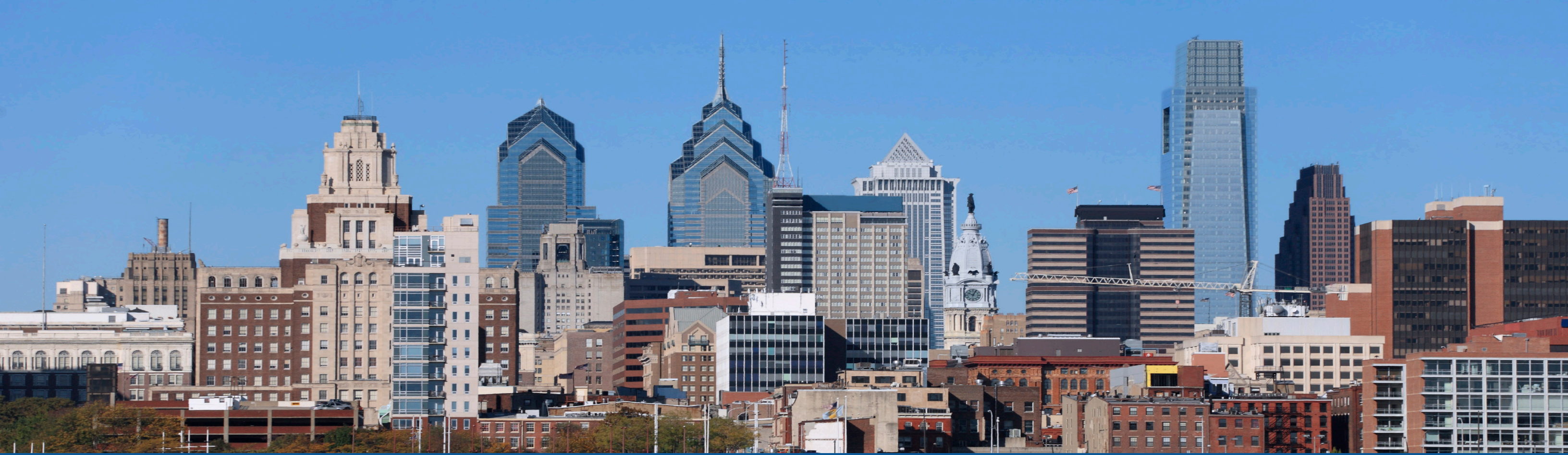

NOT OUT OF THE WOODS:

The Recession's Continuing Impact on Big City Taxes, Services and Pensions

May 26, 2010

THE PEW CHARITABLE TRUSTS | Philadelphia Research Initiative

KEY FINDINGS

For residents of many major U.S. cities, the recession will mean higher local taxes and new fees in the year ahead, continuing a trend that began this past year. And for some local government workers who retain their jobs, it will mean fewer and costlier employee benefits. Those are some of the conclusions that emerge from our ongoing review of how 13 city governments, including Philadelphia's, have been coping with hard economic times.

Most of the cities have been dealing with another year of significant budget gaps, although their shortfalls, for the most part, were slightly smaller than a year ago. To offset drops in existing revenues, four of the cities are weighing or have approved higher local taxes or fees for fiscal 2011 that would impact a broad swath of residents or businesses. Six of them already had imposed increases for fiscal 2010. Among the 13 cities, as of late May, Philadelphia was the only one enacting a broad tax hike a second year in a row—a property-tax increase for fiscal 2011 after a sales-tax increase for fiscal 2010. But one way or another, all of the cities are looking for additional revenue streams from residents or businesses. Most cities are planning increases in smaller, targeted fees, fines or taxes—such as telecommunications fees, parking fines and an aviation fuel sales tax. Casino gambling that boosts local tax revenue has been proposed or recently approved for four of the cities.

New revenue streams are just part of the story. All nine cities that had detailed their plans for fiscal 2011 as of late May, including Philadelphia, were proposing further job cuts through layoffs, attrition or eliminating vacant positions. In most cases, the job reductions were to be less severe than during fiscal 2010. Most cities, including Philadelphia, also were seeking further employee concessions, such as pay freezes and higher benefit contributions for fiscal 2011. That includes trying to get workers to assume more of the costs of their pensions, steps Philadelphia began taking last year. Every city for which figures are available reported a marked deterioration in pension-fund assets between 2008 and 2009.

City services remain stressed. Many cities plan to keep doors closed on some library branches, recreation centers or firehouses that had been shuttered in fiscal 2010. New York and Boston were proposing further closures of pools and reductions in library subsidies. Detroit plans to begin implementing a three-year government restructuring operation, starting with consolidation of seven city agencies and cutbacks of some services in fiscal 2011. On the other hand, at least two cities, Columbus and Phoenix, are reopening some previously-closed community centers and restoring some previously-discontinued trash pickup, thereby allowing residents to see the benefit of recent tax hikes there. Philadelphia's Mayor Michael Nutter said he would close two fire companies and cut back library hours, although he has pledged to keep all functioning pools open at least through the coming summer.

