TOUGH DECISIONS AND LIMITED OPTIONS:

How Philadelphia and Other Cities are Balancing Budgets in a Time of Recession

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KEY FINDINGS

All over America, cities are grappling with budget problems brought on by the financial crisis and the recession. Falling revenues, decreased state aid and weakened pension funds have combined to force city officials to make extremely tough choices. Los Angeles Mayor Antonio Villaraigosa declared recently: "The gravity of the fiscal emergency that we face is enormous." Other mayors have talked of "severe challenges" and "unprecedented sacrifices." This report looks at the decisions and choices that have been proposed or enacted in 12 large cities around the country—and how Philadelphia's proposed budget looks in comparison.

Like Philadelphia, most of the cities studied are in the process of approving budgets for the coming fiscal year and are facing significant budget gaps. The final budgets may look different from the proposals now under consideration. At this point, Philadelphia is one of four cities planning at least one major tax hike—a five-year, one percentage point increase in the sales tax.

Only New York is looking at two major tax increases, in property and sales. Philadelphia had been in that category until last week, when Mayor Michael Nutter abandoned his plan to raise the property tax as well. Columbus, Ohio, is considering hiking its income tax, and Atlanta has a property tax increase on the table. Others might be raising taxes if they could. In numerous cities, including Boston and Los Angeles, major tax hikes are all but impossible to enact—the result of state laws, ballot initiatives and constitutional restrictions.

Rather than increase broad-based taxes, most of the cities studied in this report are emphasizing cutting services and coupling those cuts with furloughs, workforce reductions, freezes on salaries and demands for wage and benefit concessions from municipal labor unions.

In the past year, for instance, Atlanta has eliminated 631 city positions and cut the hours and pay of most employees by 10 percent, including police officers and firefighters. In the coming year, New York is planning to lay off 3,759 workers and eliminate another 9,782 positions through attrition—on top of its tax increases. Chicago is talking about 1,100 layoffs, Los Angeles a minimum of 1,000, plus 26-day furloughs for all civilian employees. Detroit's budget would lay off 334 people from a workforce that has shrunk by a third during this decade. In several cities, including Boston, Chicago and Los Angeles, mayors are saying that union concessions—which they are seeking—would lead to fewer workers losing jobs or getting furloughed.

For the most part, proposed service cuts are targeting libraries, recreation facilities and aspects of trash collection. In a number of places, fire departments are shrinking. Police departments, typically the largest city departments, remain relatively unaffected, at least for now. Seattle is seeking to increase the size of its police force, even as it plans to close all of its libraries for a week. In the search for additional revenue, cities are tending to focus on fees rather than taxes—Los Angeles has increased its residential trash fee, while Phoenix is raising fees for after-school programs. Other cities, like Detroit and Chicago, want to lease city assets.

Philadelphia differs from these other cities in ways that help explain the degree to which it is relying on a tax increase to help deal with its budget problems, city officials say. Alone among the cities studied, Philadelphia must present a credibly-balanced, five-year plan for approval to a state-appointed agency, the Pennsylvania Intergovernmental Cooperation Authority (PICA). No other city examined has to deal with such a powerful external watchdog or produce balanced budgets for so many years, although New York is required to take a four-year look at its revenue and spending plans. In addition, Philadelphia is both a city and a county, meaning it must pay for corrections, courts, the district attorney's office and social services—functions that are financed by counties in other places and are considered hard to cut.

Factors that shape Philadelphia's situation include a pension fund in worse shape than most, strong labor unions with a history of adversarial relations with city government, and a large, low-income population with considerable service needs. "The demographics of our community mean that the services we provide become very critical to the ability of people to maintain a quality of life," said Philadelphia Budget Director Stephen J. Agostini. "If we don't provide the services, a lot of people won't get them. They have no other options."[1]

Other cities are making different choices. In Baltimore—which has similar demographics to Philadelphia but a smaller current budget gap—Mayor Sheila Dixon has opted to reduce expenses and services enough to avoid raising taxes for now. "City government will tighten its belt," she said, "and not pass considerable burdens on to citizens in the form of higher taxes."[2] At the same time, she told Baltimoreans to expect "even tougher budgets in the years to come."[3]

MAGNITUDE OF THE BUDGET GAPS

Philadelphia's budget problem sounds massive—a $1.4 billion gap over five years. The gap would have been about $2.4 billion without decisions made last fall to trim some services, pare departmental budgets, reduce some salaries, eliminate jobs and suspend planned tax cuts; those measures will remain in place through the coming year's budget and into the future.

