

Legislation Text

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**TO THE PRESIDENT AND MEMBERS OF THE
COUNCIL OF THE CITY OF PHILADELPHIA:**

I am returning herewith as disapproved Bill Nos. 040009, 040010, 040012, 040255, 040257, 040258, 040397, and 040022, passed by the Council on May 31, 2004.

The Administration transmitted to City Council an Operating Budget and Five-Year Financial Plan on March 18, 2004 that were balanced, and that contained difficult but necessary choices while maintaining the City's successful nine-year program of tax reductions. Since 1995, almost \$1 billion has been "returned" to our taxpayers in the form of wage and business tax reductions. The Budget and Five-Year Plan transmitted to Council continued tax reductions and supported new tax reform while maintaining commitments to services, our neighborhoods, and our fiscal stability. Meeting these commitments has become increasingly difficult due to the continuing weakness in the national and local economy. Our projected tax revenue growth over the next five years does not even cover the increasing costs of our pension and health care benefits alone, and in order to have a balanced Plan we must follow through on right-sizing our facilities and services while making expenditure reductions of over 5 percent to most departments. The challenges of the Philadelphia Gas Works made our task even more difficult. As you know, at the insistence of the PICA board we were compelled to eliminate the \$18 million annual PGW revenue from the plan. On May 19th I submitted amendments to the Five-Year Plan that unfortunately contained further expenditure and service reductions, including the elimination of approximately 687 additional positions in FY06.

The budget package passed by City Council on May 31st turned a blind eye to the challenge we are facing, and created a Five-Year Financial Plan that is not balanced - a Plan that violates the Pennsylvania Intergovernmental Cooperation Authority (PICA) Act and the provisions of the Philadelphia Home Rule Charter which require a balanced budget. This package leaves the City with a deficit in each year from FY06 through FY09, culminating in a projected fund balance deficit of \$219.9 million at the end of FY09. That projected deficit of \$219.9 million is greater than the deficit the City had in 1991, when the City could not pay its bills, could not borrow money, and could not provide the basic services expected by residents, businesses, and visitors. This budget package would plunge the City into yet another crisis. It would compromise our fiscal stability; marginalize our capacity to provide high core city services; it would be an irresponsible retreat from our collective promise to our voters and taxpayers to act in their best interests. The 80 businesses that recently renewed their leases are depending on us. The developers who are set to build thousands of units of market rate and affordable housing have a right to expect us to adopt a spending plan which supports and protects their investments. And last, but certainly not least, it could very well cause us to run out of cash and not be able to pay our bills.

We all agree that tax reductions are important to making our city and our region more competitive, healthy, and prosperous, and the Five-Year Plan I submitted to you included a record \$375 million in tax reductions. However, we must fulfill our obligation under the laws of the Commonwealth and our obligation to our residents to provide the services they depend on, the services we have been charged by the federal and state constitutions and our City Charter with providing. The PICA Act was imposed on us in a time of crisis to

ensure that we do the obvious - live within our means. The budget package submitted to me for approval fails that basic “common sense” test. The budget package submitted pretends to be balanced only for Fiscal Year 2005, and even then only by making irresponsible choices and avoiding the task of focusing on the core services needed by our current population. Let me address just a few of the changes City Council made to Bill No. 040255:

- A reduction in fringe benefit appropriation of \$16.3 million. This would provide less than 2 percent additional funding for health care costs in FY05, when health care costs nationally are increasing by more than 15 percent each year, and an arbitration panel forced the City to increase health care costs for Fire department employees by 37 percent last fiscal year. I must remind you that my proposed Five-Year Plan does not include funding for deserved salary increases for the workers in the three major bargaining units whose contracts end on June 30th. This benefit reduction would prevent the City from maintaining the current standard of benefits for its workers. I intend to be fair to all city workers. I will not capitulate to unreasonable demands, but we will be fair. Some of the people urging these tax rate reductions could not care less about the man behind the trash truck, or the cop chasing a criminal with a gun! I care!
- A reduction in the Philadelphia Prison System appropriation of \$2 million. The remaining appropriation is unlikely to cover the cost of operating the prisons, unless the prison population falls dramatically within the next several months. We will not arbitrarily release dangerous criminals simply to do the tax reduction.
- A reduction of \$1 million from the City’s indemnities budget leaves an appropriation of \$24 million to cover claims against the City, nearly \$6 million, or 20 percent, less than was paid in FY03.
- A choice to add over \$5 million in non-core, non-essential subsidies to cultural organizations, and take \$11 million from the Police Department and Prison System budgets jeopardizes public safety and criminal justice, perhaps the most essential services that the City provides.

