threats)

The Mayor's Five-Year Plan highlights five threats to the City of Philadelphia's finances over the FY19-23 Five-Year Plan: **Pensions, Labor Costs, Potential Rating Agency Downgrade, Economy, Federal Tax Plan, and Federal/State budget cuts.** In general, the Finance and Budget team of City Council agrees with the assessments of threats laid out by the Administration in the Five-Year Plan. In fact, as of today, March 23rd, S&P downgraded the City's credit rating from A+ to A, citing rising pension obligations and School District costs- even in spite of the City getting credit for sound fiscal management.[7]

The Plan states on page 16, "The possibility of a recession may be another challenge. Revenue projections for the Five-Year Plan assume cautiously optimistic growth." There is cause for concern, not only due to the length of the recovery protruding up against the normal business cycle, but also the implications of restructuring of our country's trade laws. On March 8th, President Trump signed an order, granted under by his authority of Section 232 of the Trade Expansion Act of 1962, imposing a 25% tariff on steel and a 10% tariff on aluminum, and additional $60 billion on Chinese Imports.[8] These tariffs should not trigger a recession by themselves. However, the tariffs represent a major shift in macroeconomic policy. Since the end of World War II, the United States

[7] http://www.philly.com/philly/blogs/inq-phillydeals/philly-credit-rating-cut-sp-downgrade-a-from-a-20180323.html

[8] Investor's Business Daily: Why Dow Jones, S&P 500 are Falling Despite Steel Tariff Exemptions, China Restraint' March 2018

has moved away from the trade barriers that closed off economies from one another, and moved towards more cooperative, bilateral trade agreements. Although this move towards freer trade has impacted our manufacturing base (outside of automation), our economy has structured itself to meet global demand. As highlighted by the Economy League, before the tariff exemptions, **it was projected that the steel and aluminum tariffs would cost the United States 145,000 jobs, likely impacting the 19,000 local manufacturing jobs that rely on steel and aluminum.**[9]

In addition to the threat of tariffs, the Federal Reserve announced on March 21st, 2018, that it would be increasing its benchmark interest rate for the sixth time, from 1.5% to 1.75%.[10] The Fed is optimistic about the direction of the economy and is increasing interest rates as protection against inflation. However, many believe that the Fed's weariness to wage increases may unnecessarily stifle the current trend of rising wages.[11]

Additionally, there may be evidence that much of our wage growth, which is volatile in Philadelphia, might be artificially inflated by the President's tax reform bill. Many of our country's largest employers have opted to give one-time bonuses, as opposed to lasting wage increases after the passage of the Tax Cuts and Jobs Act.[12] This momentary boost in a worker's pay, in addition to the new tariffs, may distort the long-term trends of inflation. **In fact, according to a CNBC Fed Survey, only 12% of the Tax Cuts and Jobs Act's benefit is projected to go to workers in the form of bonuses or salary increases, with 13% going to debt, 23% going to capital expenditures, and 36% going to stock buybacks or shareholders.**[13]

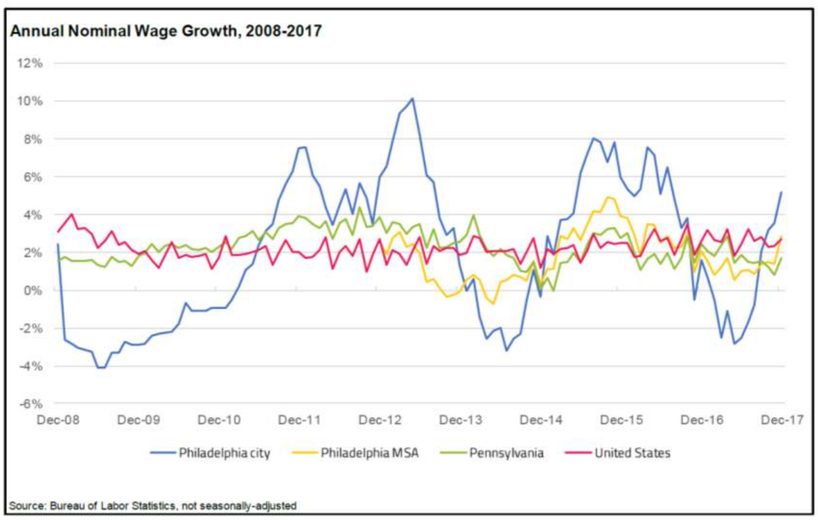

Figure 27[14]

