

A report from



THE PEW CHARITABLE TRUSTS

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# The Cost of Local Government in Philadelphia

Why the burden for the city's taxpayers is high

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## About this report

This report was researched and written by Steve Camp-Landis, an officer with The Pew Charitable Trusts' Philadelphia research initiative. It was edited by Larry Eichel, director of the initiative, Elizabeth Lowe, and Daniel LeDuc.

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The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life.

## Overview

Cities exist within a competitive world, and to prosper they must provide public services and amenities at a reasonable cost to taxpayers. Philadelphia is widely seen as having high taxes, which some civic leaders and analysts view as detrimental to the city's economic prospects. In this report, The Pew Charitable Trusts examines Philadelphia's tax burden and assesses the spending and other elements that drive it.

To make these assessments, the research looked at taxes and expenditures in 30 of the nation's most populous cities. It found that Philadelphia ranked in the top 10 in both taxes and spending per capita when taking into account every unit of local government that serves these locales. In Philadelphia's case, these units included city government, the school district, and independent agencies such as the Southeastern Pennsylvania Transportation Authority (SEPTA).

The research found that Philadelphia's status as both a city and county played a significant role in its rankings among the 30 cities, most of which are not also counties. This is due in part to Philadelphia's relatively high spending in several areas—including courts, health, welfare, and corrections—that are typically handled throughout the nation at the county level. In fact, Philadelphia's per capita spending on what are generally considered county functions was more than twice as high as the 30-city median. Most of the 30 cities with which Philadelphia is compared are part of larger counties that perform these functions and receive revenue from suburban areas where the tax bases tend to be healthier. In spending on services typically handled by cities—such as policing, fire protection, and sanitation—Philadelphia was near the 30-city median, although it was higher in several specific areas.

The analysis of the 30 cities—based on fiscal year 2015 data, the most recent at the time that this research was performed—relies on the Fiscally Standardized Cities (FiSC) database, created by the Lincoln Institute of Land Policy, located in Cambridge, Massachusetts. The database, which uses numbers collected by the U.S. Census Bureau's Annual Survey of State and Local Government Finances, includes all the funds raised and spent by all local governments serving each city, including the municipal government, school district, and special purpose districts for such functions as transit and parks, and, where applicable, the county that surrounds and includes the city.

Some of the other key findings include:

- In 2015, the local government bodies serving Philadelphia collected \$3,004 per capita in local taxes, the fifth-highest total among the 30 cities. This figure includes taxes on income, sales, property, and businesses, on residents and nonresidents; the City of Philadelphia imposes a broader range of taxes than most other municipalities. The local governments serving Philadelphia received \$6,303 per capita in revenue from all sources, including state and federal aid as well as local taxes, the seventh-highest total.
- The overall per capita expenditures for all local governments in Philadelphia was \$6,209 per capita, the eighth-highest total.
- Relative to the other cities, Philadelphia's spending on police and trash collection was high while its spending on highways, and parks and recreation, was low. All of these are classified as municipal functions in this analysis.
- Overall expenditures for public education in Philadelphia were \$1,689 per capita, 9 percent higher than the median.

In addition, the research showed that two other key factors influence the revenue and expenditure patterns in Philadelphia. One is that the city faces a high demand for services, due to relatively high crime and poverty rates. The other is that the city's tax base is low—well below the 30-city medians for property value, personal income, and retail sales. This makes generating funds to pay for local services seem more onerous by necessitating steeper tax rates than would be required in a jurisdiction with higher incomes and real estate values.

These factors, as well as Philadelphia's status as both a city and county, are the underlying institutional, fiscal, and demographic realities that are essential to understanding Philadelphia's tax burden, as well as the level of revenue and expenditures that produce it.

