



How Philadelphia's Expenditures Have Increased in Recent Years

Relative to other big cities, growth rate was about average from 2008 to 2018

Overview

For the 10 years ending in 2018, the Philadelphia city government's spending growth was slightly below the median of the nation's 30 largest cities. Over the past few years, however, the city's general fund expenditures have grown at a greater rate than in previous years, due largely to a shift in the mayoral administration's priorities (endorsed by City Council) and higher revenue generated by an expanding local economy.

From the time the mayor proposed a city budget for fiscal year 2020, which began in July 2019, the magnitude of the growth in Philadelphia's general fund expenditures has been a popular topic of conversation among city officials, political candidates, and commentators.

The Pew Charitable Trusts found that the recent increase in general fund spending—which covers police and fire protection, trash collection, and other core municipal functions—has been driven by several factors. Among them are higher contributions to pension funds; new labor contracts and hiring, particularly in the police and fire departments; and increased spending on education. Even with those spending increases, the general fund has had substantial year-end balances in recent years, thanks to both higher-than-anticipated revenue and expenditures coming in under budget.

Much of the new spending is for ongoing services rather than one-time investments. For that reason, the city will have to decide whether to reduce these expenditures should revenue decrease in the years ahead. Budget officials say they are already working on plans to deal with the next economic downturn.

Governmental expenditures in Philadelphia and other large cities, 2008-18

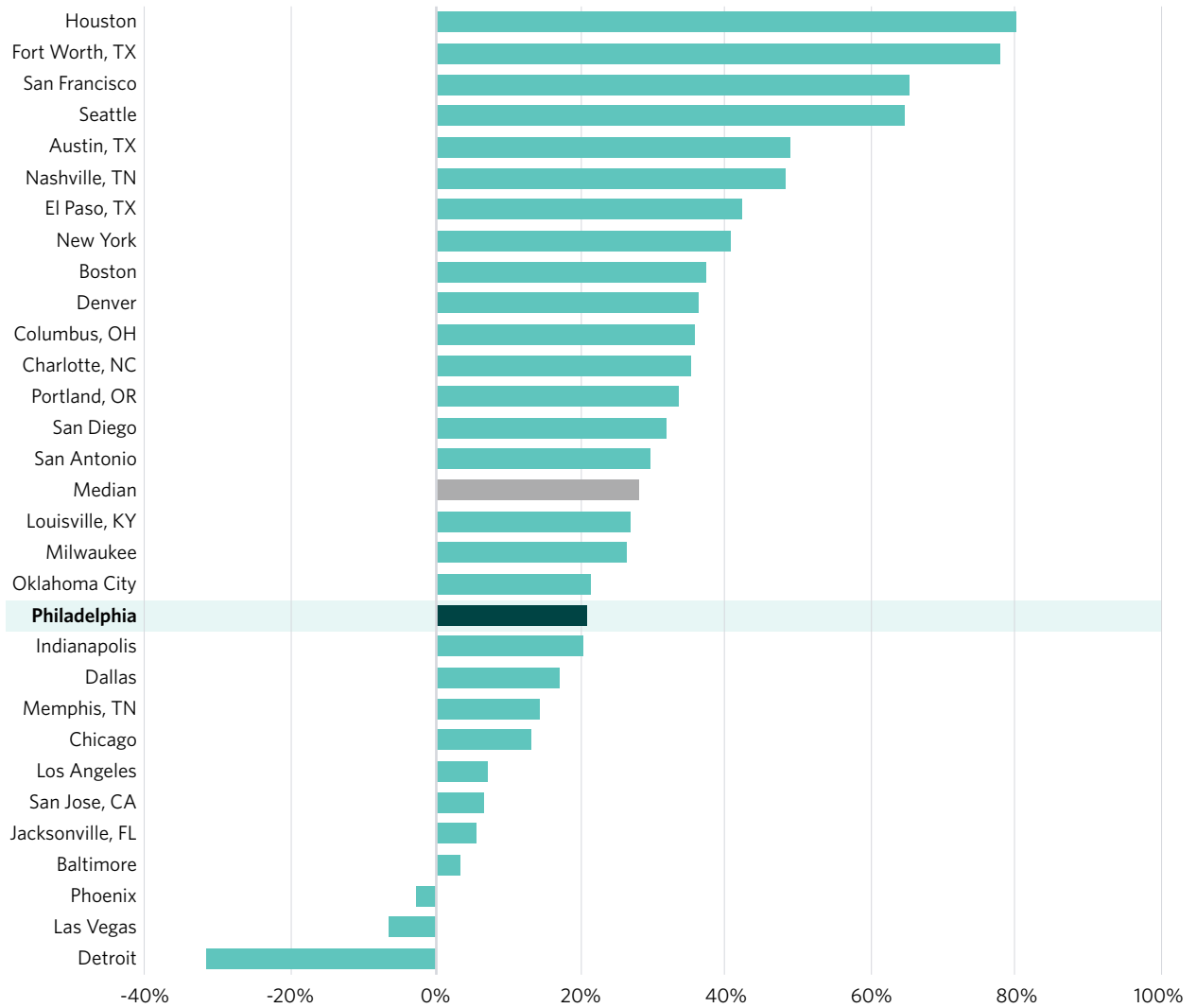
The first part of this brief compares Philadelphia with other cities over a 10-year period, using governmental funds expenditure data from each city's comprehensive annual financial reports (CAFRs).¹ For Philadelphia, the data includes the general fund, the grants revenue fund, the health choices behavioral health fund, and 19 other minor funds, as well as the city's contributions to the pension fund. Excluded from the comparison for all cities are financial activities that are proprietary or fiduciary in nature—such as those for which customers are charged a user fee, or business-type activities that are intended to pay for themselves, like the airport, and for pension and retirement funds. Although differences exist in the way CAFR data are presented from city to city, they are much more uniform than other city financial data and are often used to compare finances across cities.² It is important to note, however, that government structures and responsibilities often vary from place to place and over time, depending on the range of services the cities deliver.³