COMPARISON CITIES

In addition to Philadelphia, this update report examines Atlanta, Baltimore, Boston, Chicago, Columbus (Ohio), Detroit, Kansas City (Missouri), Los Angeles, New York, Phoenix, Pittsburgh and Seattle. These 12 cities were chosen primarily for reasons of size and geography.

This report updates our two previous reviews of budgets in the same cities, the first in May 2009 (*Tough Decisions and Limited Options*) and the second in September 2009 (*Layoffs, Furloughs and Union Concessions*). This report also builds on Pew's previous studies of municipal employee pensions and benefits, first in January 2008 (*Philadelphia's Quiet Crisis*) and then in June 2009 (*Quiet No More*).

FIGURE 1

ANOTHER YEAR OF BUDGET GAPS

For the second year in a row, most of the 13 cities in our comparison group reported significant shortfalls in their general fund budgets at the beginning of their most recent budget processes. The gap is calculated prior to any changes in taxing or spending policy for the coming year.

City	Projected Shortfall/Surplus	Shortfall/Surplus as Percentage of Current General Fund	Shortfall/Surplus in Prior Fiscal Year**
Chicago* FY '10	$ -519,700,000	-16.3%	-15.0%
Kansas City FY '11	$ -65,000,000	-12.5%	-14.9%
Phoenix FY '11	$ -139,200,000	-12.5%	-17.0%
Los Angeles FY '11	$ -492,000,000	-11.2%	-12.1%
Atlanta FY '11	$ -48,500,000	-9.0%	-9.8%
Baltimore FY '11	$ -121,000,000	-9.0%	-4.8%
New York FY '11	$ -4,900,000,000	-8.2%	-10.8%
Detroit FY '11	$ -126,000,000	-7.9%	-20.3%
Seattle FY '11	$ -56,000,000	-6.2%	-4.4%
Philadelphia FY '11	$ -179,000,000	-4.8%	-10.6%
Columbus FY '11	$ -12,660,000	-1.9%	-18.3%
Boston FY '11	$ -42,200,000	-1.8%	-5.8%
Pittsburgh* FY '10	$ 8,500,000	1.9%	6.5%

-20% -15% -10% -5% 0 5%

* Pittsburgh and Chicago operate on a calendar fiscal year and have not yet projected official budget shortfalls or surpluses for FY2011. Pittsburgh, after starting FY2010 with a surplus, went into deficit and was projecting a 0.6 percent shortfall in its general fund for the year.

** Figures for prior fiscal year were for May 2009, prior to major gap-closing actions and excluding subsequent budget actions or shortfalls during the fiscal year.

NOTE: For this comparison, a budget gap is defined as the difference between projected general-fund revenue and projected general-fund expenditures for a city's upcoming fiscal year, divided by the current year expenditures. Figures are as of the beginning of the budget-drafting process.

SOURCE: Budget documents, interviews and media reports for each city.

Projected spending was going up in some cities and down in others. As of mid-May, five cities, including Philadelphia, were anticipating their general-fund spending levels to be higher for fiscal 2011, and five lower. The biggest decrease, a brutal 18 percent, was in Detroit.

The fiscal outlook remains difficult for most cities even though the national economy is starting to show some signs of recovery. This has forced cities to confront tough decisions. Phoenix imposed a new 2 percent "food tax" on groceries. In New York, Mayor Michael Bloomberg is proposing the layoffs of thousands of teachers. Several cities are digging deep into "rainy day" reserves. Los Angeles and Detroit are publicly dealing with rumblings about municipal bankruptcy.

In the balancing act between raising revenue and cutting costs, four cities are taking broad actions on the revenue side:

• Philadelphia, for the second consecutive year, will impose new and higher taxes, this time to help close a projected $179 million shortfall for fiscal 2011. It adopted a property tax increase, scheduled to last two years; a new tobacco-products tax; and a higher commercial trash fee. City Council shelved Mayor Nutter's proposed tax on sugar-sweetened drinks.

• Baltimore Mayor Stephanie Rawlings-Blake, projecting a $121 million budget gap, proposed requiring local nonprofit hospitals and universities (which don't pay property taxes) to pay a new city tax of $350 for each occupied bed. Her plan for a new 4-cent surcharge on certain beverage containers was facing opposition from City Council, which has suggested alternatives such as a tax on billboards and video slot machines.

• Kansas City raised its property tax rate by 4.2 percent to help close a $65 million shortfall due in part to a loss in revenue from declining property values. It was one of several revenue boosts approved for fiscal 2011, which began May 1.

• Los Angeles, confronting a $492 million gap, has approved a 4.5 percent hike in rates charged by the city-owned utility for most residents and businesses. The proposal follows a budget standoff and threatened government shutdown.

