


CITY OF PHILADELPHIA
Mayor's Office



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INTEROFFICE MEMORANDUM

TO: Council President Anna C. Verna
FROM: Clarence D. Armbrister 
DATE: May 20, 2010
SUBJECT: Proposed Cuts to Council's FY11 Budget

As I indicated to you in my letter to you of this morning, I am delivering to you a more detailed explanation of the expenditure reductions the Administration will be compelled to make in light of the level of revenues included in the budget Council enacted today.

The Administration stands ready to meet to provide any additional information the Council requires.

C.D.A.

CDA/kl

cc: Mayor Michael A. Nutter
All Members of City Council



CITY OF PHILADELPHIA

OFFICE OF DIRECTOR OF FINANCE

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STEPHEN J. AGOSTINI
Budget Director

May 20, 2010

Mr. Clarence Armbrister
Chief of Staff
City of Philadelphia
Room 204 City Hall
Philadelphia, PA 19102

Dear Mr. Armbrister:

The current revenues as proposed by City Council do not provide enough money to cover the necessary cash-flow requirements of the City for FY2011. The \$22 million reduction in the FY2011 General Fund fund balance proposed by City Council will create a negative cash flow situation for FY 2011 even though the projected General Fund Balance remains positive at approximately \$40 million. This is exactly the outcome the City Council's budget and fiscal consultants, Econsult, warned would occur if City Council did not prudently consider the cash flow needs of the City. To quote Econsult, "we do not believe that going beyond a \$10 million reduction in projected FY2011 fund balance would be prudent for the city" (see attached memo from Econsult and Fairmount Capital advisors dated April 7, 2010, page 3). By doubling this reduction in fund balance the proposed budget will result in a negative cash balance in the General Fund during the course of FY2011. Therefore, I recommend the Administration take actions to reduce expenditures – including reductions in full time positions - to address the cash flow difficulties the City will face in FY2011.

This memo outlines some potential reductions that are needed to improve the FY2011 cash-flow and meet the objectives of a prudent five-year plan. The reductions are divided

into two categories: Reductions that have Service Impacts and reductions that eliminate New Funding. Together these total \$20,097,135, and would eliminate 339 positions.

Reductions with Service Impacts

Two new Police classes have been scheduled for FY11. Each class was scheduled for 130 new recruits. This proposal eliminates funding for both new classes. The Police Department's current sworn force is 6,629 (as of the last payroll), 50 of which are COPS grant funded. At the current rate of attrition (16 per month on average), the Police Department's sworn strength would expect to be 6,439 at the end of FY11. This proposal reduces the Police Department's budget by \$4,500,000.

This proposal also deactivates two Fire Department companies. This would mean the elimination of 40 positions, which could place extra stress on the Fire Department's ability to fight fires and to keep residents safe. This proposal reduces Fire Department funding by \$3,560,000.

This proposal also reduces the Free Library's operating hours. Libraries will move to a four-day per week schedule (other than the Central Library), and will eliminate 53 positions. This proposal reduces the Free Library's budget by \$2,545,103.

The Department of Licenses and Inspections' budget would be reduced by \$661,569. This would mostly impact demolitions, and decrease the number of demolitions by 35 (from 400 to 365).

The Managing Director's Office would undergo a series of service cuts. The Youth Violence Prevention and Town Watch Integrated Services programs would be reduced by approximately \$500,000. The Community Life Improvement Program will be reduced by almost \$950,000. This reduction eliminates the anti-graffiti paint and supply voucher program, reduces equipment and supplies, and curtails free bags and gloves for community cleanups. This reduction also removes all new funding associated with the Clean Philly Fee, which would have increased their capacity to clean vacant lots by approximately 1,800 properties. This would reduce the Managing Director's Office budget by a total of \$1,696,779.

The Division of Technology's budget would be reduced by \$1,200,000. This would potentially delay purchases of contractual services needed to maintain the City's technology infrastructure.

