

Analysis of City Spending Trends



**City Controller
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The City of Philadelphia's (City) spending levels have increased dramatically in recent years. With the local economy continuing to expand following the Great Recession, significant revenue growth has allowed the City to spend at the highest levels in history. As the financial watchdog for the City, the Office of the City Controller has a responsibility to ensure effective and efficient use of taxpayer money. To this end, the City Controller's Office conducted a review of City spending to identify the primary areas of investment and the driving forces behind the recent increases. The analysis focuses¹ on spending from the City's main operating fund, the General Fund, which is responsible for core municipal functions and primarily financed through local tax revenues.

In a city facing multiple, intertwined challenges, from gun violence to poverty to the opioid epidemic, it is crucial that the City's spending is done strategically and effectively. This report brings added transparency to the City's spending priorities, providing a detailed accounting of itemized expenditures from the City's General Fund since fiscal year 2017 (FY17).

In a recent resident survey,² about two-thirds of Philadelphians rated City services as fair or poor, a slightly lower level of satisfaction than in a survey from three years earlier. Even more striking, about half of respondents indicated they do not feel safe in their own neighborhood. The lack of improvement in resident satisfaction raises questions around the success of recent spending increases to improve services and outcomes. As the City moves into the future, with the possibility of a recession growing, it is more important than ever that the City operates efficiently, with a level of transparency and accountability around its spending. Should revenues decrease in the future, the City will face tough choices regarding its spending priorities, choices that could impact City services and have direct consequences for the city's residents.

Spending Overview

More than a decade after the Great Recession, spending from the City's General Fund has now surpassed pre-Recession spending levels on an inflation-adjusted basis. From the post-Recession spending low in FY12, General Fund spending³ has increased by more than \$1B. As seen in the chart below, much of that increase has occurred in the last two fiscal years. From FY17 to FY19, General Fund expenditures rose by an average annual rate of 7.1 percent. The City's current budget projects spending to grow by an additional 7.6 percent in FY20, exceeding \$5B for the first time ever. This spending growth is substantially above the rate of inflation in the Philadelphia region.⁴ Inflation, which reflects the increase in prices and bills faced by the city's residents, rose by only 3 percent from 2017 to 2019. These spending increases have been supported by substantial growth in tax revenues, generated by a years-long expansion of the local economy, increases in property tax assessments and collections, and the addition of the Philadelphia Beverage Tax in 2017.

¹ The City manages several other funds, which are legally restricted from financing daily operations. These include the Behavioral Health Fund, which handles state funding for behavioral health care services, and the Water and Aviation Funds, which generate self-sustaining revenue through user fees.

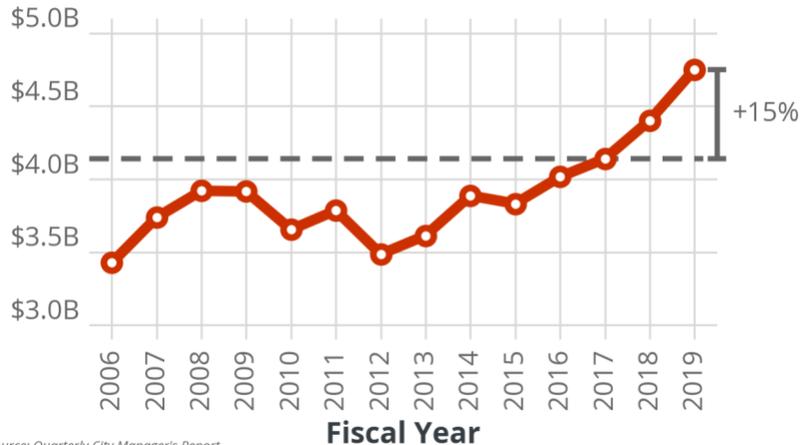
² <https://www.phila.gov/documents/philadelphia-resident-survey-report/>

³ Spending is defined in this section as "Total Obligations/Appropriations." It is taken from the City's Quarterly City Manager's Reports and is reported on a modified accrual basis.