For Philadelphia, total governmental fund expenditures increased 21 percent from fiscal 2008 to 2018, reaching approximately \$7.26 billion in 2018. (See Figure 1.) When adjusted for inflation, the cumulative increase over this period was 6 percent, below the median among the 30 largest U.S. cities. (Washington was excluded from this analysis, however, because of its unique financial status as a city that also functions like a county and a state.)

Figure 1

Change in Governmental Expenditures for the 30 Largest U.S. Cities, Fiscal 2008-18

Philadelphia's growth was near the middle of the pack



Note: Washington was excluded from this analysis because of its unique financial status as a city that also functions like a county and a state. The period included in each fiscal year varies among the cities.

Source: Pew analysis of comprehensive annual financial reports of the 30 largest U.S. cities (excluding Washington), fiscal years 2008 and 2018

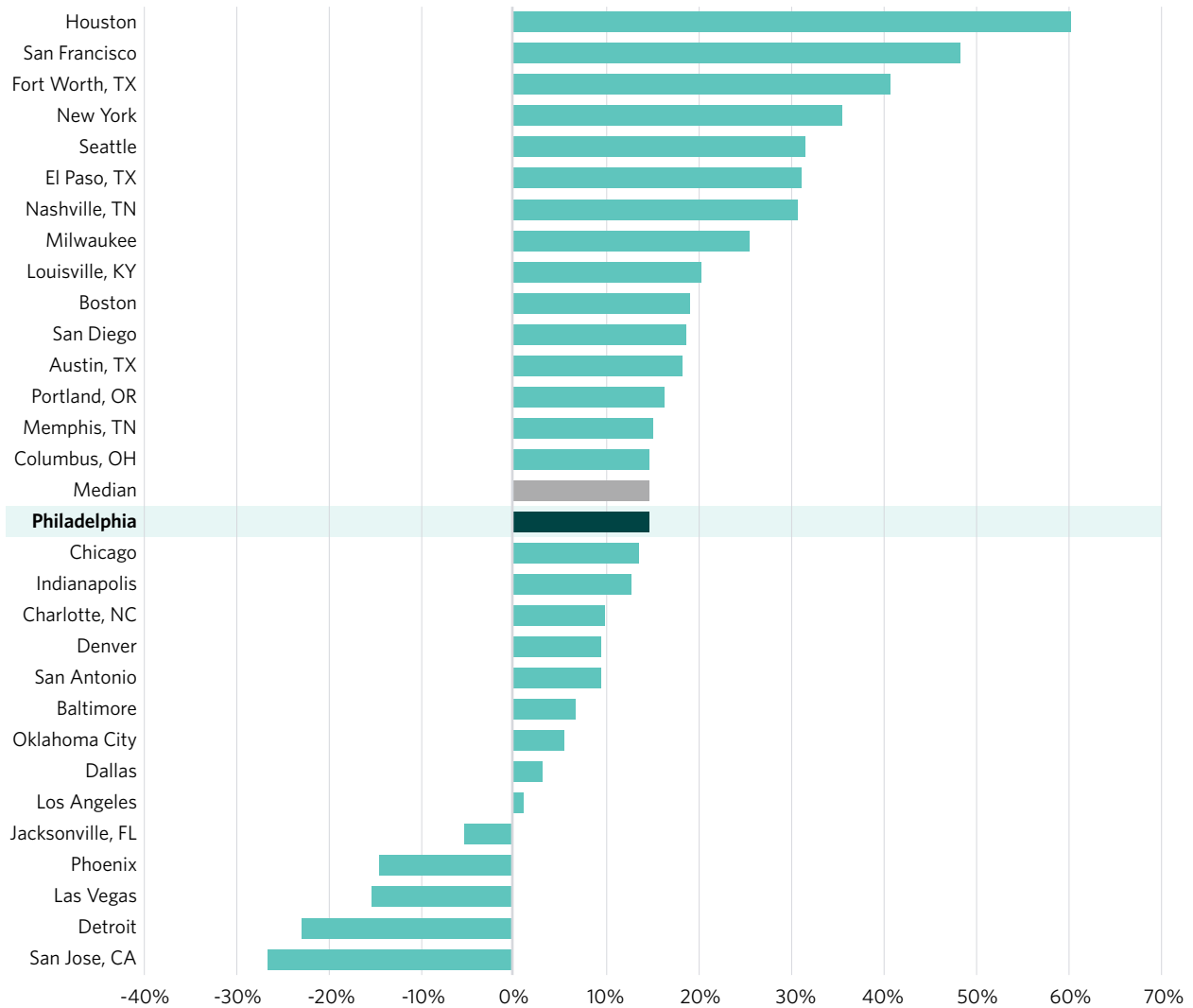
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Another way to look at the change in city government spending over time is to do so on a per capita basis, which takes into account any change in population—growth, in Philadelphia’s case. From 2008 through 2018, Philadelphia’s per capita spending grew roughly 15 percent, which was the median for the cities analyzed.