On a one-year basis, Philadelphia's shortfall is about 11 percent, putting it pretty much in the middle of what's happening around the country, as cities grapple with the fiscal impact of the recession.

The chart below shows the one-year budget gap in each of the cities studied. The gaps are reported in both dollar and percentage terms—showing the comparative impact the shortfalls are having on individual cities and taking into account the wide variation in the size of city budgets. As the chart shows, Seattle appears to be in the best fiscal situation, Detroit in the worst. Not shown is Pittsburgh, which actually has a modest surplus this year. (See page 5.)

FIGURE 1

THE SIZE OF ONE-YEAR BUDGET GAPS

City	Deficits for Each City	Gap as a Percentage of General Fund
Detroit FY '10	$300,000,000	20%
Columbus FY '09	$114,000,000	18%
Phoenix FY '10	$201,000,000	17%
Kansas City FY '10	$87,100,000	15%
Chicago FY '09	$769,000,000	13%
Los Angeles FY '10	$528,720,000	12%
New York FY '10	$6,600,000,000	11%
Philadelphia FY '10	$428,000,000	11%
Atlanta FY '10	$56,000,000	10%
Boston FY '10	$140,000,000	6%
Baltimore FY '10	$65,000,000	5%
Seattle FY '09	$44,300,000	5%

* THE OTHER CITY STUDIED FOR THIS REPORT, PITTSBURGH, HAS A 1 PERCENT SURPLUS THIS YEAR, AMOUNTING TO $3,440,087.

Source: Authors' analysis of budget and shortfall numbers provided by individual cities.
Note: With the exception of Seattle and Kansas City, this chart looks only at cities' general funds. Every city budget contains a variety of funds designated for specific purposes. Typically, the largest is the general fund, in which general tax revenues and discretionary resources are pooled and allocated to support city operations. Seattle and Kansas City have certain ancillary funds that support functions usually covered by general funds. For those two cities, the ancillary funds were included in this chart.

Comparing city budgets is a tricky business. Consider that New York has a budget nearly 50 times as big as that of Phoenix, even though it has only about five-and-a-half times as many residents. Why do city budgets vary so much in scale? In some places, like New York and Philadelphia, they cover the bulk of local government services, including corrections and public health. In other places, many of these services are funded by separate county budgets or handled directly by the state. Schools are part of some city budgets and not others. In addition, various cities offer different levels of services and have different demographic compositions.

So while 12 of the 13 cities are looking at shortfalls in the upcoming fiscal year, the magnitude of the problem varies from one city to another—and with it, the need for dramatic solutions.

What's causing the gap?

Just as the economic downturn is affecting individuals and businesses, it also is affecting city governments. Declines in consumer spending lead to decreases in sales tax revenue. Job losses mean stagnant or falling income tax revenues. And a flagging real estate market means dwindling taxes on real estate transactions. On top of all of this, losses in the stock market have weakened city pension funds, forcing cities to increase contributions to those funds.