Another significant threat is to the City's services is the President's proposed budget**, which zeroes out CDBG funding. This would drastically impact affordable housing, anti-poverty and infrastructure programs**[15]. On March 19th this year, Council President Darrell Clarke, along with Congressman Brendan Boyle, highlighted the critical programs funded through CDBG funding, such as litter removal, street and sidewalk

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[9] Philadelphia Economy League: 'High-Level Analysis of City of Philadelphia Five Year Plan' March, 2018
[10] NY Times: 'Fed Raises Interest Rates for Sixth Time Since Fiscal Crisis', March 2018
[11] Bloomberg: 'Wages Rise by Most Since Recession' February 2018
[12] https://www.nytimes.com/2018/02/10/business/economy/bonus-pay.html
[13]https://www.cnbc.com/2018/01/30/cnbc-fed-survey-most-of-the-tax-cut-windfall-will-boost-buybacks-and-dividends.html
[14] Philadelphia Economy League: 'High-Level Analysis of City of Philadelphia Five Year Plan' March, 2018
[15] Office of Budget and Management: Fiscal Year 2019 Budget Proposal

repair, commercial corridor revitalization, etc.[16] Attempts to zero out such important funding should be a cause of concern for the trajectory of funding for the City's communities.

Update on the Local Economy

As highlighted in our "Mid-Year Financial Update," the City's economy has dramatically changed over the last two decades. This growth is evidenced by rising incomes, growing Center City office environment, and development boosted by a growing millennial population.[17] Philadelphia has not only seen a massive growth in millennial population, as highlighted in JLL's article, "Philadelphia: a Millennial Magnet", the City experienced the largest increase in residents holding bachelor's degrees from 2000-2015.[18] It is important to note the new census figures paint a confusing picture of Philadelphia's growing population, fueled almost entirely in 2017 by the birth rate. If one were to only look at the Greater Center City neighborhoods, one might believe that Philadelphia is amidst a renaissance city-wide.

As highlighted by the *Philadelphia Inquirer's* figures below, the migration of 10,817 residents (offset by an influx of 10,240)[19] begs the following questions: **Why are these residents leaving? Where were these residents living before they left? Is the birth rate driven by our millennial population "settling down" in the City? How are rising housing costs driving outward migration?** Much of Philadelphia's growth has not impacted those on the lower end of the income scale, and may be pushing residents outward through increased housing costs.