Figure 2

Change in the 30 Largest U.S. Cities’ Per Capita Governmental Expenditures, Fiscal 2008-18

Philadelphia again is at the median



Note: Washington was excluded from this analysis because of its unique financial status as a city that also functions like a county and a state.

Source: Pew analysis of comprehensive annual financial reports of the 30 largest U.S. cities (excluding Washington), fiscal years 2008 and 2018

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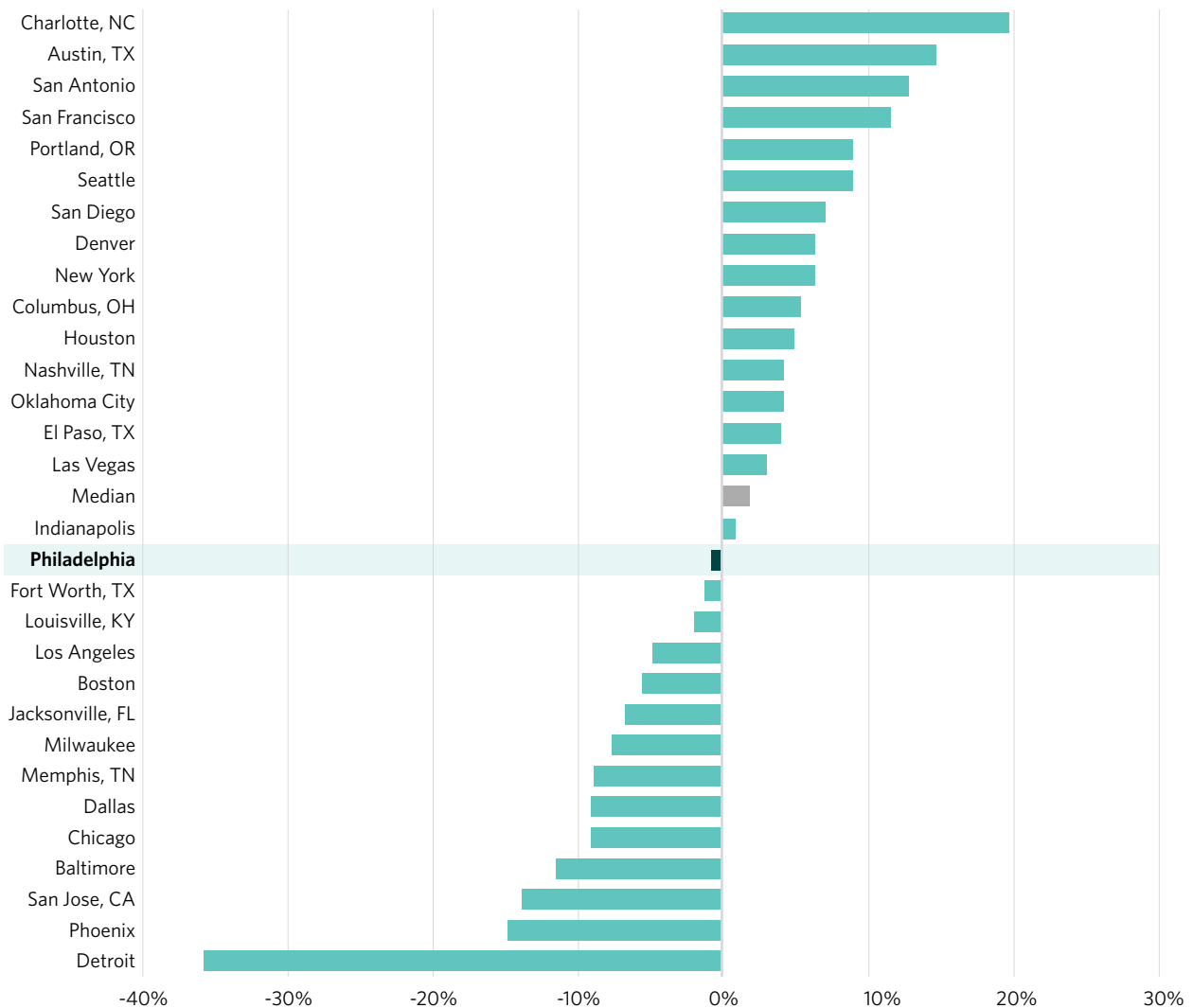
The cities above the median do not appear to have any major demographic characteristics in common—such as their populations, poverty rates, or changes in either one—nor do the cities below the median.