⁴ Inflation measured by the Consumer Price Index for All Urban Consumers: All Items in Philadelphia-Camden-Wilmington, PA-NJ-DE-MD.

Annual General Fund Spending Since 2006

City spending has grown by 15% since FY17 while inflation increased by 3%



Source: Quarterly City Manager's Report
 Note: Inflation measured by CPI for all items in Philadelphia MSA;
 Spending is defined as "Total Obligations/Appropriations" in the City's Quarterly City Manager's Report and is measured on a modified accrual basis.

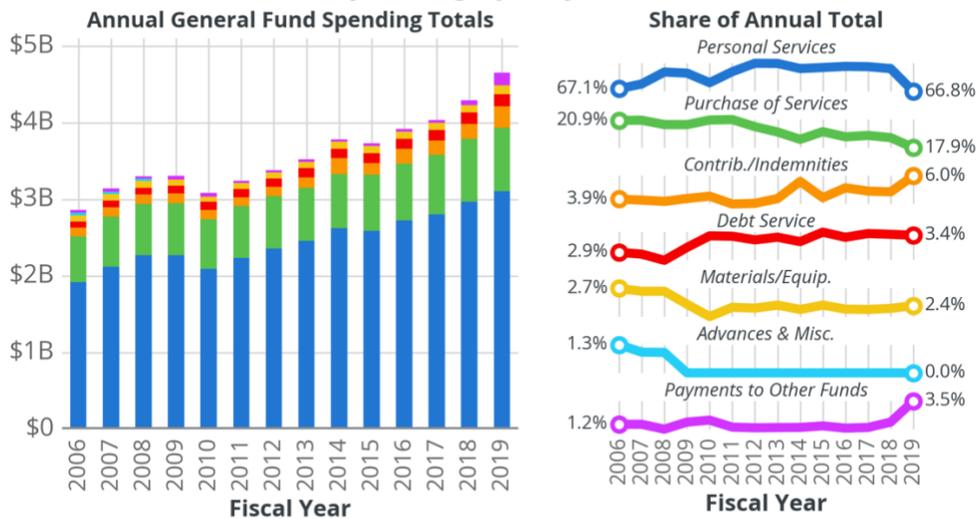
General Fund spending is categorized into seven main spending types, referred to as major classes. These major classes include spending on:

- Personal services (payroll for City employees);
- Purchase of services (contracts and leases with outside vendors);
- Materials and equipment;
- Debt service;
- Contributions and indemnities (including contributions to the School District);
- Payments to other funds (including Water, Aviation, and Capital); and
- Advances and miscellaneous payments.

As seen in the chart below,⁵ payroll costs consistently make up about two-thirds of all General Fund spending. The next largest spending class is purchase of services, which made up 18 percent of total spending in FY19, down from 21 percent in FY06. While overall spending on purchases of services has increased, its share has declined because spending for other major classes has grown more quickly. In particular, the shares of total spending for contributions and indemnities, payments to other funds, and debt service have all had large relative increases since 2006. Spending on materials and equipment decreased following the Great Recession and has not recovered to pre-Recession levels, consistently making up about 2.4 percent of the total spending since FY10. Advances and miscellaneous payments were zeroed out in FY09, due to an accounting change that reclassified spending for the City's Convention Center subsidy.

⁵ Note that spending by the Department of Human Services (DHS), which had most of its spending transferred out of the General Fund in FY12, is excluded from this chart in order to better understand the major class spending trends.

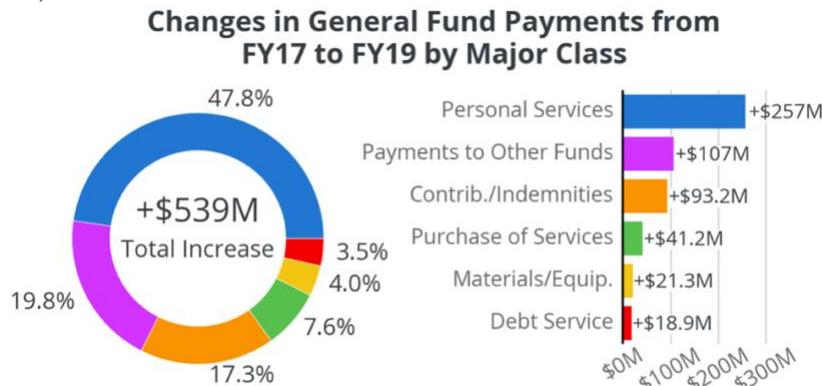
General Fund Spending by Major Class Since 2006