On the cost side, almost every city in the group has been reducing its full-time workforce through layoffs, attrition and eliminating vacant positions. From fiscal 2009 to fiscal 2010, the median reduction was 3 percent. For fiscal 2011, mayors in nine cities again are talking about job cuts and layoffs—contingent on labor concessions or the level of state aid in most places—although the magnitude of the cuts would lessen in many places. Among the city administrations targeting specific numbers of job reductions were these:

• Philadelphia Mayor Nutter said that he would eliminate 339 positions, including fire and police jobs, after one of his tax-increase proposals failed to get support in City Council.

• New York Mayor Bloomberg proposed eliminating 10,997 jobs (including 6,700 teachers and school aides) in the coming fiscal year if unions don't agree to concessions and state lawmakers don't allocate more funds. A year ago, ahead of the current 2010 budget, Bloomberg announced plans to eliminate 9,782 jobs; he eventually cut far fewer.

• Los Angeles Mayor Antonio Villaraigosa warned in March that he would have to cut more than 3,000 city jobs. He and the City Council eventually agreed to between 761 and 1,761 layoffs if unions don't accept wage cuts and unpaid furlough days.

• Phoenix Mayor Phil Gordon, who was contemplating elimination of as many as 1,379 jobs earlier this year, has lowered the number to 550. The mayor of Detroit planned up to 300 layoffs, and the City Council was demanding many more. The mayors of Boston and Baltimore have warned of 200 to 250 layoffs in their cities. Atlanta was talking about 120 layoffs.

Pension funding, a long-simmering cost problem for most City Halls, has become more of a concern due largely to stock-market losses that have reduced fund values. When a pension fund falls in value, city governments generally are required to pump in more money to ensure the fund has sufficient assets to meet its obligations to current and future retirees. In the cities for which figures were available, the proportion of pension assets relative to obligations fell to a median of 64 percent in 2009, the last year available.

FIGURE 2

DECLINING VALUE OF PENSION FUNDS

A key indicator of a pension's financial condition is its funded ratio—or the percentage of funds it has on hand in relation to how much it will need to pay current and future retirees down the road. A pension with $1 on hand for every $1 it will owe has a funded ratio of 100 percent. Every city in our comparison group for which figures were available reported a drop in funded ratio between 2008 and 2009, due primarily to stock market losses. Actuaries consider 80 percent a safe minimum funded ratio.

City	Funded Ratio	
	2008*	2009*
Atlanta	55.9%	53.0%
Baltimore	95.3%	83.6%
Boston	67.6%	59.3%
Chicago	57.3%	42.7%
Detroit	103.6%	85.0%**
Kansas City	90.7%	71.6%
Los Angeles	92.6%	89.7%
New York***	-- n/a --	-- n/a --
Philadelphia	55.0%	45.0%
Phoenix	79.1%	75.3%
Pittsburgh	41.7%	34.3%**
Seattle	86.4%	64.0%
MEDIAN	**79.1%**	**64.0%**

* The calendar year within which the ratio was calculated; may not correspond to city's fiscal year.

** Unaudited estimate from city budget office or pension system financial reports.

*** New York pension figures released with two-year lag; 2008 figures due in late 2010.

NOTE: Figures represent the aggregate funded ratio of a city's pension funds for police, fire and general municipal workers typically employed under a city's general fund. They exclude pensions for independent departments outside the general fund, such as water or power departments. Columbus is not listed because its city workers are covered by the Ohio state retirement system.

SOURCE: Each city's Comprehensive Annual Financial Report, or each pension system's annual report or financial disclosure documents.

That meant cities had only 64 cents on hand for every dollar they would need to pay future retirees, below the 80 percent level that pension actuaries consider a safe minimum. The median ratio was 79 percent for the same cities in 2008.

- Philadelphia's pension system, already in worse shape than many big-city systems, saw its funded ratio drop from 55 percent to 45 percent between 2008 and 2009. Mayor Nutter last year began pushing for changes to pension plans for new workers in order to lower the city's long-term pension obligations.

- Seattle had the biggest decline in the funding ratio for its pension system, down 22 percentage points to 64 percent. Pittsburgh's pension was in the worst shape with a 34 percent funded ratio. Los Angeles' was in the best shape at 90 percent.

Our review found that the recession has upended municipal budgets and affected millions of urban residents in a variety of ways. In January 2010, Kansas Citians were left snow-bound and fuming after budget cuts curtailed plowing. In December 2009, Baltimoreans engaged in finger-pointing after a house fire killed an elderly resident just six blocks from a shuttered fire station.

At the same time, leaders in some cities, while expressing regret over the budgetary pain, have celebrated city workers for providing greater efficiency and sometimes better service despite tight budgets. Most, though not all, of the local political leaders made a point of sharing in the sacrifice: mayors in 12 of the 13 cities, including Philadelphia, cut their own pay in fiscal 2010; city councils in nine cities, including Philadelphia, reduced their own budgets.

The cities can expect the fiscal pain to continue. The National League of Cities has noted that city fiscal conditions typically lag the national recovery by two years, and there is no reason to think that this time will be an exception.