The budget package passed on May 31st created fund balance deficits in each year because of the impact of Bill Nos. 040009, 040010, and 040012, which reduce wage and business taxes, and are estimated to reduce the City’s revenue by a total of \$339 million during the Five-Year Plan period. These bills are unaffordable within the context of this Five-Year Plan, and would force devastating service cuts if they became law. If service reductions were made to compensate for the loss of revenue, police response times would be lower, the number of roads paved would be cut in half, street sweeping, bulk trash pick-up and the CLIP program would be nearly eliminated, and the amount of Recreation and Free Library service hours would have to be reduced. . The safety, quality of life, and value of living in our city would deteriorate in a way that would be all too apparent. Our capacity to invest in economic development job creation would all but eliminate the “New River City” program and put at risk the potential creation of thousands of jobs otherwise destined for the deserving workers in our city and region who feel abandoned and cheapened by the national tax policies which are compromising their futures.

To those who would say that projecting personnel and service reductions as a result of these bills is a “scare tactic,” I offer a simple challenge: provide a quantifiable and realistic alternative set of service reductions to offset the loss of revenue and balance the Five-Year Plan. City Council had an opportunity to do so. The package passed on May 31st regrettably avoided the challenge. Reductions in revenue or increases in expenditures must be offset by expenditure cuts or increased revenue from other sources in order to balance the budget and Five-Year Plan. The need for concrete solutions is pressing. The Council must pass a balanced budget and Five-Year Plan soon, if we are to provide police and fire protection, guard our prisoners, and

provide other services when the new fiscal year begins July 1st.

Furthermore, the Tax Reform Commission wrote its recommendations so that the cost of Bill Nos. 040009 and 040010 would increase after this Five-Year Plan, although the Commission did not quantify these costs. Our staffs, working together, identified that the tax bills passed on May 31st would cost the City \$2 billion in revenue between Fiscal Year 2010 and 2015, or \$2.3 billion in total. This City Council did not identify a way to afford \$339 million of lost tax revenue over five years; to force Philadelphia's future citizens into accommodating six times that amount in the future is short-sighted and irresponsible, and I can not allow these bills to become law.

Similarly, Bill No. 040397, which would reduce wage tax rates for low-income residents, would not even begin to take effect until Fiscal Year 2010. This bill could cost the City \$76 million per year in current dollars when it reaches full cost, which would be greater than the entire budget of the Free Library and Recreation Department. This bill would be unaffordable if it were implemented now, and it will be no less unaffordable in 2010, as the potential cost will grow with each year. I do not condone "passing the buck" for a bill that is plainly unaffordable and I can not support this bill.

The Administration also transmitted to City Council a Capital Budget that judiciously allocated our dwindling capital resources among the City's key needs. The amount of funding available in the Capital Budget has been declining in recent years, but District City Council members have not taken a proportionate reduction in the amount of capital dollars spent at their discretion. Bill Nos. 040257 and 040258 added \$7 million to the Existing Recreational Facilities line item for FY05. This is not a fiscally responsible strategy. I believe that Council members should work with the Administration to establish new criteria for facility development to avoid the crazy quilt pattern which exists today.

The Capital Budget and Five-Year Program that I submitted to you also included \$275 million for the Philadelphia International Airport to join all other major airports by operating its own parking facilities. Currently a state authority controls these facilities. Acquisition and in-house operation of these parking facilities would provide approximately \$2 million in net annual savings as well as operational efficiencies in security, ground transportation and cash management. Bill Nos. 040257 and 040258 as passed eliminated these provisions for no sound reason, and I believe that they should be restored to make our airport as efficient and competitive as possible.

And finally, I have vetoed Bill No. 04022. This bill would prohibit the Board of Revision of Taxes (BRT) from changing any "assessment ratio" without approval from City Council in the form of an ordinance adjusting millage rates to take into account the change in "assessment ratio." I agree that in moving to 100% assessments, the millage rates will need to be adjusted, nevertheless, the City Solicitor has advised that state law delegates to the BRT exclusive responsibility for making assessments and establishing the methodology for assessments. Bill No. 04022 exceeds City Council authority.

I look forward to working with Council to pass an Operating Budget, Capital Budget, and Five-Year Financial Plan that will allow us to thrive even in these difficult times and support the kind of city that we all want. I do not believe that the package of bills passed on May 31st allow us to do that, and they are clearly in violation of the sound fiscal principles embodied in the PICA Act. I stand ready to work around the clock to develop a viable, responsible tax and spending program that will serve the best interests of our city.

Respectfully submitted,

John F. Street
Mayor