## Introduction

This report examines revenue and expenditures, as well as some other factors, that explain why Philadelphia's tax burden is relatively high among major U.S. cities. It considers how the per capita spending of all the local governments serving Philadelphia—in total, and for individual program categories—compares with the median of 30 of the 31 most populous U.S. cities. (Washington was excluded because of its unique governmental status, performing the functions of a city, a county, and a state.) To illuminate the drivers of taxation in cities, it also compares, for each major category, the amount of spending per capita that is supported by local tax dollars.

The comparisons consider the revenue and expenditures of all local governmental entities that serve city residents. The information is drawn from the FiSC database, which aggregates, for each city, the financial activity of all those entities.

Such a perspective is needed for comparative analysis because of the wide variation in how local governments are organized. Some cities are served by separate city and county governments, while others—such as Philadelphia—are both a city and a county. Public education may be provided by a school district, city government, or county. Cities also vary in the types of special districts that provide services to their community. The FiSC data aggregates spending and revenue by all these types of government, allowing for meaningful comparisons.

Most important, the FiSC concept replicates the experience of city residents, who pay taxes to and receive services from multiple local government entities.<sup>1</sup> In Philadelphia, the FiSC data represent spending and revenue by the city government, the School District of Philadelphia, and special districts such as SEPTA, the Philadelphia Housing Authority, and the Delaware River Port Authority.

Because the comparisons are based on revenue and expenditures in 2015, the most recent year available when the research began, this is a one-year snapshot, and the results for any other year might look somewhat different.

## Glossary of Terms

Throughout this report, the following terms are used to describe governmental organizations and finances:

**Consolidated city-county.** Local governments that serve simultaneously as municipal and county governments. Among the 30 comparison cities, nine are consolidated city-counties, including Philadelphia. The others are Baltimore; Denver; Indianapolis; Jacksonville, Florida; Louisville, Kentucky; Nashville, Tennessee; New York City; and San Francisco. New York City consists of five counties.

**County functions.** Functions that are generally the responsibility of county government, including courts, corrections, welfare, and public health.

**Intergovernmental revenue.** Revenue provided by one level of government to another, such as from the federal or state government to a city or county.

**Fiscally standardized city (FiSC).** A unit of analysis created by the Lincoln Institute of Land Policy. It includes revenue and expenditures of all local governments that provide services within a city's boundaries. In addition to the city government, these entities may include a county, one or more school districts, and multiple special districts. In cases where these governments also serve areas beyond the city boundaries, their revenue and expenditures are allocated to the fiscally standardized city based on the share of their population that resides within the city.

**Local government.** All units of government that provide services to city residents, including cities, counties, school districts, and special districts. Special districts can include any unit of government that provides a specific public service, such as transit, housing, or health care.

**Municipal functions.** Functions that are generally the responsibility of city government, such as police, fire, and trash collection.

**Other functions.** Functions that do not qualify as county functions, municipal functions, or education, and that are tracked by the Census Bureau and analyzed in this report.

**Per capita.** For each person. In this report, per capita calculations are made by dividing spending or revenue by the population of a city or county.

**Tax base.** The economic activity or wealth available to be taxed by local government. In this report, tax base is measured as real property value, personal income, or retail sales per capita.

**Tax burden.** This term can have several definitions. In this report, it is the overall tax revenue raised within a jurisdiction divided by the total population.