Source: Quarterly City Manager's Report
 Note: Department of Human Services spending is not included due to an accounting change in FY12; Spending not adjusted for inflation; Spending is defined as "Total Obligations/Appropriations" in the City's Quarterly City Manager's Report and is measured on a modified accrual basis.

Major Spending Drivers Since 2017

Analyzing the City's spending by major class does not provide the necessary level of detail to understand the focuses of the City's recent spending increases or evaluate if they are good uses of taxpayer money. For this reason, the Office of the City Controller performed a detailed review of itemized General Fund payments⁶ from the City's accounting system (FAMIS) that occurred between FY17 and FY19, the sharpest rise in spending in recent years. Over this period, annual General Fund payments increased by \$539M. As shown in the figure below, increases in personal service spending have accounted for about half of this change. The next largest increases resulted from spending on payments to other funds and contributions/indemnities, which accounted for 20 percent and 17 percent of the overall growth, respectively. The remaining increases were due to additional spending on purchases of services (8 percent), materials/equipment (4 percent) and debt service (4 percent).



Source: City of Philadelphia accounting system (FAMIS)

⁶ In this section, the City's spending refers to payments from the General Fund, which can differ from spending reported on a modified accrual accounting basis. The modified accrual basis accounts for future, but known, expenditures which may not yet have a matching payment in the General Fund.

While increases in many departments contributed to the overall change since FY17, some have had greater impacts than others. More than 80 percent of the total increase originates from significant changes in only eight spending areas. They are:

1. Payroll costs, excluding pension payments (+\$170M);
2. City contributions to the Municipal Pension Fund (+\$87M);
3. Contributions to the School District (+\$77M);
4. Payments to the Capital Fund (+\$72M);
5. Payments to the Housing Trust Fund (+\$29M);
6. Debt service obligations (+\$19M);
7. Spending on contracts by the Mayor's Office of Education (+\$15M); and
8. Spending on contracts by the Prisons department (-\$18M).

The following sections describe each of these main spending changes in more detail. The final section provides an overview of the remaining increase, about \$88M from FY17 to FY19. While not large compared to the overall size of the City budget, this remaining increase is still significant to taxpayers. Each investment made by the City reflects a choice to spend taxpayer money and the city's residents should see a return on that investment, either through an increase in services or outcomes.

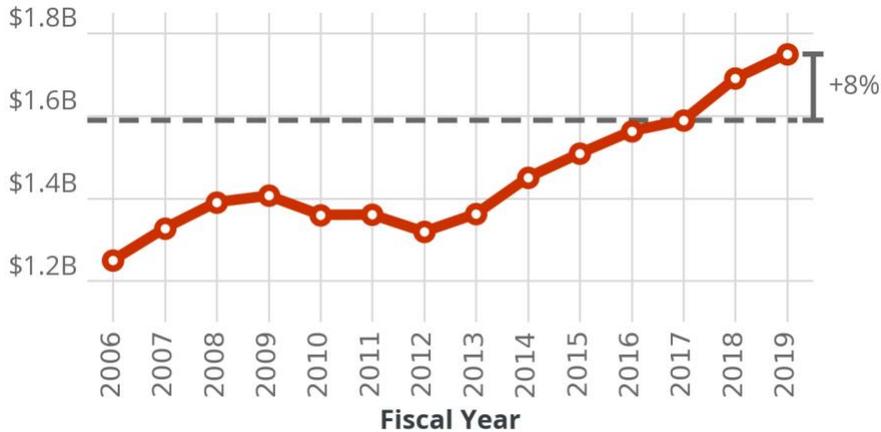
1. Payroll Costs, Excluding Pension Payments (+\$170M)

Payroll spending for the City's workforce is the largest General Fund expenditure each year. This spending includes salary and overtime for full- and part-time workers and excludes spending on pensions. Payroll spending is largely determined by three factors: the size of the City's workforce, overtime usage, and contracted wage increases for its union-represented employees.