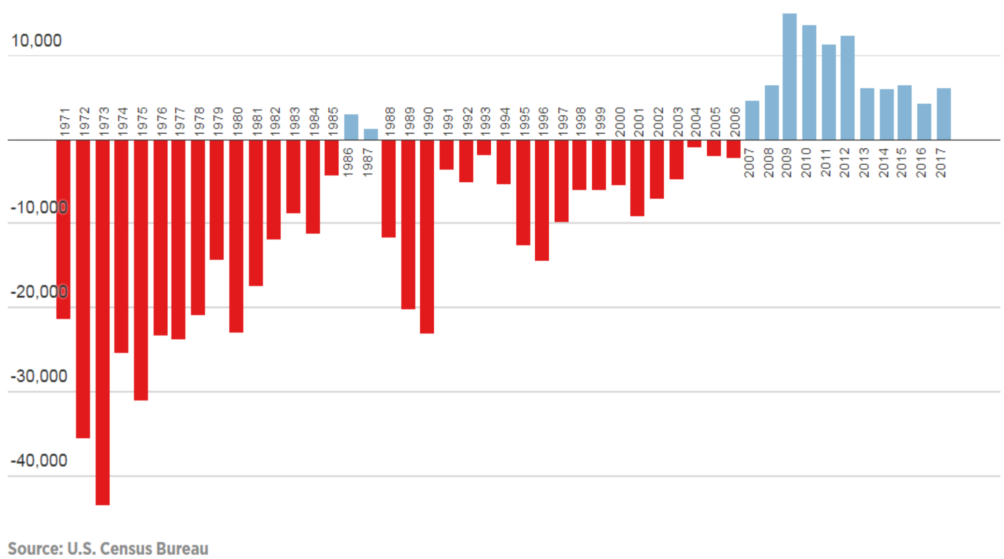

Figure 28

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[16] Press Release: Congressman Boyle, City Council President Clarke and Councilwoman Parker Unite in Opposition to President Trump's Reckless Budget Cuts

[17] http://www.philly.com/philly/business/real_estate/commercial/20160828_HOT_AT_CORE.html

[18] http://jllcampaigns.com/jlltechspec/articles/philadelphia-millennials-dominate-city-demographics

[19] Philadelphia Inquirer: 'Philadelphia's population increased, but it's not all good, according to census data' March, 2018