Funding for the Office of Supportive Housing would be reduced by \$505,992. This would eliminate 8 positions, and their duties would be performed by existing staff. It would also cut the Motivational Therapy Program at Riverview, which provides payments to residents for performing tasks at the facility, as well as some reductions in materials and supplies.

The Office of Fleet Management would reduce equipment (motor vehicle parts) for a reduction of \$390,247. The Office does not anticipate a significant negative impact due to the recent fleet reduction of 403 vehicles.

The Philadelphia Cultural Fund would be reduced by 7.5%. This would cut the budget of the Office of Arts, Culture and the Creative Economy by \$240,000.

The Mayor's Office would take a 5% reduction in personnel, professional services, and materials and supplies, for a total of \$199,219. This would eliminate funding for 2 positions.

\$98,226 would be reduced from the **Inspector General's** budget. This would eliminate 2 vacant positions, as well as training costs and office supplies.

In sum, these reductions with service impacts amount to \$15,197,135, and eliminate 295 positions.

Elimination of New Funding

Other than the new CLIP funding mentioned above, the FY11 budget also included some new funding to achieve some critical improvements in certain areas.

The Streets Department, in association with the Clean Philly Fee, had an extra \$1,500,000 budgeted for improvements to current services, and restoration of certain services that had been cut in reductions over the last two fiscal years. This would have restored full leaf service collection, expanded the Citywide Cleaning Program, and provided resources to support neighborhood litter reduction with regular clean-ups throughout the city.

The Department of Parks and Recreation would have the \$2,500,000 in new funding for trees eliminated in this proposal. This would eliminate 44 positions, and severely curtail progress on clean air efforts and other environmental benefits based on numerous requests by City residents.

The new maintenance assessment team in the **Department of Public Property** would be eliminated. This team would have provided valuable insight into the overall maintenance and repairs needed on City-owned property. This reduces the Department's budget by \$300,000.

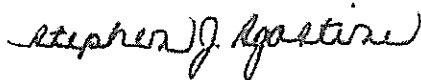
The new long-range planning team in the **City Planning Commission** would be eliminated. This team would have continued the Commission's work on "Plan 2035", the comprehensive long-range city plan for land use in Philadelphia and assessed the City's capital needs. This reduces the Commission's budget by \$200,000.

By eliminating new funding, \$4,500,000 will be reduced, eliminating 44 positions.

Set forth below is a summary of the reductions in the two categories and calculation of the aggregate expenditure reductions and position reductions of those categories.

	<u>Expenditure Reduction</u>	<u>Position Reductions</u>
Significant Service Impact	(\$15,597,135)	295
Elimination of New Funding	(\$4,500,000)	44
TOTAL	(\$20,097,135)	339

Sincerely,



Stephen J. Agostini
Budget Director

Cc: Rob Dubow

ECONSULT CORPORATION

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To: Council President Verna
City Council Members of Staff

From: Econsult & Fairmount Capital

Re: FY2011 Budget Deliberations
Initial Parameters Defining the "Budget gap"

1.0 INTRODUCTION

One of the most important results of our recent series of initial meetings with Council members was the need to first establish or define the parameters of the budget problem or "gap" that Council must address, assuming that Council wants to examine alternatives that do not include either the sugared drink tax or the residential trash fee.

Following our March 31 meeting, we met with Rob Dubow and Steve Agostini to go over their forecasts and details with regard to:

- Initial (FY10 year-end) fund balance
- Annual fund balances in SYR Plan and FY2011
- Individual revenue forecasts
- Timing of proposed new revenues
- Cash flow forecasts and TRANS borrowing needs
- Impact of labor contracts and time

Our objectives were to understand the assumptions and models underlying the numbers, the links between the budget proposal and revenue forecasts, what is and is not included for contract impacts, the cash flow generated by the budget as proposed (with new revenue sources), and the impacts of eliminating the proposed new revenue sources (sugar tax and trash fee) on operating deficits, fund balances and cash flow. Our general findings are that the initial fund balance estimate for FY2010 year-end and the FY2011 and FY2012 revenue estimates are reasonable and there is no basis at this time for assuming higher revenue projections for either FY2011 or FY2012. We do, however, believe there may be the potential for positive revenue adjustments to

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Re: *FY2011 Budget Deliberations*

the forecasts for the 5YR Plan out years – FY2013-5. In this memo, we restrict our comments primarily to FY2011, with some focus on FY2012.