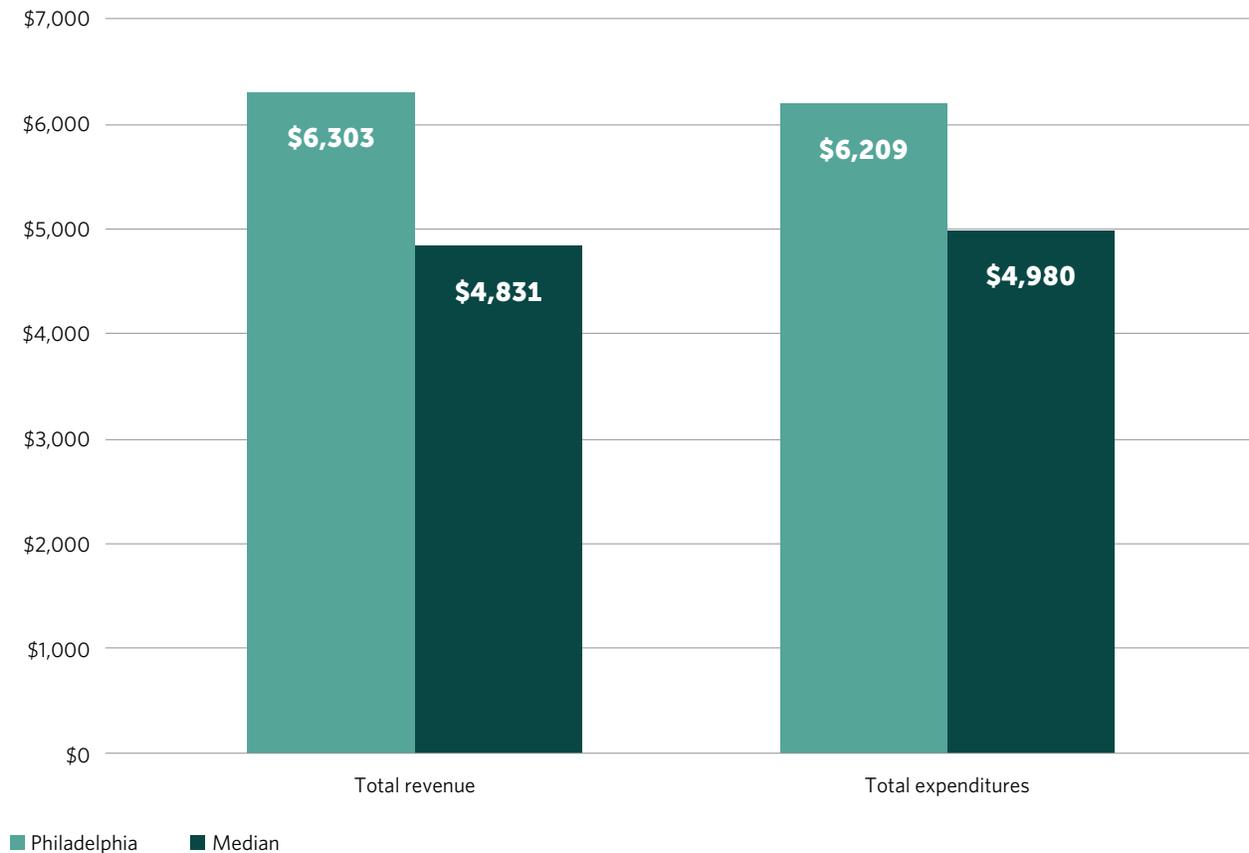
**User charges.** Revenue from charges that are paid by users of a local government service, such as trash collection fees, highway tolls, or transit fares.

## Taxes and revenue

Total revenue for local government entities in Philadelphia from all sources—including taxes, intergovernmental grants, and user charges—came to \$6,303 per capita in fiscal 2015, 30 percent higher than the 30-city median and seventh-highest among the cities. (See Figure 1.)

Figure 1

### Total Revenue and Total Expenditures Per Capita, FY 2015 Philadelphia and the median of 30 of the largest U. S. cities