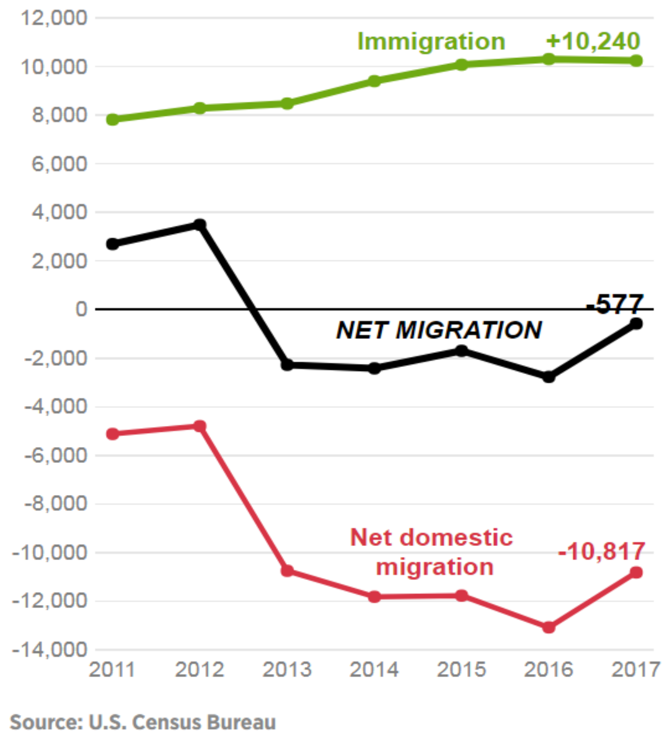

Figure 29

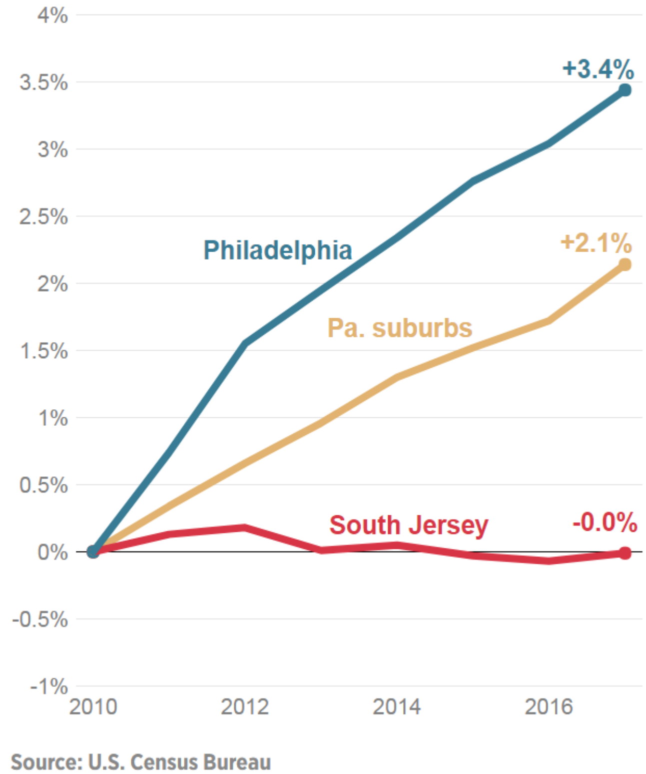

Figure 30

Even with the City's current trajectory of sustained growth in its business climate and population, the City has yet to significantly lower the poverty rate, which is currently estimated to be 25.7%.[20] **This high rate of poverty – which is currently $12,140 for a single person household and $16,460 for a two-person household – may obfuscate the growth the City is experiencing on the higher end of the spectrum.** For example, areas like Greater Center City have seen incomes rise 67% from 2000 to 2016, while low income areas have either declined or experienced little fluctuation as it relates to income. As highlighted by the PEW Charitable Trusts, only 4.03% of Philadelphia's census tracts gentrified – as defined by PEW in their paper – from 2000 to 2014.[21]

The Economy League of Greater Philadelphia highlighted a stark change in Philadelphia's housing stock in their recently released report: **the City of Philadelphia has seen a 6% decrease in its homeownership rate since 2006, driven by an approximate 25,000 reduction in owner-occupied units and an approximate 50,000 increase in renter-occupied units.[22]**

[20] Census Quickfacts: Philadelphia County, Pennsylvania
[21] http://www.pewtrusts.org/en/research-and-analysis/collections/2016/05/gentrification-and-neighborhood-change-in-philadelphia
[22] Philadelphia Economy League: 'High-Level Analysis of City of Philadelphia Five Year Plan' March, 2018