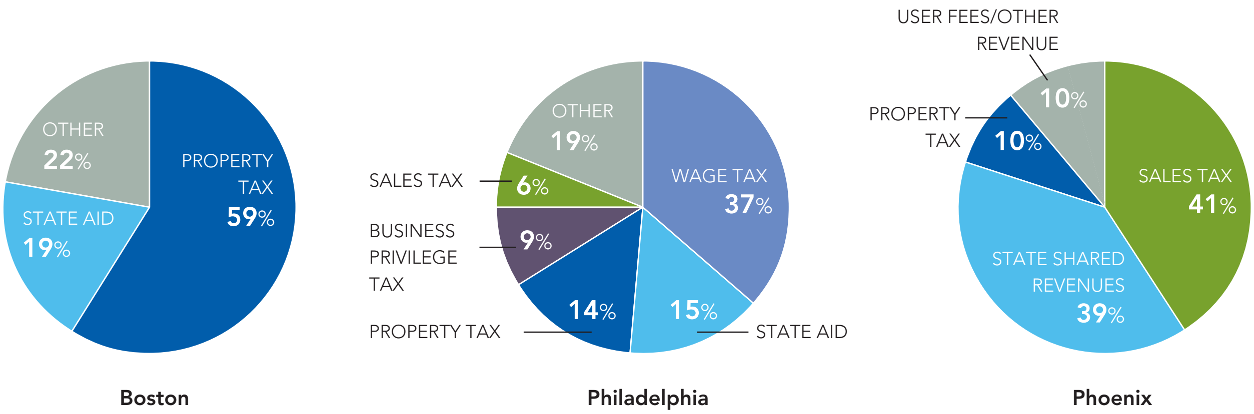
How much the recession impacts individual cities depends on each city's mix of revenue sources, its fiscal health before the recession and the nature of the local economy. Phoenix is facing a 17 percent budget gap for the coming fiscal year (FY2010) largely because its two main sources of income—the sales tax and revenue-sharing from state income tax—are projected to decline significantly.[4] Boston has a relatively small gap because revenue from the property tax, the city's primary source, is projected to remain fairly constant. Detroit's 20 percent gap is a function not just of the recession but of long-term structural issues including a shrinking population, rising pension obligations and unreliable financial projections.

By comparison, Philadelphia has a relatively diverse group of revenue sources, including taxes on wages, property, sales and business. It also has long-term structural issues, including a growing prison population, high health-care costs for city workers and a severely underfunded pension fund.

Every situation is different. But each city has to balance its budget by using two basic tools: reducing expenditures and raising revenues. Neither is easy. Eliminating services can spark public outcry: witness the protests over proposed library closures in Philadelphia last fall. Efforts to make government more efficient are difficult to quantify and may take years to materialize. Trimming the cost of services usually means cutting personnel costs, which frequently requires the consent of municipal labor unions. Raising taxes is particularly unpopular at a time when citizens are worried about their own financial stability. Still, choices have to be made, and cities are making them.

FIGURE 2

WHERE THREE CITIES GET THEIR REVENUE



Source: City budget documents.

REDUCING EXPENDITURES

Personnel costs make up the largest percentage of any city's budget. In Philadelphia, 80 percent of the city's general fund goes to payroll, pensions and employee benefits; in Boston these categories make up 70 percent of total city expenditures. To reduce personnel costs, cities must shrink the size of their workforce and/or cut their per-employee costs.

Decreasing Headcount / Reducing Services

To shrink their workforces while minimizing layoffs, cities are imposing hiring freezes, eliminating vacant positions and reducing numbers through attrition. New York plans to eliminate 9,782 positions through attrition. Detroit is considering an early retirement plan in the hope of decreasing the need for layoffs.

COMPARISON CITIES

This reports looks at budgets in 13 cities: Atlanta, Baltimore, Boston, Chicago, Columbus (OH), Detroit, Kansas City (MO), Los Angeles, New York, Phoenix, Philadelphia, Pittsburgh and Seattle.

In choosing cities to study, the Philadelphia Research Initiative looked both for cities with something in common with Philadelphia and for those that would provide a different perspective.

Like Philadelphia, Baltimore and Boston are old, northeast cities with an industrial past; Pittsburgh is in the same state. New York, Los Angeles and Chicago, the nation's big three, chart the course for municipal governance by dominating the national urban spotlight.

Other cities were chosen for reasons of geographic diversity—Atlanta from the South, Seattle from the Northwest, Columbus from the Midwest—or because, like Phoenix and Detroit, they have been hit particularly hard by the recession.

And cities were chosen based on timing. Kansas City is one of the few cities in the country that approves its budget in March for a fiscal year that starts in May, thereby serving as a preview for the debate that cities like Philadelphia, with fiscal years that start in July, are facing now.