2.0 EXPLAINING THE PROPOSED BUDGET

The proposed FY2011 budget calls for a \$103m operating surplus (after adjustments) in FY2011, which would take a (\$38m) negative fund balance projected for FY2010 to a \$65m positive balance at the end of FY2011. Only the Police Contract is explicitly incorporated in the FY2011 budgeted expenditures, and the impacts of changes to the other union contracts are not included directly. The summary budget figures for FY2011 and the corresponding figures for FY2012 from the Five Year Plan are presented below (in \$million). The revenue figures include \$146.3 million in FY2011 (based on the trash fee and 6 months of collections from the tax on sugar drinks) and \$184.9 million in FY2012 (based on 12 months of collections of both new taxes). The bulk of the new revenues would come near the end of the FY, putting a strain on cash balances.

	FY2011	FY2012
Beginning Fund Balance	(37.9)	64.7
Revenues	3,949.2*	4,096.4**
Expenditures	<u>3,871.1</u>	<u>4,021.2</u>
Operating Results	78.1	75.2
Adjustments	<u>24.5</u>	<u>24.5</u>
Adjusted Results	102.6	99.7
Ending Fund Balance	64.7	164.4

*includes \$146.3m in new taxes

** includes \$184.m in new taxes

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3.0 ESTABLISH THE BUDGET GAP

Based on the budget figures summarized above, it seems reasonable to question whether new/additional revenue requirements for FY2011 have been overstated. The first place to look is at projected General Fund balances. The administration considers the FY2010 yearend estimate of - \$37.9 million) to be conservative; PICA monthly reports appear to support that view, and we do not see anything *external* that would cause any significant positive change to that estimate. (The Administration could reduce spending in the final quarter beyond what is currently anticipated.)

What kind of change in projected Fund Balances would be acceptable and prudent? All other things equal, a reduction in recurring new taxes of \$25 million would leave an ending FY2011 fund balance of approximately \$40 million and a fund balance of \$115 million at the end of FY2012. A closer look at the implications of this approach reveals a serious problem, however.

The current Five Year Plan includes a monthly cash flow schedule for FY2011, which shows the General Fund cash position reaching a low of \$19.1 million in June 2011, and Consolidated Cash totaling \$87.5 million in the same month, including \$40 million of grant funds, which are likely not to be available for the General Fund. The ending General Fund cash balance is precariously low and a reduction of \$25 million in new revenues would leave a negative cash position at the end of the fiscal year.

This cash flow constraint could be dealt with at the margin, but not without costs. Because the cash balance is so low in June, smoothing cash flow with a TRAN would not help since the TRAN would need to be repaid by June 30. Shifting some payments (e.g. Pension payments) from March into June will also not change the June cash flow picture, and purchases of services are already somewhat back-ended, so there's not much room to move such payments even later into the FY. We would check to see if the City could defer some cash payments at the end of FY2011 into FY2012, and do a new TRAN at the beginning of FY2012, but that could raise rating issues and could lead to fairly high borrowing costs - but maybe that's something we should look at more closely. Rob and Steve would not like that approach, and neither would we have liked it when we were there. Still, those additional costs must be weighed against any perceived benefits, in terms of a smaller budget gap for FY2011. *In any case, we do not believe that going beyond a \$10 million reduction in projected FY2011 fund balance would be prudent for the city.*

Based on this information, if the proposed budget appropriations are held constant, and the two new proposed revenue sources are taken off the table, we estimate the FY2011 budget "gap" to be

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resolved to be on the order of \$130-140m, which still would leave the General Fund with a very low cash balance at the end of FY2011.