As seen in the chart below, there has been a notable uptick, 8 percent, in the City's payroll spending since FY17. Between FY17 and FY19, General Fund payments for payroll increased by \$170M. The City departments with the two largest workforces, the Police and Fire departments, account for more than 70 percent of this change. Fire's payroll spending increased by \$69M while Police's increased by \$54M. This growth is from a combination of factors. In recent years, the Fire and Police unions have negotiated annual wage increases ranging from 3.25 percent in FY17 to 3.5 percent in FY19, while District Council 33 and District Council 47 have negotiated annual increases ranging from 2.5 percent to 3 percent. In addition to the wage increases, Fire and Police have added the most positions of any City department since FY17. This will be shown in more detail in the next section. The larger spending growth in Fire can largely be attributed to overtime costs, which increased by \$26M, while Police's overtime spending declined by \$5M.

After Fire and Police, the next largest increases were substantially smaller, \$6.7M for the Streets department and \$6.1M for the Public Health department. The Prisons department was the only department with a significant reduction in payroll costs. It reduced payroll spending by \$10M from FY17 to FY19, driven primarily by reductions in overtime spending.

Payroll Spending for the General Fund since 2006



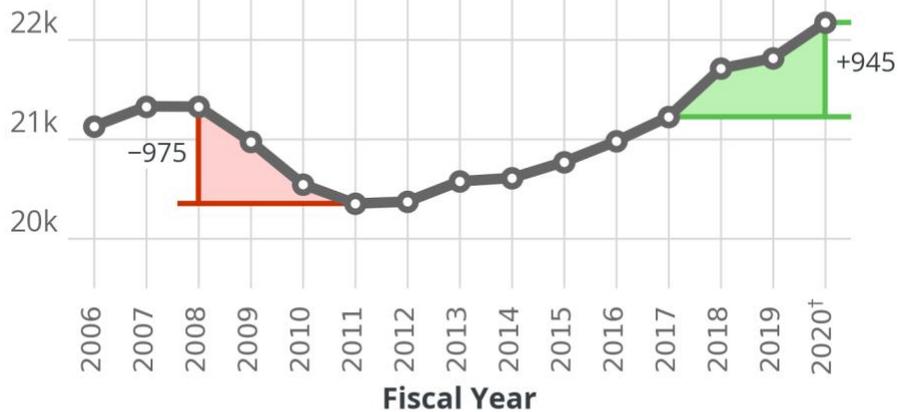
Source: Quarterly City Manager's Report
 Note: Excludes spending on pensions and benefits; not adjusted for inflation

The City's Workforce

The City funds about 80 percent of its total workforce through the General Fund. From FY17 to FY19, the number of full-time employees supported by the General Fund increased by 589.7. With an additional 356 General Fund employees added in the first half of FY20, the City has added a total of 945 positions since FY17, with staffing levels now at a historic high. As the figure below shows, full-time General Fund positions decreased by nearly 1,000 positions following the Great Recession, but by the end of FY17, staffing levels had fully recovered to pre-Recession levels. In total, the number of General Fund employees has increased by more than 1,800 since the post-Recession low in FY11.

Full-Time Positions Supported by the General Fund since 2006

General Fund positions have increased by more than 1,800 from the post-Recession low in FY11



†FY20 employee counts as of 12/31/19
 Source: Quarterly City Manager's Report
 Note: Employees for the Department of Human Services are excluded, due to an accounting change that occurred in FY12.