But attrition and early retirement plans only get a city so far. So nearly all of those studied for this report are looking at layoffs. For FY2010, New York Mayor Michael Bloomberg is proposing laying off 3,742 employees. Baltimore wants to lay off 105 general fund employees, Boston up to 555, Detroit 334, and Seattle around 30. Philadelphia laid off 47 people last fall. Mayor Nutter's budget would cut the workforce by 250 more slots, with up to 74 layoffs. Additional layoffs almost surely would be necessary should Nutter fail to get the state approval required for his tax increase.

Several cities are explicitly linking the need for layoffs to their ability to get concessions from the unions that represent city workers.

- In Boston, Mayor Thomas Menino has placed responsibility for possible layoffs squarely on the shoulders of the unions: "Without [union] cooperation, I will have no choice but to lay off roughly 700 city workers," he said in March.[5] Some unions have since worked out agreements with the city, causing the number of projected layoffs to fall.
- In Chicago, Mayor Richard Daley has informed union leadership that 1,100 city employees—excluding police and fire—will be laid off by June 1 if unions don't agree to have their members take 14 days off without pay and to accept comp time instead of overtime.
- In Los Angeles, Mayor Villaraigosa has begun plans to lay off 1,000 employees and has warned of more layoffs to come unless the unions help. "If every employee took off just one unpaid hour per week, we could save $52 million and prevent more than 580 layoffs," he said in April. "If each employee contributed just 2 percent more to our retirement benefits, we could save $63 million and prevent more than 700 layoffs. By simply deferring automatic pay raises, we could save $117 million and prevent 1,300 layoffs."[6]

Regardless of whether cuts are sought through hiring freezes, attrition or layoffs, workforce reductions tend to be focused in recreation centers, pools, libraries and bulk trash pickup.

Atlanta, Baltimore, Phoenix and Columbus have closed recreation centers. Funding for pools also has been slashed; pool closures have taken place or are under consideration in Philadelphia, Baltimore and Columbus.[7] Other cities are opting to keep all pools open while shortening their swimming season: Atlanta will delay the opening of its pools by a month, and Baltimore will shorten the season by a week at most pools. Kansas City is hoping to move away from pools altogether, replacing them with less costly "spray grounds."

Libraries are also feeling budget cuts. While no city, including Philadelphia, is pursuing branch closures at this point, many cities are cutting library funding and hours. Phoenix initially proposed closing libraries on Sundays, ran into resistance and instead reduced Sunday hours at several branches. Baltimore, Boston, Los Angeles, New York and Philadelphia are all proposing reduced library funding and/or hours. In Seattle, the mayor has proposed that all libraries close for the week in August that is purported to be the slowest week for library use in the year.

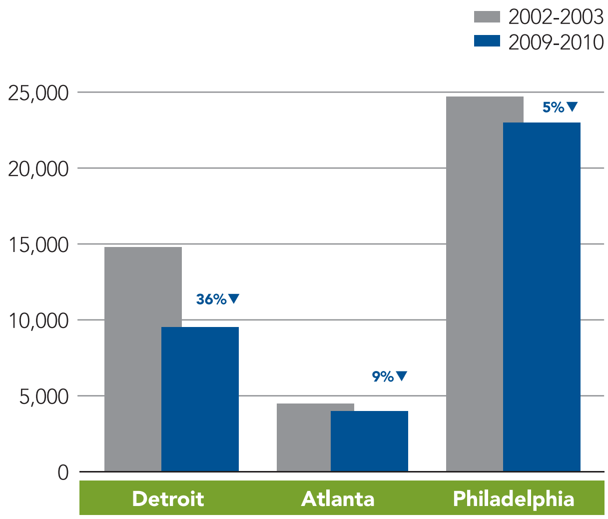
Sanitation is another area where cuts are common. In the past year, Atlanta reduced recycling from weekly to twice-monthly, and Philadelphia has eliminated leaf, bulk and tire collection. Columbus eliminated regular yard-waste collection and then reinstated it for a yearly fee. In Baltimore, where sanitation routes had not been examined for decades, city officials redesigned routes, resulting in a substantial reduction in overtime. Now, the city is proposing moving from semi-weekly to weekly trash pickup.