CITY-BY-CITY FINDINGS

Philadelphia

A year ago, Mayor Nutter and the City Council agreed on a five-year increase in the sales tax from 7 to 8 percent to help close the city's budget gap.[1] This year, the city is imposing a two-year, 9.9 percent hike in the property tax, the only city in the group to raise a broad-based tax twice in the last two years.

Revenue from Philadelphia's sales tax increase, which took effect in October 2009, came in lower than expected. This was one reason, along with high snow-removal costs from last winter, why the city began its budget process with a shortfall of 5 percent or $179 million for fiscal 2011, which starts July 1, 2010.[2] Officials looked for additional revenue to keep the city's five-year plan balanced without making major service cuts. In his March 2010 budget address, Nutter proposed a 2-cent-per-ounce tax on sugar-sweetened drinks and a trash collection fee of $200 to $300 per residence.

Both tax-hike ideas generated intense opposition. After months of sometimes testy exchanges with the mayor, the City Council approved a spending plan with extra cuts in some agencies, including its own budget, and a mixture of new revenues—higher commercial trash-collection fees, a new tobacco-product tax and the property-tax hike. Council let Nutter's sweetened-drink tax die without a vote.[3] In response, citing cash-flow concerns, Nutter announced 339 job cuts, including fire and police positions, calling the move unavoidable without more revenue.[4] Prior to the Council's vote, Nutter had not proposed any layoffs or major job reductions for fiscal 2011, the only mayor in the group who had avoided doing so.

The layoffs and service cuts would go far beyond Nutter's initial plan, which had relied largely on savings in the city's prison system due to the declining inmate population. The new cuts, which cover 14 city departments, would eliminate two classes of incoming police officers, close two fire companies, reduce the hours of library branches from five days a week to four and end a youth-violence prevention program, among other things. Nutter stuck to his initial pledge to keep pools open throughout the summer.[5]

Atlanta

A year after raising property taxes 7 percent and outsourcing parking-meter enforcement to close a budget gap in fiscal 2010, Atlanta was facing a $48.5 million shortfall for fiscal 2011.

In an effort to make good on campaign promises to hire more police and avoid another tax hike, Mayor Kasim Reed's 2011 budget plan called for a variety of fee increases and one-time revenue boosts. He has revived an old idea to lease Atlanta's city jail (the Atlanta Detention Center) to Fulton County (which includes Atlanta), currently a tenant. He also would proceed with the sale of a city office building, known as City Hall East, to a residential developer.[6]

On the cost side, the mayor has proposed keeping two dozen recreation centers and a firehouse closed. With the funding ratio in the city's pension fund down to 53 percent, Reed has asked municipal unions and City Council to let him increase the number of years employees must work to qualify for pension benefits and try to enroll city workers in Social Security (many cities currently do not participate in the federal system).[7] He has threatened at least 120 layoffs without the concession.[8] The police union has threatened to take Reed to court if he proceeds.[9]

Baltimore

In the pre-dawn hours of December 9, 2009, a fire in a Baltimore rowhouse fatally injured 76-year-old Sam Davis before fire crews could get there. Six blocks away, a fire truck sat idle and unstaffed in a fire station that the city had temporarily closed to save money. The tragedy ignited recriminations by firefighters.[10] Although a garbled 911 call also had been a factor in delaying the response, the fire had an influence on the budget preparations. Four months later, the 2011 spending plan presented by new Mayor Rawlings-Blake restored some funding to the Fire Department for the stated purpose of reducing "closures of fire companies to decrease response times."[11]

To maintain core services and keep 29 recreation centers open for the summer, Rawlings-Blake has proposed requiring nonprofit hospitals and universities, which currently are exempt from local property taxes, to pay $350 per bed per year. And she would levy a new 4-cent surcharge on certain beverage containers. Both new taxes drew intense opposition from some businesses and residents; City Council leaders suggested several alternatives to the beverage-container tax, including taxes on billboards, oversized trucks, vacant property and video slot machines.[12] The city was also considering increases in existing taxes, such as income, energy and parking taxes. The administration is supporting an effort to launch a Baltimore Grand Prix car race on city streets, banking on proceeds from sales taxes and fees.[13]

To cut costs, Rawlings-Blake would lay off 250 employees and eliminate 255 other general-fund positions (including police), maintain mandatory furlough days for most workers, raise healthcare co-payments and delay retirements.[14] The cuts would include eliminating a vegetable garden in front of City Hall that produced food for homeless shelters.[15]

Boston

In April, just weeks after announcing cuts to close a $42.2 million shortfall, Boston Mayor Thomas Menino got some bad budget news: a labor arbitration panel had awarded firefighters a pay raise over five years estimated at 19 percent, higher than other city workers had negotiated.[16] This has complicated Menino's plan to close the city's projected 2 percent budget shortfall for fiscal 2011, which was smaller than last year's 6 percent gap.[17]

The administration's plan to cut funding for libraries and other services—forcing the layoff of 250 workers, teachers and other city employees—already had met stiff resistance. The city is facing the loss of $22 million in state revenue in the coming fiscal year; other cities we studied also are dealing with large cuts in state aid. Boston also got hit with a $15.9 million snow-removal bill this past winter and millions of dollars in damage from floods in April.[18]

Boston already has raised taxes in the past year: it doubled its hotel tax to 4 percent, imposed a new 0.75 percent tax on meals in restaurants and raised property tax rates by 2.5 percent.[19,20] For 2011, Menino would tap $45 million from the "rainy day" fund, leaving $90 million there.[21] He has been negotiating with Boston's many nonprofit institutions to raise the payments they already make in lieu of property taxes.