A large portion of any city's expenditures is tied to labor costs through salaries and benefits; comparing fluctuations in the number of municipal employees highlights a key component of how the amount of city spending changes. Based on the employment figures reported in CAFRs, Philadelphia had a 1 percent decrease in full-time employees, from 28,406 in the pre-recession year of 2008 to 28,155 in 2018, placing it just below the median for the comparison cities. The head count dropped as low as 26,839 in 2013.

Figure 3

Change in the 30 Largest U.S. Cities' Number of Full-Time Employees, Fiscal 2008-18

Philadelphia's decrease in workers places the city near the median



Notes: Washington was excluded from this analysis because of its unique financial status as a city that also functions like a county and a state. Employee counts represent all funds.

Source: Pew analysis of comprehensive annual financial reports of the 30 largest U.S. cities (excluding Washington), fiscal years 2008 and 2018

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When the same data are viewed on a per capita basis, Philadelphia actually had a 6 percent decrease in the number of employees. Of the 30 cities, many of which grew faster in population than Philadelphia during the period studied, 21 recorded larger percentage drops in the number of city workers.

Changes in the city of Philadelphia’s spending

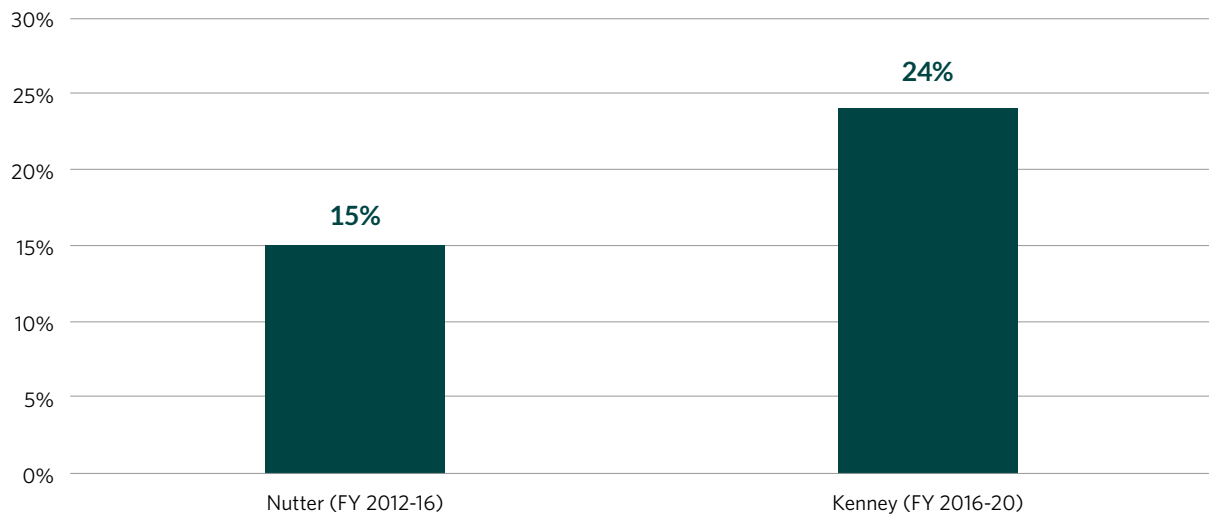
The second part of this brief analyzes Philadelphia’s spending based on city budget documents, with a focus on the years starting in 2017.⁴