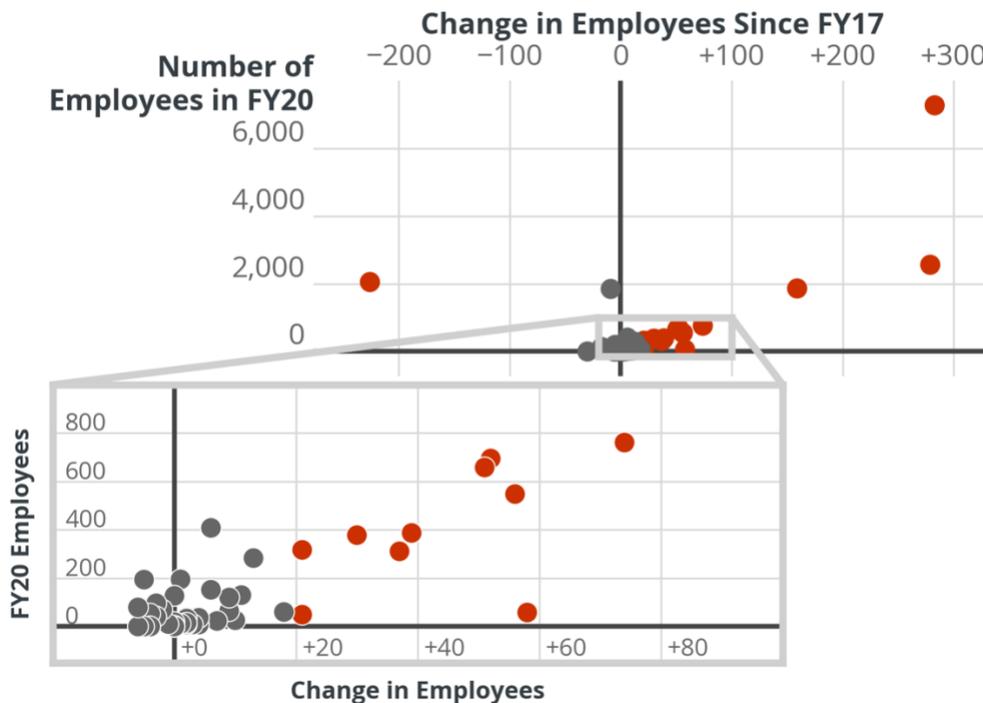
⁷ Note that this analysis in this section excludes DHS employees, which had the majority of its positions transferred out of the General Fund in FY12.

While 31 departments have added employees since 2017, the majority of the overall increase is concentrated in three departments: Police, Fire, and Streets. These three departments account for more than half of the added positions since 2017. The Police department has added the most positions (283, 261 uniform and 22 civilian), followed by the Fire department (279, 265 uniform and 14 civilian), and the Streets department (159). With these increases, the Fire and Streets departments now have their largest workforces since at least 2006.

While these three departments account for the majority of the City’s overall growth in employees, an additional 10 departments saw their workforce increase by at least 20 employees since 2017. These departments are highlighted in the figure below. While some of these increases, such as those in the Commerce and Planning and Development departments, are due to internal reorganizations,⁸ a number of departments with a variety of municipal functions have had large relative increases. The number of employees in the Public Health department, the District Attorney’s Office, Licenses and Inspections, and the Office of Innovation and Technology have all increased by more than 10 percent since 2017. The Prisons department, the only department with a substantial staffing reduction, is also noteworthy. Its workforce has declined by 226 positions since 2017 as it phases out operations at its House of Correction facility.⁹

Changes in the City's Workforce by Department Since 2017

The City has added 945 full-time General Fund employees since 2017



Source: Quarterly City Manager's Report

Note: Employee counts reflect General Fund full-time positions, excluding DHS employees; FY20 totals as of 12/31/19