Chicago

At the end of 2009, Chicago faced a hole in its fiscal 2010 budget of $519.7 million, or 16 percent of its general fund expenditures. Revenue from sales and income taxes had shriveled. City employee pension funds had only 43 percent of the assets they needed to pay retirees, second lowest among the cities studied.[22] Mayor

Richard Daley ordered thousands of workers to take two weeks of unpaid furlough time; 864 of them were laid off, and everybody else had to pay more for healthcare and lost overtime pay. The mayor also tapped into a special reserve fund created from the leasing of city parking meters a year earlier, drawing it down from $1.2 billion to about $730 million.[23]

It wasn't enough. Two months into 2010, Daley ordered city agencies to cut spending on everything except staff by another 6 percent. He pleaded with vendors to cut their prices by 10 percent, and some seemed to be complying.[24] In April, an arbitrator awarded Chicago's rank-and-file police officers a pay hike of 10 percent over five years, their smallest pay increase in several decades.[25] The situation may get worse in fiscal 2011 (which starts January 1): a mayoral panel concluded that digging out of the city's pension crisis could cost Chicago $710 million a year.

Columbus

In 2008, ahead of the fiscal year that ended last December 2009, Columbus Mayor Michael Coleman closed 11 recreation centers, imposed unpaid furlough days on most workers, raised healthcare premiums and took $35 million from a "rainy day" fund. Last year, voters approved Coleman's request to raise local income taxes from 2 percent to 2.5 percent to boost revenue this year.

So far, this combination of tax increases and labor cost cuts appears to be working as planned. The city has taken back control of nine recreation centers it had turned over to nonprofit groups.[26] And it has lifted furlough orders. The city has resumed recruiting new police officers, even as the police union agreed to higher pension contributions. It restarted several stalled capital projects and restored free yard-waste pickup. Its "rainy day" fund is growing again. Voters also approved a deal to annex land for a new casino, clearing the way for construction and new tax proceeds under a 2009 gaming law.[27]

Detroit

Facing a 20 percent budget shortfall for a second year as well as talk of municipal bankruptcy, Mayor David Bing opted for deeper cuts and more debt heading into fiscal 2011.[28] The city sold a $250 million deficit-reduction bond that will cost $14 million a year in interest alone. For the coming year, at least, Detroit's budget gap has been reduced to between 5 percent and 8 percent; the mayor and City Council disagree on its size.[29]

Bing is proposing to spend 18 percent less than Detroit spent this year, the biggest decline among all the cities. He would lay off 300 of the city's employees, eliminate 500 vacant positions and continue unpaid furlough days. He would eliminate most city-supplied vehicles (except public safety) and give workers travel stipends instead. Detroit also has launched what appeared to be the most comprehensive restructuring drive among all 13 cities: a three-year process to "right size" city government, starting with consolidation of seven agencies. "We don't have a choice. We're broke," said Jan Anderson, deputy budget director and head of the Mayor's Office of Restructuring.[30]

On the revenue side, Bing estimates he could raise $6 million by going after tax delinquents and another $680,000 from leasing the city's small cargo airport.[31]

The City Council is demanding even deeper cuts, saying that Bing is repeating a Detroit tradition of underestimating the deficit and overstating revenues.[32] Council's proposed budget would cut police, fire, parks and health services; reduce Bing's own office by $1 million; and shut down the city's 311 municipal-information service.[33]

Kansas City

Snowstorms left many Kansas City residents stranded and fuming last winter. Budget cuts and a series of relatively benign recent winters led the city to allot less money than turned out to be necessary. Mayor Mark Funkhouser has increased funding for snow-removal in his 2011 budget.[34, 35]

In preparing its budget for fiscal 2011, which began on May 1, 2010, Kansas City initially faced a 12.5 percent gap. To address it, the city plans to lay off 33 employees and eliminate 111 jobs and is negotiating for a wage freeze and fewer paid holidays. It will merge two agencies and reduce some services. To raise revenue, the city has increased a variety of fees, taxes and fines, including the city's property tax, in hopes of offsetting declining revenue from falling home values. The budget also calls for an increase of $3.5 million from drivers who run red lights, thanks to fines from new red-light cameras.

Los Angeles

Like Detroit, Los Angeles was confronting a big shortfall, talk of municipal bankruptcy and distrust between City Council and the mayor about the extent of the problems, much less the solutions.