Public safety agencies, which account for more than half of the general fund budget in many cities, remain relatively unscathed. Despite growing budget gaps, neither Seattle nor Los Angeles has abandoned plans to increase the total number of police officers, although Los Angeles' plan may be in jeopardy. Said Seattle Mayor Greg Nickels: "In a recession, crime goes up, we know that. It's common sense, and it's something we're going to see. Many cities are cutting their departments, but … we need to continue to hire new patrol officers."[8] Nevertheless, both cities are reducing civilian staff in their police departments. In Los Angeles, this has created concern that officers are being taken off the street in order to cover clerical tasks normally done by civilians.[9]

Several cities, including New York and Detroit, will see a reduction in police ranks through attrition. Only Boston's budget, however, proposes actual layoffs, calling for 67 officers to be laid off unless the city receives federal Community Oriented Police Services (COPS) grant money, a competitive program in the stimulus package that will help create and preserve jobs in the limited number of departments that are awarded grants.[10]

FIGURE 3

WORKFORCE REDUCTIONS IN THREE CITIES



Source: City budget documents, general fund employees.
Note: Reductions in city workforces this year are part of longer-term trends in some cities. Detroit, which has a shrinking population, has reduced its workforce by 36 percent since 2002. Philadelphia, which also has seen population declines, has pared its workforce by 5 percent over the same period. Atlanta, where the population is growing, has seen a 9 percent cut.

SURPLUS IN PITTSBURGH

Of the cities studied for this report, Pittsburgh is the only one not looking at a deficit for FY2009 or 2010.

Teetering on bankruptcy in 2003, Pittsburgh was forced then to make many of the difficult decisions that other cities are facing now. Over the last five years, the city has reduced its workforce by an estimated 25 percent, closed fire stations as well as pools and recreation centers, instituted a multi-year wage freeze, restructured health benefits to shift a greater portion of cost onto employees and eliminated retiree health benefits for future hires.

Some analysts credit local leaders with Pittsburgh's successful recovery from bankruptcy, while others point to the recommendations of its state-appointed oversight board. Either way, Pittsburgh effectively leveraged its fiscal crisis and is in better financial health today as a result.

Fire Departments are also being cut, although none of the cities studied here is currently discussing closing fire stations. Instead, Boston and New York are both proposing reductions in department size through attrition and consolidation. Kansas City is starting down this path, eliminating three fire companies in its FY2010 budget; in FY2009, Atlanta has been closing certain stations over specific weekends in what the city is calling a "brownout."[11]

Reducing Costs per Employee

In addition to reducing the overall size of their workforces, cities are cutting per-employee costs through wage freezes, benefit reductions and furloughs. Most cities have frozen wages and reduced benefits for some employees and/or put these issues on the table for union negotiations. A few cities, including Kansas City and Columbus, have instituted large-scale wage freezes that include some or all of their unionized employees, and several are seeking wage concessions from unions. In Philadelphia, Mayor Nutter's proposed budget includes no reserve for salary increases for the next five years.

Many cities are trying to shift an increased portion of the cost of benefits to employees; for most cities, this involves renegotiating existing agreements with their unions. The Nutter administration wants to see a new pension plan in Philadelphia for newly-hired and non-vested city employees that would require a higher level of employee contribution than the current plan. The city also is seeking to reduce its health-care costs, either through increased contributions from its workforce or increased efficiencies. Many cities, including Chicago, Detroit and Kansas City, are doing the same. The city of Atlanta has the ability to unilaterally increase employee health-care contributions and did so in FY2009, upping employees' share of health-care costs from 23 percent to 30 percent.[12]

A less common strategy for reducing personnel expenditures has been instituting voluntary or mandatory unpaid furloughs. Officials in some cities have avoided their use, viewing furloughs as short-term solutions that generate small savings while creating lots of ill will among staff. Boston, Baltimore, Kansas City and New York have no plans to use them; Pittsburgh has no need for them; and Detroit has not discussed them.