When the city budget is discussed, public attention generally focuses on the general fund, which has grown substantially in recent years and reached \$5 billion for the first time in fiscal 2020. Under Mayor Jim Kenney, a 24 percent increase is projected through fiscal 2020, which ends on June 30 of next year, compared with an increase totaling 15 percent over the previous four years under then-Mayor Michael Nutter. (See Figure 4.) General fund data from before fiscal 2012 are not comparable to data from subsequent years due to an accounting change made at that time, when city officials transferred much of the Department of Human Services’ revenue and expenditures from the general fund to the grants revenue fund.

Figure 4

Philadelphia’s Change in General Fund Expenditures, Fiscal 2012-20

Expenditures have grown more under Mayor Kenney



Note: This chart and analysis exclude federal grants reserve money.

Source: Pew analysis of mayor’s operating budget, fiscal 2012-20

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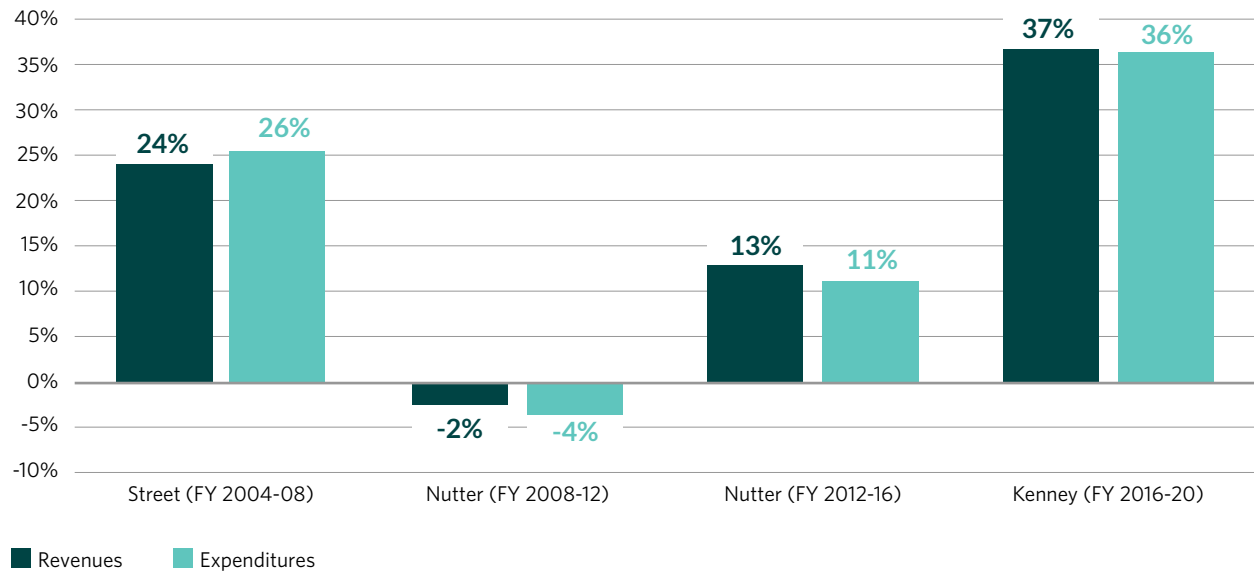
Expenditures are, in part, a function of locally generated revenue—which is heavily influenced by the local economy—and generally account for 70 to 75 percent of general fund revenue, depending on the year. Philadelphia’s revenues have fluctuated over the past decade, mirroring trends in the U.S. economy. During and immediately after the Great Recession, revenue was relatively flat, as were expenditures. As the local economy has grown, revenue and expenditures have increased.

From fiscal 2004 to fiscal 2020, Philadelphia’s total expenditures—the sum of all funds, including the general fund—have grown 83 percent, from \$5.37 billion to a projected \$9.86 billion, not adjusted for inflation. Total expenditures grew during the first four years of this period, when John Street was mayor; decreased during the next four years, under then-Mayor Nutter, when the recession happened; increased during Nutter’s second four-year term; and have been growing at a faster rate under Mayor Kenney. (See Figure 5.)