Mayor Antonio Villaraigosa put the general-fund shortfall at around 11 percent. After three months of acrimony with City Council that included a threat of partial government shutdown, a budget was approved that makes cuts across many city services, from libraries to child care to sidewalk repairs.[36] The city would lay off between 761 and 1,761 employees, depending on possible union concessions and revenues from other actions. That was fewer than the 3,000 layoffs the mayor threatened earlier.[37] He would not lay off police and firefighters but is seeking 16 to 26 unpaid furlough days for employees. Savings also would come from a new early retirement provision in the pension plan.[38]

To raise revenue, the budget calls for leasing 10 city-owned parking structures to private operators for an estimated $53 million a year.[39] There would also be a 4.5 percent utility rate increase for the city-owned Department of Water and Power, a major source of the city's operating revenue.[40, 41] The budget also relies on various fee hikes, including higher parking fines, dog-license fees and asking voters to approve a new tax on billboards and other signs.

New York

New York is showing how this economy can cause a budget crisis and surplus at the same time. In the past year, Mayor Bloomberg eliminated thousands of city jobs and slashed spending to close an 11 percent budget gap ahead of fiscal 2010, which began on July 1, 2009.[42] Then revenues came in higher than expected, giving the city a projected $2.9 billion surplus for the year.[43] But with revenue growth still sluggish and state funds in doubt, New York is projecting a big shortfall again: $4.9 billion for fiscal 2011.

Bloomberg intends to use part of the 2010 surplus to close the new gap and will cut spending again: he has proposed laying off 6,693 educators and eliminating roughly 4,000 other city jobs, mostly through attrition, unless the state restores aid.[44] He is demanding a wage freeze for most workers, including police and fire, and a smaller-than-promised raise for teachers. He is asking unions to agree to higher contributions to healthcare and to a less-generous pension plan. Some fire stations would close. Many senior centers may close. This summer's swimming-pool season would be shortened by two weeks. Library subsidies would be cut. AIDS caseworker jobs would be eliminated.

Bloomberg is not seeking another broad-based tax hike, like last year's sales tax increase. Instead he would target airlines by extending a sales tax to jet fuel purchased at LaGuardia, JFK and other airports. He also would impose a mortgage-recording fee on sales of co-op apartments and raise the tax on commercial parking rates in midtown Manhattan by 50 cents per hour.[45]

Phoenix

Facing another big budget shortfall this coming year, partly due to less revenue from the state, the Phoenix City Council in February approved a temporary 2 percent tax on certain kinds of groceries. Officials also won union agreement to a 3.2 percent cut in wages and benefits.

Thanks to those developments and a variety of fee hikes, Phoenix Mayor Phil Gordon was able to propose a fiscal 2011 budget that makes fewer cuts than he had threatened in the past year. He still intends to eliminate about 550 jobs, many of them police and fire positions. The city was also negotiating changes to improve the condition of the pension system.[46] His budget would close one youth center instead of the seven he threatened prior to approval of the food-tax. It would keep open all of the community centers that were on the chopping block earlier this year. And it would keep 21 of 29 community pools open.[47]

Pittsburgh

Thanks to deep budget-cutting under state fiscal watchdogs, Pittsburgh started fiscal 2010 on January 1 with a modest surplus. But flat revenues and high labor costs soon flipped the city into the red, and by mid-May it was projecting a slight deficit through the end of 2010.[48] The city's pension funds lie at the heart of the problem, creating a huge extra cost for the general fund. The pensions had a funded ratio of 34 percent in 2009, the lowest among all 13 cities.[49]

Struggling to prevent a state takeover of its pension system, Mayor Luke Ravenstahl and city leaders have been exploring several potential revenue sources to present to state legislators for approval. The ideas included leasing about 20 city-owned garages, raising the voluntary payments to the city made by nonprofit institutions, privatizing the Pittsburgh Water and Sewer Authority, raising a tax on earnings, hiking parking fines, and imposing a sugar-sweetened drink tax.[50, 51]

Seattle

Fiscal 2010 had barely begun in January when Seattle realized it had a problem again. Revenues were coming in lower than projected in the budget. Mayor Mike McGinn, in his first week on the job, ordered senior managers to freeze their own pay and start cutting 200 jobs. He later ordered most departments to trim spending by 3 percent and projected a $56 million shortfall for fiscal 2011.[52]

Coming into this year, library hours had been reduced, all employees had been made to take 10 unpaid furlough days, at least 30 employees had been laid off and some offices merged. On the revenue side, parking fines had been raised and city officials had tapped about half of the city's "rainy day" fund. For fiscal 2011, which begins next January 1, McGinn wants to lift the furlough order and is pursuing savings elsewhere. Officials also are looking at possible rate "adjustments" for the city-owned power utility.[53] ■

ENDNOTES

1 "Nutter proposes temporary sales tax hike of 1%," KYW Newsradio, March 18, 2009; "Sales, property tax increases part of Nutter's `shared sacrifice' budget," Philadelphia Business Journal, March 19, 2009.