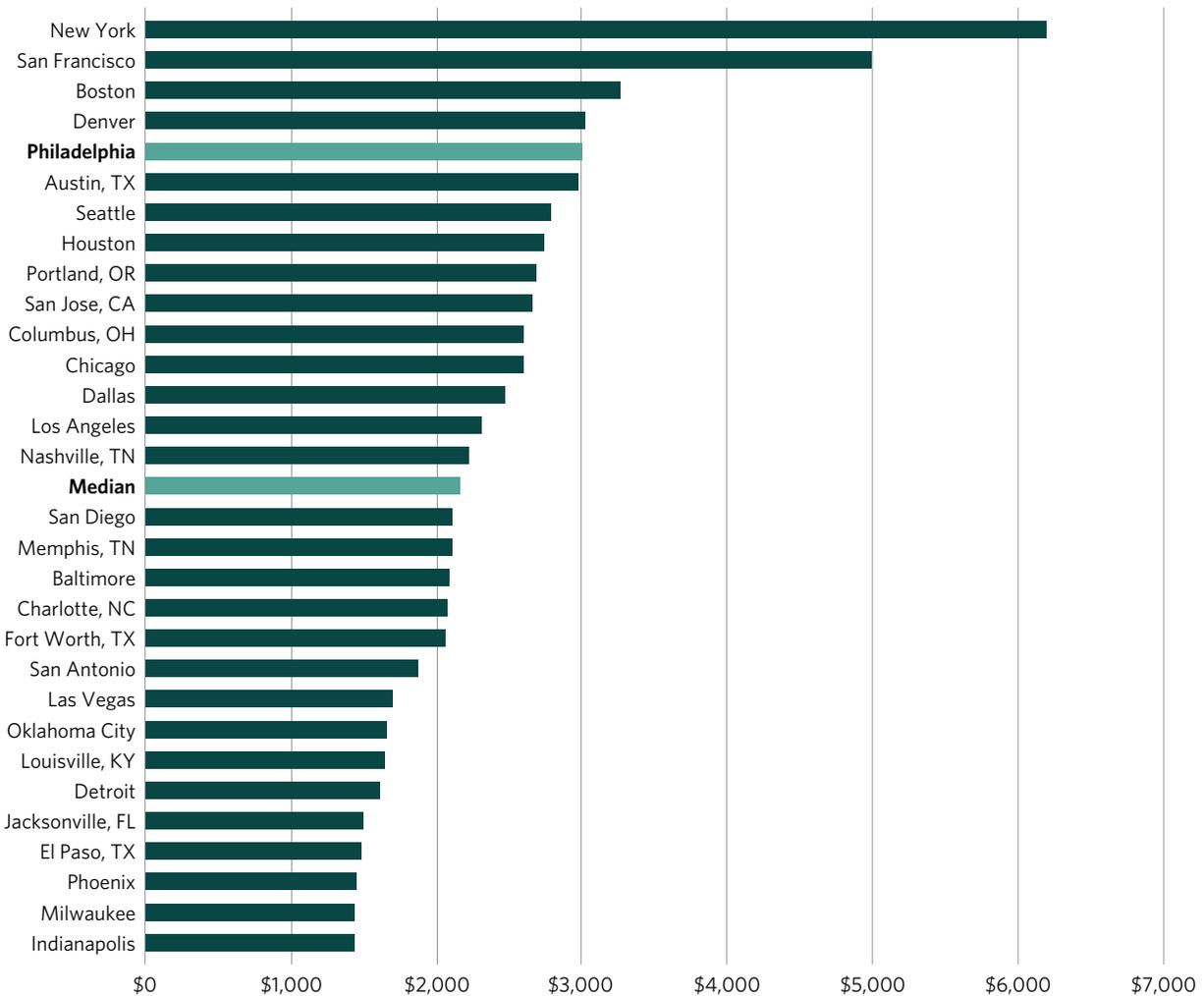
Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

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Philadelphia's local tax revenue totaled \$3,004 per capita in 2015, fifth-highest among the 30 comparison cities and 39 percent higher than the median. (See Figure 2.) The tax number for Philadelphia includes all taxes levied by the city, including those dedicated to the School District of Philadelphia.<sup>2</sup> Only New York City, San Francisco, Boston, and Denver collected more. Three of those four, like Philadelphia, are city-counties.