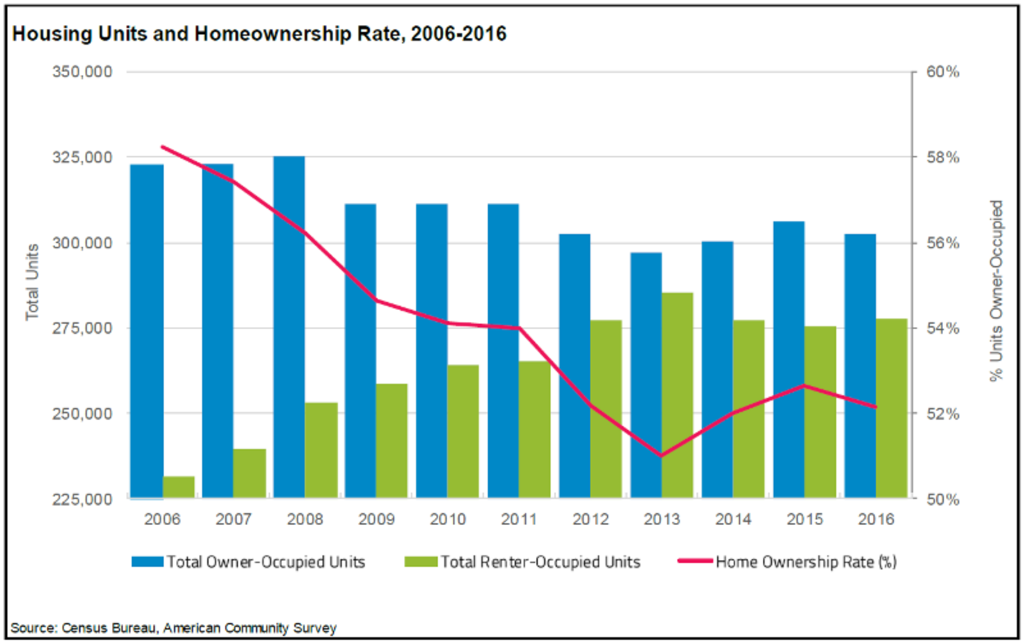

Figure 31

The Mayor and City Council are continuing to make investments in the citizens of Philadelphia – through investments in education, workforce development, and affordable housing – while improving the City's business environment through continual tax reductions[23], exemptions[24], and a rollback of regulations.[25] This is partially evident in the continual reduction of the unemployment rate[26] – mirroring national trends – and the growth in business revenues against the backdrop of rate reductions. In the Mid-Year Report released earlier this year, we compared tax revenues from the Recession to FY17 to highlight the City's growth in business. In FY10, arguably the low point of the Great Recession, the City collected $364.7 million in Business Income and Receipts Tax (BIRT) and $1.11 billion in Wage Tax receipts. **In FY17, the City collected $417.5 million in BIRT and $1.45 billion in Wage Tax revenue, an increase of $52.8 million and $334 million since FY10, respectively. While revenues were increasing for both taxes, the City continued the scheduled business tax rate deductions**. Since business tax revenues are used to fund critical programs meant to lift people out poverty, it is difficult to dramatically lower our tax burden without impacting essential programs or services. Furthermore, this is why maintaining rate reductions, no matter how marginal, have been included in almost every Five-Year Plan dating back to the 1990s.

[23] City of Philadelphia: Summary Schedule of Tax Rates Since 1952
[24] PEW Charitable Trusts: "Philadelphia Business Taxes: Incentives and Exemptions" August 1, 2016
[25] City Council: "City Council Passes Additional Bills to Simplify the Philadelphia Code" March 8th, 2018
[26] Bureau of Labor Statistics: 'Local Are Unemployment Statistics, Philadelphia County'