This could be addressed by a combination of budget appropriation reductions or alternative revenue enhancements, as discussed below.

4.0 PRELIMINARY/POTENTIAL GAP CLOSERS FOR DISCUSSION

First, an important consideration for Council is its willingness to argue for reduction to the budget appropriations proposed by the administration. This is not easy since Council members do not always agree on specific budget cuts. The level of budget cuts Council decides to recommend/make will determine the amount of new revenues necessary to balance the budget for adoption, as cash flow requirements make an operating surplus in FY2011 in the \$70 to \$80 million range an important target.

We identify broad categories of potential budget reductions and revenue increases in the sections below. Our next discussions should focus on these, or others that might be suggested.

4.1 Expenditure Side (Target: \$40-60 million)

We recommend that Council look at potential budget appropriation reductions in increments of \$5m-10m. These could be categorized in four (4) ways:

1. Specific services/programs (may be across multiple budgets)
 - Proposed obesity program, other existing programs
2. Specific departmental line item reductions
 - Via Council Budget Hearings
3. Broad reductions that would impact many or all budgets
 - Technology, productivity, asset use
4. Broad reductions based in finance of MDO line items
 - Pension, normal cost payment, other benefits, debt services, etc

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Re: *FY2011 Budget Deliberations*

4.2 Revenue Side (Target: \$80-100 million) -- locally generated revenues

Revenue Considerations: FY2011 impact, along with FY2012 and beyond. Any tax changes should be generally consistent with the findings of various tax reform efforts, and not jeopardize the future business climate and tax bases.

We recommend categorizing any potential revenue increases as:

1. Enhancements to existing revenue sources

- More from sports complex (through fees and possible sports/amusement tax surcharges)
- Re-examine Departmental fees/service charges
- Press for MORE Additional revenues from Amnesty program or other increased collection efforts:

Philadelphia tax amnesty

When: May 3 to June 25, 2010.

What it does: Waives all penalties and half of the interest due on delinquent taxes. Who is eligible: Anyone with a tax delinquency dating between Feb. 1, 1986 and June 30, 2009, unless under criminal investigation, defendant in a criminal complaint related to city taxes or has participated in prior Philadelphia tax amnesty program.

What city taxes are eligible: All city taxes, except for the sales and use tax and hotel occupancy tax. The sales and use tax is eligible for amnesty through the state.

Anticipated revenue from the program: \$25 million to \$30 million. Who will administer: City has hired the collection agency General Revenue Services.

Last city amnesty program: Was held Nov. 1, 1986, through Jan. 31, 1987, and generated \$25 million.

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Re: FY2011 Budget Deliberations

2. Adjustments to administration proposed new revenue sources
 - Lower rate on sugar tax
 - Restructured trash fee to be less regressive

3. Potential alternative new revenue sources
 - 10% increase in RE tax = \$88 million
 - 6% increase in RE tax = \$53 million
 - 4% increase in RE tax = \$35 million
 - BPT restructuring (very preliminary):

Phase I: Initial year FY2011:

Increase GR rate by 5+ mills →
 (0.1415% to → 0.2%) = +\$40m
 Reduce NI rate by 0.4% →
 (6.45 → 6.0%) = (-20m)

4.3 FY2011/12 Summary: Hypothetical

Assuming additional expenditure reductions of approximately \$40-60 million, the remaining revenue shortfall would be \$80-100 million. Carrying the same \$100 million of new revenue into FY2012 and assuming the expenditure reductions are recurring, the two year budget results presented above would be restated as follows;

	FY2011	FY2012
Beginning Fund Balance	(37.9)	63.4
Revenues	3,902.9	4,011.5
Expenditures	<u>3,826.1</u>	<u>3,976.2</u>
Operating Results	76.8	35.3
Adjustments	<u>24.5</u>	<u>24.5</u>
Adjusted Results	101.3	59.8
Ending Fund Balance	63.4	123.2