Figure 2

## Tax Revenue Per Capita in 30 of the Largest U.S. Cities, FY 2015



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

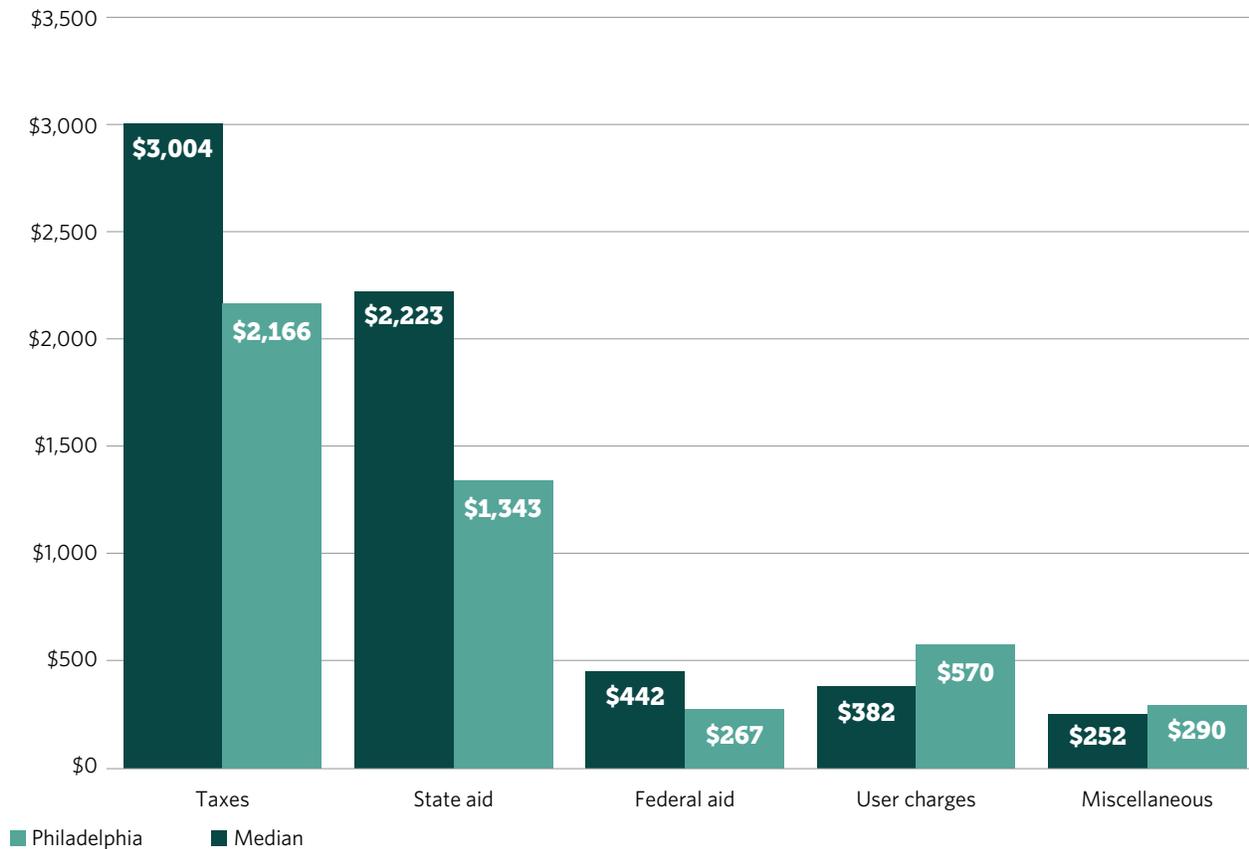
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For Philadelphia, the largest component of local governmental revenue other than local taxes was state aid. The city's local governmental entities received \$2,223 per capita in state aid in 2015, 65 percent higher than the median. (See Figure 3.) Because of the Census Bureau's methodology for reporting state aid, this amount includes both state and federal funds that pass through the state government to local jurisdictions.

Other major categories of local revenue in Philadelphia were direct federal aid, user charges, and miscellaneous revenue. Direct federal aid was \$442 per capita, 66 percent above the 30-city median. User-charge revenue was \$382 per capita, 33 percent below the median. Miscellaneous revenue—including interest earnings, fines, and revenue from special assessments and asset sales—was \$252 per capita in Philadelphia, 13 percent below the median.