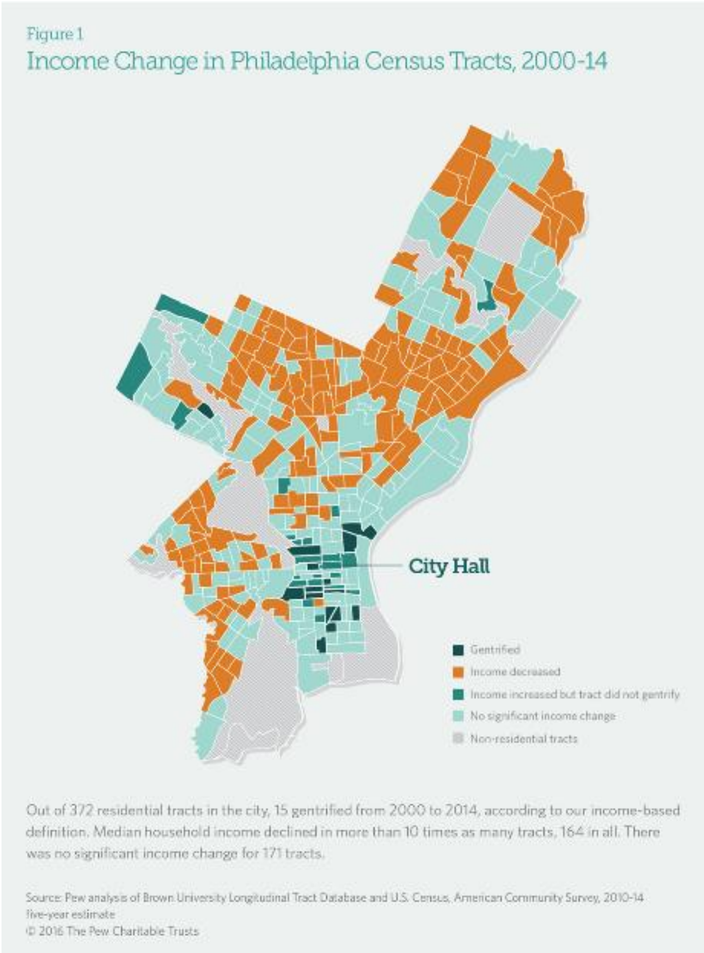

Figure 32

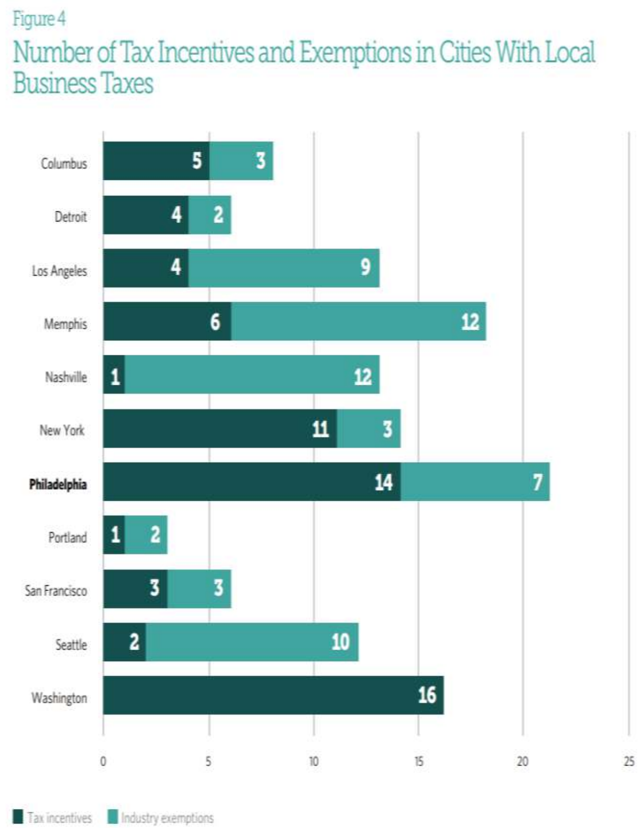

Figure 33

Conclusion

In conclusion, this proposed Five-Year Plan reflects the City's needs to manage growth, reduce poverty, and to aid the School District in achieving long-sought fiscal stability. Over the next eight weeks, Council will explore numerous ways to achieve these goals by comparing proposed revenue solutions with possible alternatives.