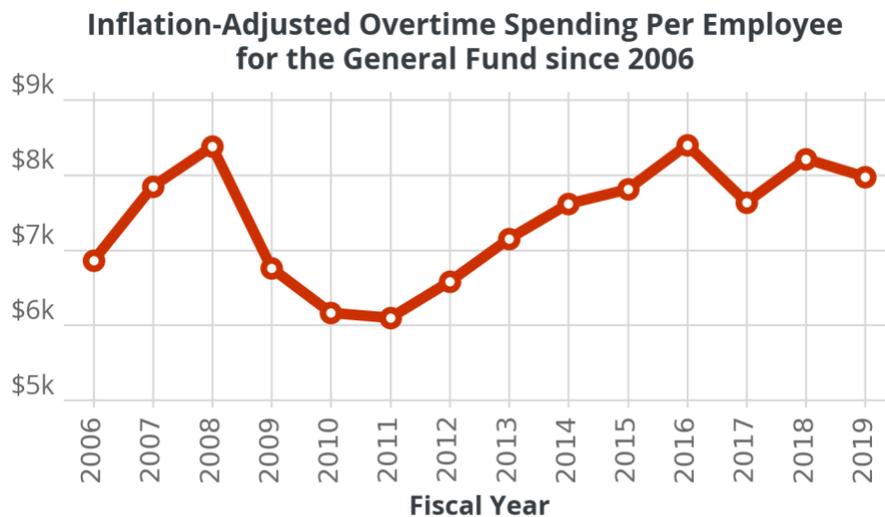
⁸ The Planning and Development department was created from multiple other housing- and planning-oriented departments in FY18. Also, multiple positions were transferred from the payroll of PIDC to the Commerce department in recent years.

⁹ http://phlcouncil.com/wp-content/uploads/2019/04/FY20-PDP-Testimony_submitted-to-Council-4.29.19.pdf

Overtime Spending

As noted in the previous section, the City's workforce has increased substantially since FY17, adding 945 full-time employees. As staffing levels increase, overtime costs are typically expected to decrease, since overtime is often used as a tool to manage staffing shortages. However, this has not been the case in recent years. Despite the City's growing workforce, spending on overtime has increased. The City spent about \$168M on overtime in FY17 and in the two years since, has spent \$184M (FY18) and \$181M (FY19).

The City currently spends about \$8k per employee on overtime.¹⁰ As seen in the figure below, this overtime cost is historically high after adjusting for inflation. On a per employee basis, overtime costs reached a low point in the years after the Great Recession, the result of a series of overtime reductions implemented to manage the fiscal crisis. Since this low point, overtime spending per employee has increased by nearly 40 percent, after adjusting for inflation, despite adding more than 1,800 full-time employees to its workforce over that time period.



Source: Quarterly City Manager's Report

Note: Excludes DHS employees and overtime costs due to an accounting change that occurred in FY12

In FY19, eleven departments spent more than \$1M on overtime, accounting for nearly all of the City's total overtime costs. Overtime in only four of these departments declined as more full-time positions were added: Police, Human Services, the Free Library, and Licenses and Inspections. The Police department added both the most positions and saw the largest overtime decline over this period, decreasing its overtime spending by \$5M. Overtime was also reduced by \$8M in the Prisons Department as the closure of the House of Corrections led to staff reductions and reassignments to jails with lower staffing levels.

¹⁰ This analysis includes all full-time employees supported by the General Fund, including those employees who are not eligible for overtime.

However, the decreases in these departments were more than offset by the increases in the remaining departments. Overtime spending by the Fire department more than doubled, from \$25M in FY17 to \$51M in FY19. This is the largest growth in overtime of any City department, and it corresponds with the department adding 249 positions, a 11 percent increase in its workforce. Other notable increases in overtime over this period include the Streets department (+12 percent), the Sheriff's Office (+7 percent), Fleet (+13 percent) and Public Health (+3 percent). All of these departments have added positions since FY17, which has not helped to remedy the rising overtime costs. The City's increasing overtime costs, particularly as its workforce has added a substantial number of full-time employees, indicates that more accountability and controls are necessary.

2. Pension-Related Payments (+\$87M)

After payroll costs, payments to the City's Municipal Pension fund accounted for the next largest portion of the spending growth. The City's Finance department spent about \$87M more on pensions in FY19 than in FY17, a 13 percent increase. These payments include the City's required contribution to the Municipal Pension Fund, debt service payments on pension-related bonds, and a discretionary \$40M payment (above the required amount) made in FY19. The Finance department also made an additional \$74M discretionary payment to the Pension Fund in FY18.

3. School District Payments (+\$77M)

In FY19, the City contributed \$180M to the School District, its largest contribution to date. FY19's contribution exceeds FY17's spending by \$77M, an increase of 73 percent. The City's annual School District contribution is expected to increase by an additional \$92M over the next six years, a 51 percent increase. The City is projected to contribute a total of \$1.5B to the School District by the end FY24.