Figure 5

Philadelphia’s Change in Total Revenue and Expenditures, Fiscal 2004-20

Shown by mayoral term



Notes: This chart and analysis exclude money transferred from Philadelphia’s Acute Care Hospital Assessment Fund to the commonwealth of Pennsylvania and money budgeted for the federal grants reserve funds. A portion of the city’s revenue (and therefore expenditures) comes from the state or federal government, in the form of either grant money or reimbursements.

Source: Pew analysis of mayor’s operating budget, fiscal 2004-20

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What accounts for the recent rise in general fund spending?

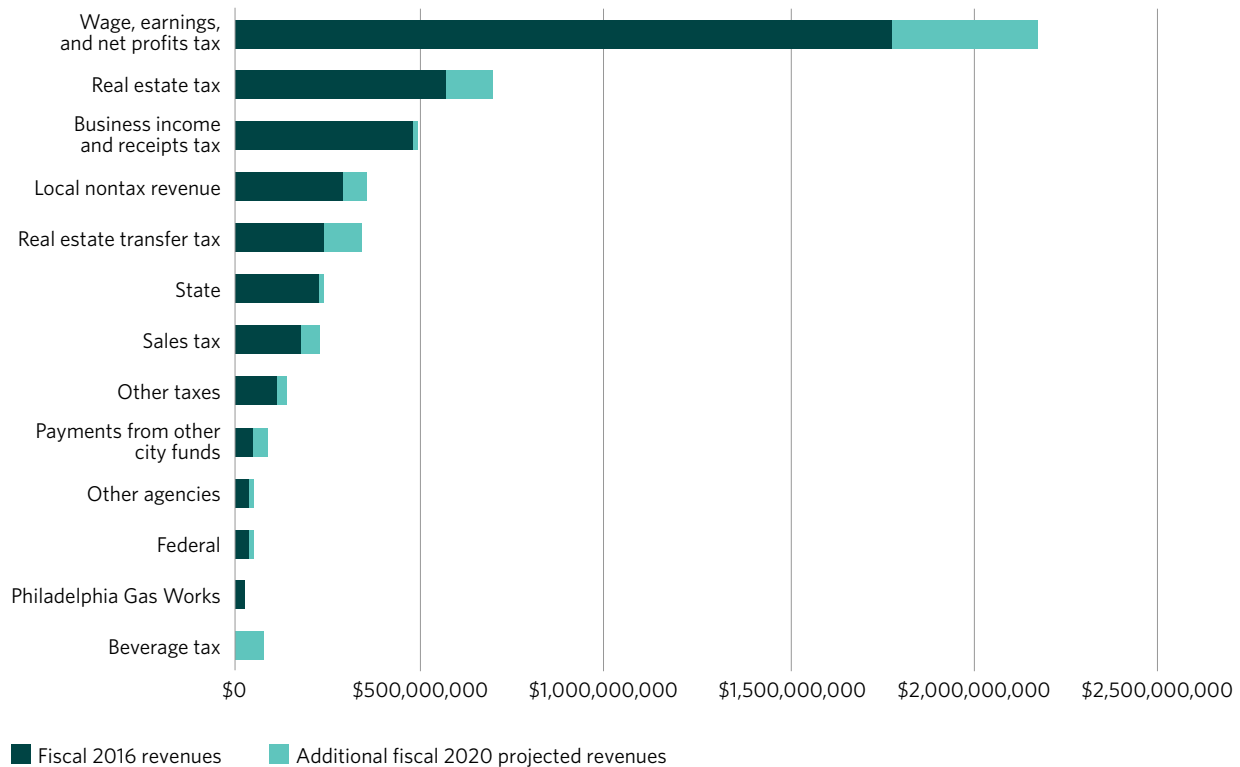
As noted, general fund spending has increased significantly over the past several years, and a combination of factors has contributed to this trend.

To start, Philadelphia’s revenue has grown. Driven by a strong economy and real estate market, among other factors, the city’s general fund revenues increased 23 percent from fiscal 2016 to fiscal 2020—from roughly \$3.99 billion to \$4.92 billion. (The fiscal 2020 revenues are those anticipated by city officials.) The primary drivers of this growth are revenues from the wage and earnings tax (up \$389.4 million), real estate taxes (a \$119.3 million increase), and real estate transfer taxes (up \$101.9 million). (See Figure 6.) The city’s tax on sweetened beverages, which took effect midway through fiscal 2017, added about \$75 million in annual revenues.