Phoenix has encouraged voluntary furlough days; Philadelphia required five furlough days for non-union employees earning more than $50,000 annually in FY2009 and plans to do so again in FY2010; and Seattle applied furloughs to its executive staff only. Chicago is talking about several weeks of furlough days for all employees except police and firefighters, Los Angeles about civilian workers taking 26 furlough days in the coming year. Atlanta already has a similar plan in place for all general fund workers, police included.

ATLANTA AND THE 36-HOUR WORKWEEK

Perhaps no city has used furloughs to cut costs more than Atlanta. Since last December, the city has forced nearly all of its general fund employees—including police officers, firefighters and prison guards—to work four fewer hours every week. The resulting 10 percent reduction in pay has saved the city approximately $11.5 million. And the shift to nine-hour days, four days a week, has caused many city agencies to close on Fridays.

The furloughs come on top of deep cuts to the city's workforce. City officials contend that the use of furloughs has allowed them to avoid cutting "into the bone" of city services.

This approach has not come without controversy. Several high-profile crimes have caused concern that police furloughs may have reduced public safety, although city officials say crime is down. This concern prompted City Council to call for an end to furloughs for police officers and firefighters. In late April, Mayor Shirley Franklin proposed a property tax increase that would allow the city to end all furloughs as of July 1.

Chicago already had instituted unpaid government "slowdown" days, closing all government offices except police and fire on January 2, the Friday after Thanksgiving, December 24 and December 31, at a savings of approximately $2.2 million per day.[13] Columbus has discussed enacting "temporary layoffs" to get around contractual restrictions against furloughs.

GENERATING REVENUE

Most of the cities studied have avoided raising mainstream taxes thus far. To raise revenue, some are making modest and discrete increases in various fees. Several cities also are looking at raising larger amounts of money by leasing or selling municipal assets.

VOLUNTEERS TO THE RESCUE

It's rare that individuals look for ways to contribute more of their money to city government. But in Phoenix, citizens have done just that.

At budget hearings, citizens offered to pay more for services they value, inquired about volunteer opportunities and even asked for the ability to make contributions to the city coffers. In response, the city created a page on its Web site where citizens can sign up for ongoing volunteer opportunities and is establishing a way for citizens to make donations to the city's general fund.

Raising Taxes

Seattle, Phoenix, Los Angeles, Detroit and Baltimore are proposing no tax increases. A few cities, including Chicago and Boston, are proposing increases to narrow, targeted taxes: Chicago plans to raise parking and amusement tax rates while Boston, for the seventh year in a row, is requesting state permission to impose a 1 percent tax on restaurant meals. Only four out of 13 cities are considering increases to one or more major taxes:

- Atlanta is considering a property tax increase for FY2010 that would raise homeowners' tax bills by 7 percent. In the FY2009 budget cycle, Atlanta lowered the property tax.
- Columbus has called for a special election in August on a plan to increase the income tax rate from 2 percent to 2.5 percent. The city last raised the income tax in 1982.
- New York has ended a 2008 property tax rebate, which means property taxes will rise effective January 1, 2010. The city is also asking the state permission to raise the sales tax by a half a percentage point to 8.875 percent and to apply the tax to previously-exempt clothing purchases.[14]
- Philadelphia's proposed budget calls for a five-year hike in the sales tax from 7 to 8 percent. (Tax increases in the other cities have no time limits attached.) Mayor Nutter had sought a two-year increase in the property tax before bowing to opposition from City Council. Last fall, Philadelphia suspended scheduled decreases in the wage and business privilege taxes for five years.

Concern for citizens' ability to pay higher taxes in tough times is one reason why most cities are not pursuing tax increases. And there is another: Many cities lack the authority to raise taxes.

For some, including Los Angeles, Kansas City and Columbus, a public vote is needed for most tax hikes. In Los Angeles, the city explored delaying a scheduled decrease in the business tax but abandoned the idea after determining that the move would require voter approval. Many cities, including New York and Philadelphia, require state approval to increase certain types of taxes such as the sales tax.