Appendix A

Department	FY16 Adopted	FY16 Actual	Variance: Actual vs. Adopted	Over (Under)	FY17 Adopted	FY17 Actual	Variance: Actual vs. Adopted	Over (Under)	FY18 Adopted	FY18 Current Target	FY19 Estimate	FY18 Change from Adopted	FY18 Change from Adopted	FY19 Growth from FY18 Budget	FY19 Growth from FY18 Budget	FY19 Growth from FY18 Target	FY19 Growth from FY18 Target
Auditing	$ 8,295,335	$ 8,411,871	1%	$ 116,536	$ 8,431,962	8,477,318	1%	$ 45,356	$ 8,949,215	$ 8,695,504	$ 8,893,008	-3%	$ (253,711)	-1%	$ (56,207)	2%	$ 197,504
City Commissioners	$ 9,663,243	$ 10,095,472	4%	$ 432,229	$ 10,039,785	10,983,892	9%	$ 944,107	$ 9,911,167	$ 9,877,982	$ 9,965,170	0%	$ (33,185)	1%	$ 54,003	1%	$ 87,188
Commerce	$ 4,763,346	$ 4,668,598	-2%	$ (94,748)	$ 4,809,700	5,098,560	6%	$ 288,860	$ 5,667,596	$ 5,617,326	$ 5,713,658	-1%	$ (50,270)	1%	$ 46,062	2%	$ 96,332
Community College	$ 30,309,207	$ 30,909,207	2%	$ 600,000	$ 29,909,207	29,909,207	0%	$ -	$ 30,409,207	$ 30,409,207	$ 31,909,207	0%	$ -	5%	$ 1,500,000	5%	$ 1,500,000
Debt Service- Sinking Fund	$ 245,945,126	$ 224,730,664	-9%	$ (21,214,462)	$ 275,339,734	238,367,244	-13%	$ (36,972,490)	$ 296,019,214	$ 296,019,214	$ 295,032,504	0%	$ -	0%	$ (986,710)	0%	$ (986,710)
Director of Finance	$ 17,658,655	$ 22,023,621	25%	$ 4,364,966	$ 12,979,577	12,482,995	-4%	$ (496,582)	$ 65,754,198	$ 65,450,786	$ 68,011,556	0%	$ (303,412)	3%	$ 2,257,358	4%	$ 2,560,770
District Attorney	$ 35,482,214	$ 35,698,216	1%	$ 216,002	$ 36,944,070	36,257,653	-2%	$ (686,417)	$ 37,810,487	$ 37,324,364	$ 38,192,293	-1%	$ (486,123)	1%	$ 381,806	2%	$ 867,929
Fire	$ 219,082,796	$ 246,241,653	12%	$ 27,158,857	$ 221,812,329	236,274,906	7%	$ 14,462,577	$ 247,546,034	$ 257,717,239	$ 259,245,299	4%	$ 10,171,205	5%	$ 11,699,265	1%	$ 1,528,060
First Judicial District	$ 110,255,300	$ 117,886,691	7%	$ 7,631,391	$ 110,303,140	109,120,853	-1%	$ (1,182,287)	$ 111,442,508	$ 109,498,628	$ 109,556,573	-2%	$ (1,943,880)	-2%	$ (1,885,935)	0%	$ 57,945
Fleet Management	$ 46,612,500	$ 44,454,602	-5%	$ (2,157,898)	$ 48,180,887	41,824,587	-13%	$ (6,356,300)	$ 49,576,866	$ 48,870,252	$ 49,062,057	-1%	$ (706,614)	-1%	$ (514,809)	0%	$ 191,805
Free Library	$ 41,001,988	$ 39,764,426	-3%	$ (1,237,562)	$ 40,080,990	40,470,907	1%	$ 389,917	$ 40,937,562	$ 40,602,030	$ 41,286,517	-1%	$ (335,532)	1%	$ 348,955	2%	$ 684,487
Human Services	$ 102,729,321	$ 98,108,341	-4%	$ (4,620,980)	$ 103,219,500	103,046,621	0%	$ (172,879)	$ 109,035,530	$ 109,035,530	$ 111,923,598	0%	$ -	3%	$ 2,888,068	3%	$ 2,888,068
Licenses and Inspections	$ 31,476,558	$ 30,606,285	-3%	$ (870,273)	$ 33,612,119	32,913,392	-2%	$ (698,727)	$ 35,755,266	$ 35,428,244	$ 37,507,876	-1%	$ (327,022)	5%	$ 1,752,610	6%	$ 2,079,632
Law Department	$ 14,642,276	$ 14,573,200	0%	$ (69,076)	$ 16,592,715	16,465,732	-1%	$ (126,983)	$ 15,743,191	$ 15,215,686	$ 15,491,164	-3%	$ (527,505)	-2%	$ (252,027)	2%	$ 275,478
Managing Director	$ 35,595,543	$ 37,253,573	5%	$ 1,658,030	$ 39,048,607	38,699,744	-1%	$ (348,863)	$ 40,285,836	$ 42,592,612	$ 44,541,137	6%	$ 2,306,776	11%	$ 4,255,301	5%	$ 1,948,525