Figure 6

Sources of Philadelphia’s General Fund Revenues, Fiscal 2016-20

The city’s revenues have increased in recent years, fueled largely by an improving economy



Note: The wage, earnings, and net profits tax figures include the portion of those revenues, listed separately in city documents, that go first to the Pennsylvania Intergovernmental Cooperation Authority, which uses some of the money to pay off the bonds it issued in the early 1990s to help Philadelphia deal with a fiscal crisis.

Source: Pew analysis of mayor’s operating budget, fiscal 2016-20

If city spending in fiscal 2020 follows the adopted budget, general fund expenditures will have increased approximately \$905 million from fiscal 2016 to fiscal 2020, roughly the same amount as the growth in general fund revenue. Figure 7 highlights the key elements that contributed to that growth. Three categories accounted for more than half of the increase:

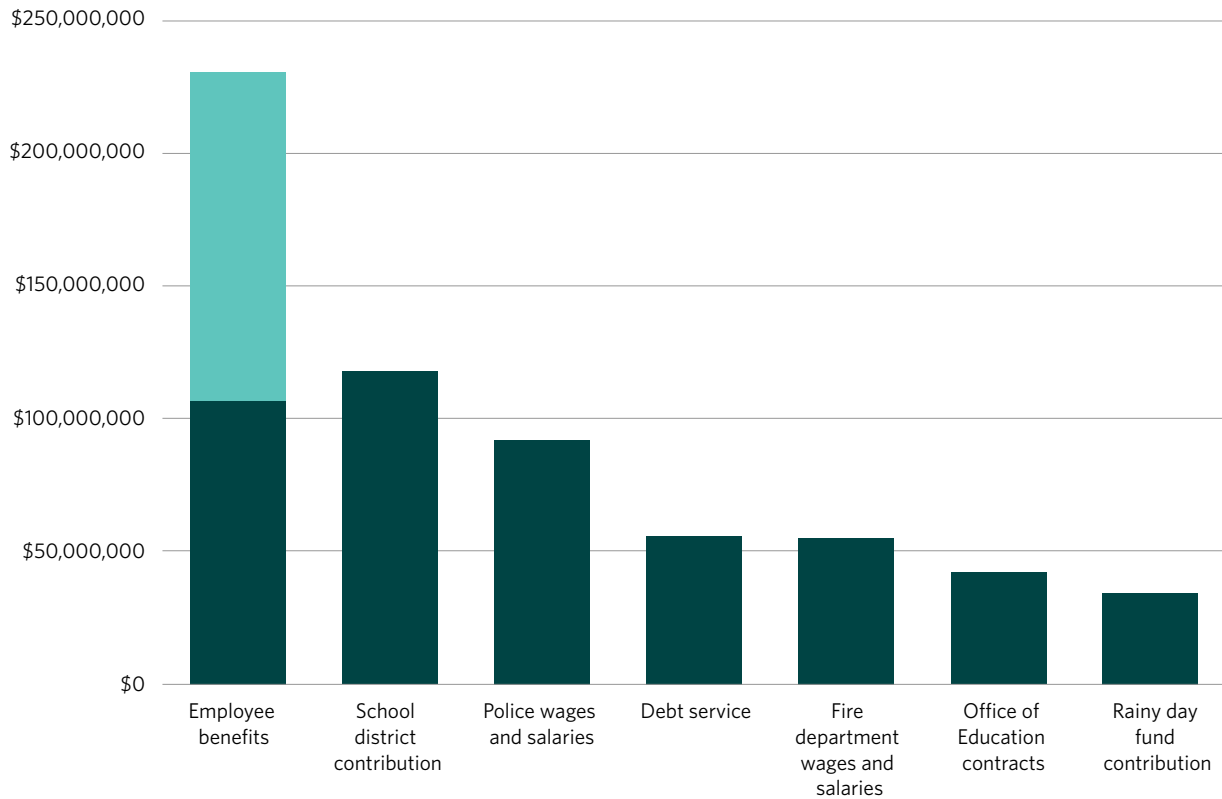
- The largest source of spending growth—just above \$230 million, or approximately one-quarter of the total—consisted of payments for city employees’ benefits. More than half of that growth, over \$124 million, went to increased contributions to the city’s long-underfunded pension system as part of a long-term plan to restore the system to fiscal health.
- The second-largest increase, \$160 million, was in education spending. This growth came in two major pieces. One was an increase of \$118 million in the city’s direct contribution to the School District of Philadelphia, estimated at \$222 million in fiscal 2020; in 2018, the city took back direct control of the district from the state, which had managed it through the School Reform Commission for nearly 17 years. The other element was roughly \$42 million in new spending through the Office of Education, which went largely toward contracts for providers to expand pre-K and community schools. Much of the \$42 million in spending is intended to be supported by the sweetened beverage tax.
- Another \$146 million was for increased payroll expenses for the police and fire departments. This increase primarily reflects pay raises mandated by labor agreements. There also was an uptick in the number of employees paid through the general fund from fiscal 2016 to fiscal 2020, with 532 more in the police department (roughly an 8 percent increase) and 388 more in the fire department (a nearly 17 percent increase). The overwhelming majority of these positions represent uniformed personnel.