In other jurisdictions, the state has set a legal limit on how much a tax can be raised. For example, Massachusetts limits the rate at which total revenue from property taxes can rise, tying Boston's hands. And in some cases, cities don't collect most taxes themselves but instead receive a portion of state-collected revenue. Chicago and Illinois have this arrangement. Since Chicago lacks the ability to set or collect property, income or sales tax on its own, Mayor Daley is focusing his budget on service and personnel cuts while also supporting a proposal to increase the state income tax.

Imposing Fees

Raising a fee is easier than raising a tax, and raising an existing fee is easier than imposing a new one. Consequently, almost every city studied for this report is proposing, or has implemented, a range of fee increases this year: for parks and recreation services in Phoenix, parking permits in Chicago, animal-shelter spay and neuter fees in Los Angeles and public health centers in Philadelphia. Kansas City reset all of its municipal fees, and several cities raised parking rates.

Some fees are considered routine in some places, unacceptable in others. Seattle and Los Angeles both have long-standing residential trash fees which they have raised recently with little public outcry. In Los Angeles, the increase was substantial, around $10 a month.[15] But when Philadelphia and Kansas City floated the idea of introducing trash fees, the proposals encountered stern resistance, leading both cities to drop the idea. New York Mayor Michael Bloomberg has recommended a new five-cent fee on plastic shopping bags, which would raise an estimated $100 million a year.

Leasing Assets

Several cities are hoping to make major progress in closing their budget gaps by selling or leasing public assets. Chicago is in the vanguard of this movement, having already sold a 99-year lease on its Skyway toll road for $1.8 billion in 2006, a 99-year lease on the city's parking garages for $563 million in 2007, and a 75-year lease on the city's parking meters for $1.5 billion in 2008. An effort by the city to sell a 99-year lease on Midway Airport recently fell through.

Other cities are hoping to do the same. The proposed budget for Los Angeles includes a plan to lease six city-owned parking garages to private investors. Detroit has been in long-standing negotiations to lease toll-collection on the tunnel to Windsor, Ontario, and recently commenced efforts to lease parking meters and public lighting. Pittsburgh has privatized towing and is discussing leases for parking garages and using the revenues to pay down its pension obligations.

FEDERAL STIMULUS

One goal of the American Recovery and Reinvestment Act of 2009, also known as the federal stimulus bill, is to help stabilize state and local budgets.

The act uses a mix of entitlement and competitive grants to fund a range of municipal initiatives including projects related to transportation, education, health and workforce development.

Although the infusion of dollars is welcome, the stimulus bill is no panacea for cities in fiscal crisis. For the most part, it does not address general fund responsibilities. In the words of Baltimore Mayor Sheila Dixon: "Stimulus money is targeted and temporary. While it will help support jobs in the city…,[it will] not solve the city's long-term budget problems."[16]

Some cities have more leasable assets than others, and the strategy itself has its benefits and drawbacks. Critics argue that leasing assets provides cities with short-term cash infusions that allow them to avoid confronting structural gaps between revenues and expenditures. Proponents counter that the return can be substantial and, with good investing, can last for decades.

In some cities, like Philadelphia, where the Parking Authority is state-run and part of the airport is located in Delaware County, this strategy may be less applicable.

PHILADELPHIA'S CHOICES

City budgets are statements about priorities: Should services be preserved at the expense of additional taxes? Should more money go to police, economic development or human services? But budget choices also are products of the fiscal, demographic and political realities that are unique to an individual city. Those factors help explain why Philadelphia, while making cuts in spending, is relying more than most cities on increased revenues to close its budget gap.

Unlike some other cities, Philadelphia can not finesse its budget problem this year with stopgap measures, thereby pushing the day of reckoning down the road. The existence of PICA, the state watchdog, forces the city to deal with five years of fiscal concerns all at once. And city officials think it's neither possible nor desirable to close a $1.4-billion gap over that period by cost-cutting alone.