Increasing transparency and implementing rigorous performance measures will be necessary to ensure that this significant investment in our City's School District is being used in ways that effectively address the poor performance measures of many of our schools. Graduation rates, reading levels, and PSSA test scores have remained below state averages for years, though there have been modest improvements on these metrics since 2017.¹¹ Additionally, there are mounting concerns about the safety of School District buildings after reports of asbestos have led to the closures of 10 schools so far this academic year.¹²

4. Payments to the Capital Fund (+\$72M)

Rather than rely solely on bond proceeds, the Finance department made discretionary payments totaling \$72M into the Capital Fund to fund capital projects from operating funds (otherwise known as "pay-as-you-go" capital) in FY19. This is only the second fiscal year to include such payments, with \$30M being transferred previously during FY18. While pay-as-you-go capital is

¹¹ https://www.philasd.org/performance/programsservices/school-progress-reports/district-scorecard/#AG1_achievement

¹² <https://billypenn.com/2020/02/19/philly-school-asbestos-problem-whats-closed-whats-open-and-whats-being-done/>

considered a good fiscal practice since it avoids borrowing costs, it also represents a funding choice and transparency around the funded projects is important.

However, public transparency around these capital payments is limited. A City budget document¹³ describing the uses for a proposed \$47M payment to the Capital Fund in FY19 includes descriptions of 21 separate projects across more than 10 departments, the largest of which is \$12M for vehicle purchases in the Fleet department. Publicly available information for the remaining payments could not be identified. The disclosed uses for the \$47M payment are categorized by type in the table below.

Category	Pay-As-You-Go Funds
Facility Improvements	\$18.8M
Fleet	\$13.5M
Technology	\$7.5M
Economic Development	\$6.0M
Other	\$1.2M
Total	\$46.9M

5. Payments to the Housing Trust Fund (+\$29M)

The Housing Trust Fund, created in 2005, provides funding for the production of affordable housing, the preservation and repair of existing homes, and homelessness prevention. Historically, the Housing Trust Fund has received most of its funding from document recording fees. In 2018, the City made additional funding available through a legislative package which dedicated General Fund allocations to the Housing Trust Fund.¹⁴ In FY19, a total of \$29M was paid into the Housing Trust Fund, \$19M of which was dedicated to the Fund in the 2018 bill. An additional \$10M transfer, negotiated as part of the FY20 budget process with City Council, was made at the end of FY19. As part of those budget negotiations, the City has promised about \$50M in additional General Fund payments to the Housing Trust Fund through the end of FY24.¹⁵

6. Debt Service Obligations (+\$19M)

The City General Fund payments for short- and long-term debt service increased by \$19M, or about 13 percent, since FY17. Totaling \$257M in FY19, debt service payments are expected to grow by an additional 14 percent over the next five years, reaching \$361M by the end of FY24.

¹³ <https://www.phila.gov/finance/pdfs/Transfer%20Proposals%20October%202019.pdf>

¹⁴ Philadelphia Bill No. 180744

¹⁵ As described in the City's FY20 – FY24 Five Year Plan.

7. Contracts in the Mayor’s Office of Education (+\$15M)

Expanded in 2017, the Mayor’s Office of Education (MOE) was responsible for overseeing the Community Schools and Pre-K education programs.¹⁶ These programs are supported through revenue from the Philadelphia Beverage Tax, although only 35 percent of Beverage Tax revenue has been spent on these programs through the first quarter of FY20.¹⁷

In FY19, the MOE spent \$23M on outside contracts, with the majority of this spending on the Pre-K program. The main Pre-K vendor, Public Health Management Corporation, received nearly all of the MOE’s spending on contracts in FY19.