Mayor's Office	$ 5,031,625	$ 5,326,597	6%	$ 294,972	$ 4,261,140	4,807,236	13%	$ 546,096	$ 4,634,141	$ 4,425,997	$ 5,178,168	-4%	$ (208,144)	12%	$ 544,027	17%	$ 752,171
Behavioral Health	$ 13,975,576	$ 13,970,663	0%	$ (4,913)	$ 14,136,076	14,131,779	0%	$ (4,297)	$ 14,218,574	$ 14,200,404	$ 14,202,289	0%	$ (18,170)	0%	$ (16,285)	0%	$ 1,885
Office of Homeless Services	$ 45,244,382	$ 45,692,125	1%	$ 447,743	$ 46,657,206	46,784,518	0%	$ 127,312	$ 48,247,957	$ 48,012,584	$ 51,111,498	0%	$ (235,373)	6%	$ 2,863,541	6%	$ 3,098,914
OIT (Includes 911)	$ 83,882,462	$ 68,165,573	-19%	$ (15,716,889)	$ 95,312,219	76,912,595	-19%	$ (18,399,624)	$ 83,737,508	$ 82,500,492	$ 101,871,935	-1%	$ (1,237,016)	22%	$ 18,134,427	23%	$ 19,371,443
OPA	$ 13,285,146	$ 12,254,032	-8%	$ (1,031,114)	$ 12,794,865	12,694,377	-1%	$ (100,488)	$ 13,923,826	$ 13,815,630	$ 14,616,425	-1%	$ (108,196)	5%	$ 692,599	6%	$ 800,795
Parks and Recreation	$ 57,874,883	$ 59,692,793	3%	$ 1,817,910	$ 59,882,081	61,134,109	2%	$ 1,252,028	$ 61,733,041	$ 61,058,911	$ 65,712,181	-1%	$ (674,130)	6%	$ 3,979,140	8%	$ 4,653,270
Planning and Development	$ -	$ -	0%	$ -	$ -	0	0%	$ -	$ 8,195,882	$ 8,769,306	$ 12,311,669	7%	$ 573,424	50%	$ 4,115,787	40%	$ 3,542,363
Police	$ 643,009,937	$ 658,913,434	2%	$ 15,903,497	$ 650,176,870	666,275,720	2%	$ 16,098,850	$ 652,106,097	$ 691,342,170	$ 709,492,944	6%	$ 39,236,073	9%	$ 57,386,847	3%	$ 18,150,774
Public Property - Space Rentals	$ 20,624,429	$ 20,228,737	-2%	$ (395,692)	$ 20,875,402	19,816,086	-5%	$ (1,059,316)	$ 20,950,268	$ 24,450,268	$ 22,457,948	17%	$ 3,500,000	7%	$ 1,507,680	-8%	$ (1,992,320)
Prisons	$ 253,791,576	$ 252,998,325	0%	$ (793,251)	$ 258,831,670	260,892,091	1%	$ 2,060,421	$ 258,958,360	$ 258,922,056	$ 256,371,806	0%	$ (36,304)	-1%	$ (2,586,554)	-1%	$ (2,550,250)
Public Health	$ 116,292,446	$ 121,477,480	4%	$ 5,185,034	$ 123,844,038	132,974,083	7%	$ 9,130,045	$ 136,362,067	$ 136,325,462	$ 156,633,875	0%	$ (36,605)	15%	$ 20,271,808	15%	$ 20,308,413
Public Property	$ 59,893,332	$ 64,005,967	7%	$ 4,112,635	$ 61,696,310	63,941,277	4%	$ 2,244,967	$ 65,448,723	$ 65,180,347	$ 67,840,100	0%	$ (268,376)	4%	$ 2,391,377	4%	$ 2,659,753
Revenue	$ 25,771,489	$ 25,030,624	-3%	$ (740,865)	$ 30,203,839	29,160,445	-3%	$ (1,043,394)	$ 30,492,518	$ 30,044,546	$ 30,707,541	-1%	$ (447,972)	1%	$ 215,023	2%	$ 662,995
Sheriff	$ 19,203,247	$ 23,430,787	22%	$ 4,227,540	$ 20,142,275	26,388,399	31%	$ 6,246,124	$ 23,071,824	$ 25,474,111	$ 24,482,339	10%	$ 2,402,287	6%	$ 1,410,515	-4%	$ (991,772)
Streets	$ 125,406,720	$ 145,412,435	16%	$ 20,005,715	$ 125,560,192	142,280,366	13%	$ 16,720,174	$ 137,332,424	$ 136,202,512	$ 142,656,270	-1%	$ (1,129,912)	4%	$ 5,323,846	5%	$ 6,453,758
Total	$ 2,436,800,658	$ 2,482,025,992	2%	$ 45,225,334	$ 2,515,678,505	$ 2,518,586,692	0%	$ 2,908,187	$ 2,664,257,087	$ 2,713,079,400	$ 2,801,978,605	2%	$ 48,822,313	5%	$ 137,721,518	3%	$ 88,899,205