2 Text of Nutter's budget address, March 4, 2010; Quarterly City Manager's Report for Period Ending March 31, 2010; City of Philadelphia Five-Year Financial and Strategic Plan for Fiscal Years 2011-2015; Interview with Stephen Agostini, City of Philadelphia Budget Director, May 17, 2010.

3 As the beverage industry lobbied to defeat the sweetened-drink tax, Harold Honickman, a local beverage executive and philanthropist, offered to donate $10 million to citywide health programs and mentioned The Pew Charitable Trusts as a possible vehicle for that donation. Pew CEO Rebecca W. Rimel said that given that the proposed tax was an active issue before City Council, it was "inappropriate" for Pew to play a role.

4 Letter from Nutter's Chief of Staff Clarence Armbrister to City Council President Anna C. Verna, May 20, 2010; Letter from Budget Director Stephen Agostini to Armbrister, May 20, 2010 (copies with author).

5 Nutter's Comments at news conference, May 20, 2010; Original pledge to keep pools open contained in City of Philadelphia Mayor's Operating Budget in Brief for Fiscal Year 2011 As Proposed March 2010.

6 Tom Sabulis, "Mayor's docket full in his first three months," Atlanta Journal Constitution, May 2, 2010; Eric Stirgus, "Fee hikes proposed to fund city services," Atlanta Journal Constitution, May 3, 2010.

7 Atlanta Pension Panel presentation, February 2010.

8 Eric Stirgus, "Mayor's budget includes layoffs: 67 airport employees, others to lose jobs," Atlanta Journal-Constitution, April 29, 2010.

9 Cameron McWhirter and Eric Stirgus, "Reed: City needs pension rollback," Atlanta Journal Constitution, April 24, 2010.

10 Julie Sharper and Brent Jones, "City seeks fire funds, Nonprofit donations among ideas discussed after deadly blaze." Baltimore Sun, Dec. 11, 2009; "Cuts blamed in fatal Baltimore fire," WBAL-TV, Dec. 10, 2009.

11 City of Baltimore press release, "Mayor Rawlings-Blake Introduces Comprehensive Budget Plan," April 12, 2010.

12 Julie Scharper, "City Council plan to avoid bottle tax hits snag," Baltimore Sun, May 21, 2010; Daniel J. Sernovitz, "Baltimore City Council president mulls tax on vacant property," Baltimore Business Journal, May 21, 2010.

13 Julie Scharper, "Downtown Indy-Style race nears starting line," Baltimore Sun, May 5, 2010.

14 City of Baltimore Fiscal 2011 Board of Estimates Recommendations, April 28, 2010.

15 Susan Reimer, "City budget bodes ill for vegetable garden," Baltimore Sun, April 8, 2010.

16 Andrew Ryan, "Menino outlines how city would pay firefighters' raises," Boston Globe, May 19, 2010.

17 Boston Globe editorial, "City Council must put an end to indefensible firefighter raise," April 21, 2010.

18 David Abel, "Flooding was state's costliest disaster; 24,000 residents share $35 million in federal aid," Boston Globe, April 24, 2010.

19 Interview with Meredith Weenick, Associate Director, City of Boston Office of Administration and Finance, April 21, 2010. Other figures from City of Boston, Revenue Estimates and Analysis FY2011.

20 David Abel, "Boston raises property taxes," Boston Globe, Dec. 11, 2009.

21 Andrew Ryan, "Cuts, but fewer of them, in next Hub budget plan," Boston Globe, April 14, 2010.

22 City of Chicago, Final Report of the Commission to Strengthen Chicago's Pension Funds, April 30, 2010; see also Fran Spielman, "Daley: Taxpayers can't afford to solve pension crisis," Chicago Sun-Times, April 23, 2010.

23 City of Chicago Investor Presentation, January 2010.

24 Joseph Ruzich, "Contractors pain helps out taxpayers; Companies are lowering their bids," Chicago Tribune, April 30, 2010.

25 Hal Dardick, "Arbitrator rules 2% raise for Chicago cops; 10% hike over 5 years is short of union demand," Chicago Tribune, April 16, 2010.

26 Interview with Jane Dunham, Deputy Director, City of Columbus Department Finance and Management, April 26, 2010.

27 James Nash and Mark Niquette, "Primary 2010: Casino moves west; Passage of issue 2 means Columbus casino will be built on West Side, not Arena District," Columbus Dispatch, May 5, 2010.

28 Nancy Kaffer, "Chapter 9 among Detroit's few options; Budget crisis puts city in danger of bankruptcy," Crain's Chicago Business, April 12, 2010.

29 Detroit's mayor and City Council were differing over the actual size of the city's accumulated debt, as well as its projected revenues, leading the mayor to cite a budget deficit smaller than one cited by City Council.