As a result, it's possible that Philadelphia, unlike some other cities, may be dealing with the bulk of the pain now and may not have to ratchet-up its budget-balancing efforts next year and the year after. Samuel Tyler, president of the nonpartisan Boston Municipal Research Bureau, expressed a sentiment about Boston that could apply to other cities: "There are dollars being used for fiscal 2010 that may not be available in fiscal 2011; and fiscal 2011 is going to be no easier, and could be even more difficult, than next year."[17]

The severe underfunding of Philadelphia's pension fund, made worse by the decline in the stock market, contributes mightily to the size of its budget gap. In addition, this year's proposed budget was influenced by a series of well-attended public workshops in February in which participants were asked to take a stab at making the tough choices necessary to balance the budget. The consensus that emerged from those events was that citizens were willing to accept some tax increases to maintain core city services. In introducing his budget, Nutter said he heard that message "loud and clear."[18]

Whether city officials read the public mood correctly is open to debate. A poll taken in April by the Philadelphia Research Initiative found that only 35 percent of those questioned were willing to pay higher taxes to maintain city services; just 29 percent of people with incomes under $30,000 voiced that opinion. In addition, the survey found that more than 80 percent of residents oppose raising the property tax, a sentiment that has helped fuel resistance to Nutter's original plan in City Council. Overall, however, the poll results provided no clear reflection of what the public wanted, as even the proposal to trim the city's workforce by 1 percent faced solid opposition.[19]

There is little doubt, though, that the mayor gave Philadelphians what he thought they wanted and what he thought the city needed. City officials say that reducing services sharply could have a devastating impact in a community where the poverty rate is 24 percent, median income is well below the national average, and only 21 percent of adults are college graduates. Of the cities studied, only Detroit ranks worse in these categories. At the same time, the mayor and many economists have long argued that Philadelphia's tax burden, one of the highest in the nation, has damaged the city by driving away jobs and middle-class taxpayers.

How all of these factors play out—in Philadelphia and elsewhere—will determine the final shape of city budgets for the coming year and the final balance between cutting expenditures and generating revenues. Unless the economy recovers quickly, a lot of cities will have to get accustomed to making more tough choices in the years ahead. ■

ENDNOTES

[1] May 5 interview with authors.

[2] March 18 budget transmittal letter.

[3] April 22 letter to Baltimore City Council.

[4] Sales tax revenue is projected to decline 7 percent in FY2009, and revenue sharing from state income tax is projected to decline 14 percent in FY2010. Data is courtesy of the City of Phoenix Budget Department.

[5] March 6, Mayor's Budget Address to the Boston Municipal Research Bureau.

[6] April 20, Budget Message (http://www.lacity.org/mayor/budget/).

[7] As a cost saving measure, Philadelphia plans to close some of its 73 pools this summer.

[8] April 17 budget press conference.

[9] Joel Rubin, "Fiscal woes pull L.A. officers off streets," *Los Angeles Times*, April 1, 2009.

[10] See Boston's Fiscal Year 2010 Recommended Budget and Mayor Thomas Menino's April 8, 2009, press conference.

[11] Eric Stirgus, "Atlanta Fire Chief Says 'Brownout' Will Cut Costs," *Atlanta Journal-Constitution*, October 15, 2008.

[12] Greg Giornelli, chief operating officer, City of Atlanta, April 21 interview with authors.

[13] Ann McNabb, acting budget director, City of Chicago, March 24 interview with authors.

[14] The overall 8.875 percent sales tax rate includes the New York City sales tax rate (currently 4.0 percent and proposed to increase to 4.5 percent) and the state sales tax rate of 4.0 percent, plus .375 percent mass transit charge.

[15] In 2009, the monthly trash fees were raised from $26 for single-family homes and $18 for households in multi-family dwellings to $36.32 and $24, respectively.

[16] March 18 press release.

[17] Donovan Slack and John C. Drake, "Menino Proposes Cutting 565 jobs," *Boston Globe*, April 8, 2009.

[18] March 19 budget speech to Philadelphia City Council.

[19] April 2009 Pew Philadelphia Research Initiative poll.

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