Service/Program/Policy Impact

Position Reductions

Class

Department

Expenditure Reduction

SERVICE IMPACT

Fire	100	40	Deactivate/Brownout 2 companies
	(3,560,000)	40	
Total	(3,560,000)		
Police	100	190	Eliminate new classes for FY11
	(4,500,000)	190	
Total	(4,500,000)		
Free Library	100	53	Move to four-day per week service
	(2,545,103)	53	
Total	(2,545,103)		
L&I	200		Reduction in use of consultant services
	(32,732)		Reduction in demolition funding would decrease demolitions by 35 (from 400 to 365)
	(600,000)		Reduction in purchases of replacement equipment
	(28,837)		
Total	(661,569)	0	
MDO	100		Public Safety - 2.5% YVRP services reduction; Police support
	(53,750)		Administration - Reduction in professional services contracts
	(255,664)		Public Safety - Reduction in contracted services for YVRP and Town Watch Integrated Services
	(445,336)		CLIP Service Reduction; Elimination of the anti-graffiti paint & supply voucher program as well as equipment repair reductions
	(150,348)		CLIP Service Reduction - Drastic reduction in equipment and supply purchases, and the curtailing of free bags and gloves for community cleanups.
	(290,681)		CLIP: new money allocated with Clean Philly Fee
	(500,000)		
Total	(1,696,779)		
Division of Technology	300		Equipment purchase reduction
	(1,200,000)		
	(1,200,000)	0	

Service/Program/Policy Impact

Department Expenditure Reduction Class Position Reductions

O.S.H. (2,629) 500 8

(27,902) 300

(475,461) 100 8

Motivational Therapy Program at Riverview - payments to residents for performing tasks at the facility

Materials and supplies.

1) Human Services Program Administration, 2) Administrative Services Director: this position is based in Riverview and will diminish Riverview administrative capacity, 3) Administrative Specialist, Fiscal: OSH has two professional fiscal staff, and so this may exacerbate already limited capacity. With ARRA grants and the required management and reporting, OSH needs additional capacity, which this position would provide.

4) three (3) Social Workers: 1 is for Ridge intake, and would slow intake process for singles; 2 are in Protective Services and there are only 2 staff doing this work currently (conducts field investigations, case management, and service coordination, as well as representative payee duties). Social work staff from family intake will have to be pulled to cover emergencies, which will reduce level and kind of services offered and response time. 5) Clerk Typist, 6) Funding and Resource Development Officer: loss of administrative capacity for grants like the McKinney program.

Total (505,992) 8

Fleet Management (390,247) 300 0

Reduction of motor vehicle parts. Department does not anticipate a negative impact due to the recent fleet reduction of 403 vehicles.

Total (390,247) 0

Arts and Culture (240,000) 500 0

7.5% reduction in funding for the Philadelphia Cultural Fund.

Total (240,000) 0

Mayor (161,496) 100 2

(34,333) 200 5% reduction

(3,390) 3/400 5% reduction

Total (199,219) 2

Inspector General (91,476) 100 2

(5,625) 200 Elimination of two vacant positions, training costs and office supplies.

(1,125) 3/400

Total (98,226) 2

Total Service Impact (15,597,135) 295

Service/Program/Policy Impact

Position Reductions

Class

Expenditure Reduction

Department

ELIMINATION OF NEW FUNDING

Streets (1,500,000) 100 0 New money allocated with Clean Philly Fee

Total (1,500,000) 0

Parks & Recreation (2,500,000) 100 44 New money allocated for trees

Total (2,500,000) 44

Public Property (300,000) 100 0 No new maintenance assessment team

Total (300,000) 0

City Planning Commission (200,000) 100 0 No long range planning team

Total (200,000) 0

Total New Funding (4,500,000) 44

TOTAL (20,097,135) 339