8. Contracts in the Prisons Department (-\$18M)

The Prisons department is the only example of significant decreases in spending across all City departments, cutting spending on outside contracts by \$18M between FY17 and FY19. The majority of these cuts are due to reductions in spending on outside housing contracts, medical and psychological services, and food services. These reductions come as the prison population has declined by 42 percent since July 2015.¹⁸

9. All Other Spending Areas (+\$88M)

The spending accounted for in the previous sections totals \$451M, or 84% of the City’s overall spending increase since FY17. The remaining growth, about \$88M, includes only non-payroll spending and is spread out across several departments. The largest increases include additional spending for Public Property (+\$14M), Streets (+\$9.3M), the Office of Innovation and Technology (+\$8.6M), Human Services (+\$8.2M), the Managing Director’s Office (+\$7.7M), Homeless Services (+\$6.6M), the Finance department (+\$6.3M), and Licenses and Inspections (+\$3.5M).

Increases in the Streets department reflect the rising costs of waste removal and recycling services, as well as spending on materials and equipment for street resurfacing efforts. Spending by the Office of the Innovation and Technology on IT-related professional services has nearly doubled since 2017, increasing by \$8M. Increased payments for the care of individuals in both the Human Services and Homeless Services departments made up the majority of growth in those departments. Additional spending in the Finance department includes increased contributions to the Community College of Philadelphia (+\$3.2M), the Philadelphia Authority for Industrial Development (+\$2M), and the Philadelphia Housing Authority (+\$1M). Finally, spending growth by the Licenses and Inspections department resulted primarily from additional spending on the demolitions of dangerous buildings.

¹⁶ In January 2020, the newly created Office of Children and Families took over oversight of the Pre-K and Community School programs.

¹⁷ <https://controller.phila.gov/philadelphia-audits/data-release-beverage-tax/>

¹⁸ <https://www.phila.gov/media/20200211102649/Full-Public-Jail-Report-December-2019.pdf>

A \$5M (6 percent) increase in the City's contribution to SEPTA since 2017, which is mandated by state law, accounts for about one-third of Public Property's overall increase. Also, increased spending on legal services, through contracts with the Defender Association of Philadelphia and Community Legal Services, accounts for \$5M of the Managing Director's Office \$7.7M overall increase.

Conclusion

In recent years, the City's revenues have grown and the City's spending has increased dramatically. These spending trends have occurred in the wake of the City's post-Recession economic recovery and expansion, and provide insight into the City's priorities. Each investment made by the City reflects a policy choice, and the Office of the City Controller believes that these policy choices should be made with the best interest of Philadelphia's residents in mind and in a transparent and public manner. Each investment should be carefully weighed against the potential return on that investment with particular attention paid to the costs of forgoing investment in other areas. These considerations are of particular importance as the City experiences dynamic growth in revenue, but faces critical challenges like the scourge of gun violence and the opioid epidemic, intractable poverty, and a local tax structure that boasts some of the highest wage and business tax rates in the nation, all while needing to plan for the long-term financial health of the City.

Considering this delicate balance, the City's approach to spending raises questions. While some decisions reflect a commitment to fiscal responsibility, other decisions seem in direct contrast to it. For example, the City's largest increase in spending since FY17 has been on salaries and benefits for the 945 employees added to the City's payroll since 2017. Despite adding new employees, the City's overtime per employee has increased since FY17. Typically, an increase in employees should result in less overtime. This suggests that the City's hiring strategy and overtime management is lacking. Other spending decisions, such as increased funding for the School District of Philadelphia – an important investment in its own right – highlight a need for more public transparency around how these new resources are being deployed at the School District and the need for accountability to ensure these resources are being spent in the best way possible to benefit Philadelphia's children.

Additionally, the City's consideration of other potential revenue uses, like tax reform, remains opaque. The high wage tax is often cited as a cause for weak job creation compared to other cities, and multiple studies have recommended that Philadelphia should become less reliant on wage tax, which has been found to suppress business development and is especially vulnerable to economic volatility. Rather than increasing spending in discretionary areas, the City could address long-standing challenges with the City's finances and tax structure while stimulating job growth, like increasing the wage tax reductions or building an equitable, fair, and accurate property tax assessment system.

Ultimately, spending is about priorities. The goal should be efficient and effective spending in line with a long-term plan that balances high-quality services with good financial stewardship and support for vulnerable communities. Transparency and accountability around spending is vital to ensuring the City achieves those goals.