The rest of the \$905 million overall increase was spread across several city departments and programs, only the largest of which are shown in the figure below. One notable item was a first-ever deposit of \$34 million into the city’s rainy day fund, meant to help officials deal with the next economic slowdown. There were some decreases in spending in departments and programs as well, including the prisons department.

Figure 7

Top Increases in General Fund Expenditures by Department and Type, Fiscal 2016-20

Many of the increases are for employee benefits (including pension contributions), salaries and wages for police and fire departments, and education



Notes: The light blue bar represents increases in contributions to the pension fund. This chart excludes \$49 million in indemnities for fiscal 2020 budgeted for the finance department for potential legal settlements; this money is eventually charged against the individual departments involved. Also excluded is \$55 million in federal grant reserve spending budgeted for the finance department in fiscal 2020, which is held in reserve in case federal grants revenue decreases.

Source: Pew analysis of mayor's operating budget, fiscal 2016-20

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The city has ended the past several years with substantial general fund balances, which in many cases were far larger than projected. In fiscal 2018, for example, there was a year-end fund balance of \$368.8 million, even though the city's adopted budget listed an anticipated surplus of just \$75.5 million. The difference was due to lower-than-anticipated expenditures (by roughly \$35 million), higher-than-projected revenue (by almost \$151 million), and an upward adjustment in the end-of-year balance for the previous year. The 2020 budget projects a year-end balance of \$209.9 million. In September 2019, the city controller's office tracked the increases in cash balances in recent years, noting that the city's general fund and consolidated cash account ended fiscal 2019 with the highest cash balances since fiscal 2007.⁵

Conclusion

For most years since 2008, Philadelphia city government's growth in spending has been modest and close to the median of other large cities. In the past few years, the growth rate has increased, fueled by higher revenue, and has been directed in part toward higher contributions to the pension fund and spending on education—which the Kenney administration sees as long-neglected priorities—and an initial deposit in the rainy day fund. It is too early to tell how this spending increase compares with that of other large cities and what adjustments officials may have to make should revenues decrease.

About this brief

This brief was researched and written by Jason Hachadorian, a senior associate with The Pew Charitable Trusts' Philadelphia research initiative. It was edited by Larry Eichel, director of the initiative, along with Erika Compart and Bernard Ohanian.

Acknowledgments

We are grateful for our two independent peer reviewers: Sarah Wetmore, vice president and research director, the Civic Federation; and Dean Kaplan, managing director, PFM Group Consulting. This brief does not necessarily reflect the opinions of these individuals or their institutions.

This publication also benefited from comments provided by Mary Murphy, a project director with Pew's state fiscal health initiative.

Endnotes

- 1 Mandated by law, comprehensive annual financial reports (CAFRs) are final, audited statements of city revenues, expenditures, reserves, and debt. CAFR data were chosen for two reasons. First, CAFRs present fiscal data that have been reviewed by an outside auditor and are considered final. Other financial documents, such as budgets, are more fluid and tend to be subject to revisions throughout the year as priorities change. Second, data in CAFRs are standardized by the Governmental Accounting Standards Board (GASB) and must comply with generally accepted accounting principles. Although there are some differences in the way CAFR data are presented from city to city, these documents are much more standardized than are other city financial documents.
- 2 The Pew Charitable Trusts, “Fiscal Health of Large U.S. Cities Varied Long After Great Recession’s End” (2016), <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/04/fiscal-health-of-large-us-cities-varied-long-after-great-recessions-end>.
- 3 In addition to differences in the range of services that cities deliver, fiscal years vary from city to city.
- 4 This brief uses actual spending amounts when available (fiscal 2004-18) and projected (fiscal 2019) or budgeted (fiscal 2020) figures when actual amounts are not available.
- 5 Philadelphia Office of the Controller, “Cash Report: Fiscal Year 2019” (2019), https://3og1cv1uvq3u3skase2jhb69-wpengine.netdna-ssl.com/wp-content/uploads/2019/10/cash_report_fy19_q4.pdf.

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