30 Interview with author, April 26, 2010.

31 Leonard N. Fleming, "Detroit mayor wants to privatize Young airport," Detroit News, March 17, 2010.

32 City of Detroit City Council Fiscal Analysis Division, "Preliminary Review of the 2010-11 Mayor's Recommended Budget," April 22, 2010.

33 Darren A. Nichols, "Council trims Bing's budget," Detroit News, May 22, 2010; Naomi R. Patton, "Council budget has more cuts," Detroit Free Press, May 22, 2010.

34 "Mayor gives 'B' grade to city's snow removal effort," KCTV5, Jan. 4, 2010.

35 Larry Seward, "More layoffs in KCMO budget proposal," KSHB-TV, Jan. 16, 2010.

36 David Zahniser, Phil Willon, "Divided L.A. council votes to eliminate 761 positions while seeking concessions from unions," Los Angeles Times, May 17, 2010; Tony Castro, "L.A.'s financial crisis could have a devastating impact on Animal Services, putting more pets on death row," Los Angeles Daily News, April 29, 2010; Martha Groves, "L.A. may stop paying to fix sidewalks; Cash-strapped City Council might repeal law that made city responsible for repairs," Los Angeles Times, May 9,2010.

37 Phil Willon and Maeve Reston, "State of the city: serious but upbeat; L.A. mayor laments financial missteps and pledges to win back the public's trust," Los Angeles Times, April 21, 2010.

38 City of Los Angeles Comprehensive Financial Report 2009.

39 City of Los Angeles Fiscal 2010-11 Budget Summary.

40 Rick Orlov, "DWP rate hike rollback fails; Council loses bid to block increase," Los Angeles Daily News, April 28, 2010.

41 David Zahniser and Phil Willon, "L.A. council approves 4.5% electricity rate increase," Los Angeles Times, April 15, 2010. See also Leon Furgatch, "True Cost of DWP revenue transfers," Los Angeles Daily News, May 10, 2010.

42 City of New York Comprehensive Annual Financial Report 2009.

43 Analysis of the Mayor's Preliminary Budget for 2011, New York City Independent Budget Office, March 2010.

44 City of New York Executive Budget, Fiscal Year 2011, Message of the Mayor, May 6, 2010.

45 City of New York Mayor's Executive Budget, May 6, 2010; Interviews via email with Marc LaVorgna, New York City Department of Management and Budget, May 2010.

46 City of Phoenix Comprehensive Annual Financial Report 2008; Interview with Cathleen Gleason, director, City of Phoenix Budget and Research Department, April 23, 2010.

47 Betty Reid, "8 Phoenix pools to be closed this summer," The Arizona Republic, May 16, 2010.

48 City of Pittsburgh 2009 Comprehensive Annual Financial Report; Interview with Michael Strelic, City of Pittsburgh City Council Budget Office, May 11, 2010.

49 From analysis of Pittsburgh pension plan filings by Chris Briem, University of Pittsburgh Center for Social and Urban Research, March 2010.

50 Interview with Bill Urbanic, budget director, City Council of City of Pittsburgh, April 22, 2010.

51 Joe Smydo, "Ravenstahl proposes tax on sugary drinks," Pittsburgh Post-Gazette, March 17, 2010; Adam Brandolph, "0.3 percent Pittsburgh work tax proposed," Pittsburgh Tribune-Review, May 7,2010; Rich Lord, "Private sector, city work on fiscal remedy," Pittsburgh Post-Gazette, May 7, 2010.

52 Chris Grygiel, "Buddy, can you spare $120 mil? Seattle's budget blues," SeattlePI.com, April 27, 2010.

53 Emily Heffter, "Budget gives libraries a break; Seattle City Council's 2010 spending plan; Parking fines to jump $4," Seattle Times, Nov. 17, 2009; interview with JoEllen Kuwamoto of Seattle Finance Department.

ACKNOWLEDGEMENTS

The Philadelphia Research Initiative would like to thank officials in the participating cities: Roosevelt Council Jr. in Atlanta; Thomas H. Kim in Baltimore; Meredith Weenick in Boston; Peter Scales in Chicago; Jane Dunham in Columbus; Janet Anderson in Detroit; Mark Thoma-Perry in Kansas City; David Luther and Todd Bouey in Los Angeles; Marc LaVorgna in New York; Rob Dubow and Stephen Agostini in Philadelphia; Cathleen Gleason in Phoenix; Bill Urbanic and Michael Strelic in Pittsburgh; and JoEllen Kuwamoto and Beth Goldberg in Seattle.

ABOUT THE AUTHOR

This report was written by Thomas Ginsberg, project manager of The Pew Charitable Trusts' Philadelphia Research Initiative. It was edited by project director Larry Eichel.

ABOUT THE PHILADELPHIA RESEARCH INITIATIVE

The Pew Charitable Trusts' Philadelphia Research Initiative provides timely, impartial research and analysis on key issues facing Philadelphia for the benefit of the city's citizens and leaders. Pew is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life.
www.pewtrusts.org/philaresearch