Figure 3

## Total Revenue Per Capita by Category, FY 2015 Philadelphia and the median of 30 of the largest U. S. cities



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

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### Taxes

Compared with the other cities, Philadelphia has an unusual tax portfolio. Although all the comparison FISCs have property taxes and some form of a sales tax, only seven have an individual income tax and just four have a corporate income tax. Philadelphia, New York City, and Louisville, Kentucky, are the only places where local governments receive revenue from all four major tax categories: property, sales, individual income, and corporate income.

Philadelphia's local governments are also unusual in terms of how much revenue they receive from these sources. Thirty-five percent of tax revenue is generated by the individual income tax and 10 percent by the corporate income tax. Local governments in only two of the other 29 cities—Columbus, Ohio, and Louisville, Kentucky—receive a higher percentage of tax revenue from individual income taxes, and only New York City collects a greater percentage of tax revenue from corporate taxes.

And Philadelphia's dependence on the property tax is low. Twenty-five percent of tax revenue is generated by the property tax, the lowest proportion of any of the cities. The median is 65 percent.

In Philadelphia's case, several of these taxes are not paid exclusively by city residents. Taxes imposed by the city on earned income—the wage, earnings, and net profits taxes—also apply to nonresidents who work in the city; their contributions reduce the tax burden on residents. The city's business income and receipts tax applies to all businesses operating within the city.

## Intergovernmental aid

Philadelphia's local governmental entities receive a relatively high level of aid from the federal and state governments: \$2,665 per capita, 52 percent higher than the 30-city median. The greatest component of intergovernmental aid is assistance for education, \$1,189 per capita, which exceeds the median by 47 percent.

Overall, the pattern of federal and state aid to local government in Philadelphia reflects the city's pattern of expenditures—high levels of spending in relation to other FiSCs for education, health and hospitals, public welfare, housing and community development, and mass transit, and a lower level for highways. These expenditure patterns are described later in the report.

## User charges

Another source of local revenue is user charges, which people pay directly for services they use.

Total user-charge revenue in Philadelphia was \$382 per capita, which was 33 percent below the 30-city median. Philadelphia's user-charge revenue was relatively high in transportation-related categories—fares to use SEPTA's bus and rail services, and tolls to cross bridges operated by the Delaware River Port Authority. But user charges were low or virtually nonexistent in solid waste management, parks and recreation, education, and housing and community development. In many other cities, local governments receive higher fee revenue in those areas. In addition, Philadelphia was one of the relatively few cities that do not operate a public hospital; hospital charges represent a significant revenue source in some cities. (See Table 2 in the Appendix for more detail on revenue sources by city.)

## Expenditures

Total expenditures for the local governmental entities serving Philadelphia in 2015 were \$6,209 per capita, 25 percent above the median and eighth-highest among the 30 cities. These expenditures included spending for most services that are provided by local governments across the comparison cities. Certain functions that are financed primarily by user fees were excluded from the analysis. (See the methodology section for more information on the excluded functions.)

### Expenditures by program

The Census Bureau's statistics on government finances provide information on expenditures across multiple functional categories, representing the full range of activity. This analysis focuses only on local government functions and divides them into four broad categories—municipal, county, education, and other, defined as follows:

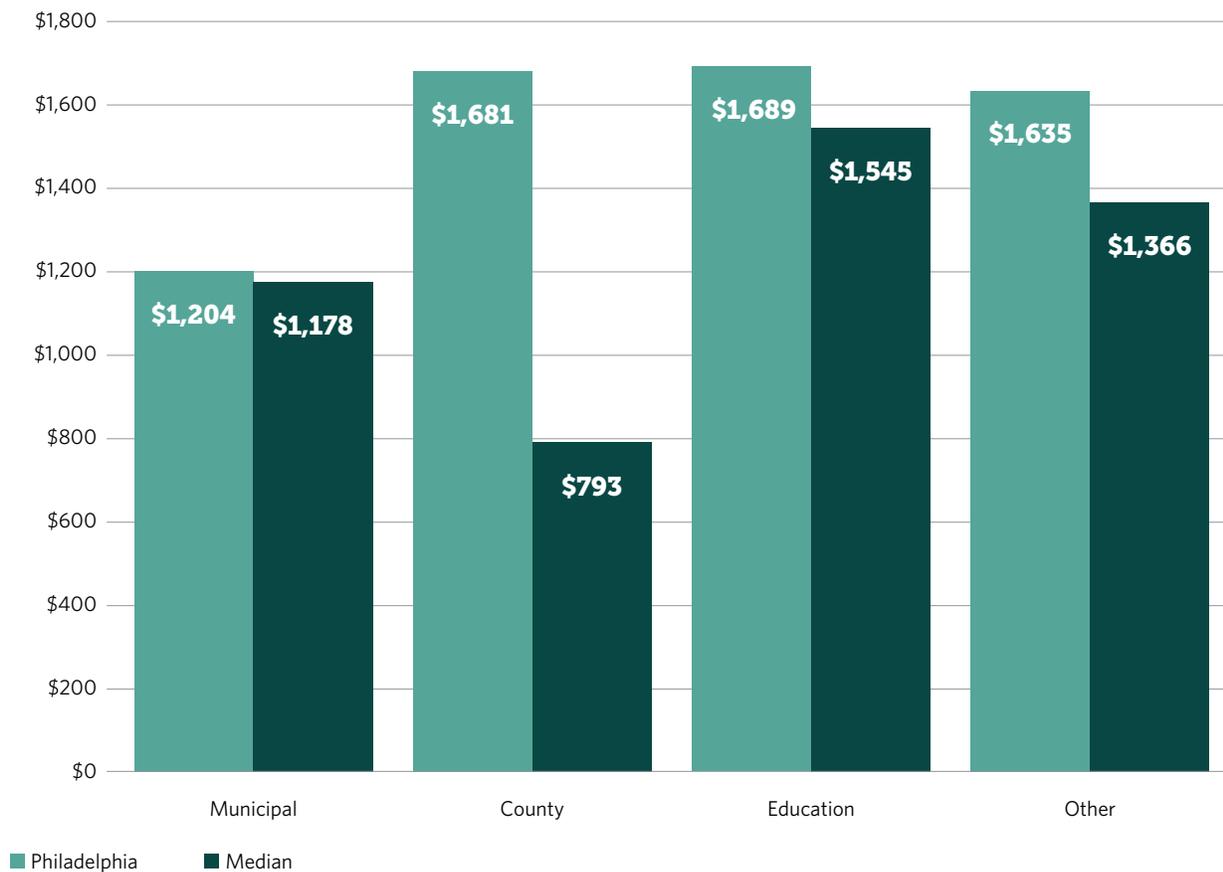
- **Municipal.** Police, fire, solid waste management, inspection and regulation, parking, highways, parks and recreation, and libraries. These are functions generally performed by city or city-county governments.
- **County.** Public welfare, health, hospitals, corrections, and judicial and legal, all of which are usually the responsibility of county or city-county governments.

- **Education.** Elementary, secondary, and higher education.
- **Other.** Public transit, housing and community development, natural resources, financial administration, multi-function public buildings, other government administration, interest on general debt, and “other and unallocable” expenses.<sup>3</sup>

The basis of classifying functions into each of these four categories is described in more detail in the methodology.

As shown in Figure 4, Philadelphia’s county program spending was \$1,681 per capita, more than twice the median. Its municipal program spending, on the other hand, was \$1,204 per capita, only slightly higher than the median. For education and other programs, Philadelphia’s spending was greater than the median, but the gap was not as large as in the case of the county programs. See Table 1 in the Appendix for more detail on each city’s spending by program category.

Figure 4  
**Total Expenditures Per Capita by Program Category, FY 2015**  
 Philadelphia and the median of 30 of the largest U.S. cities



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

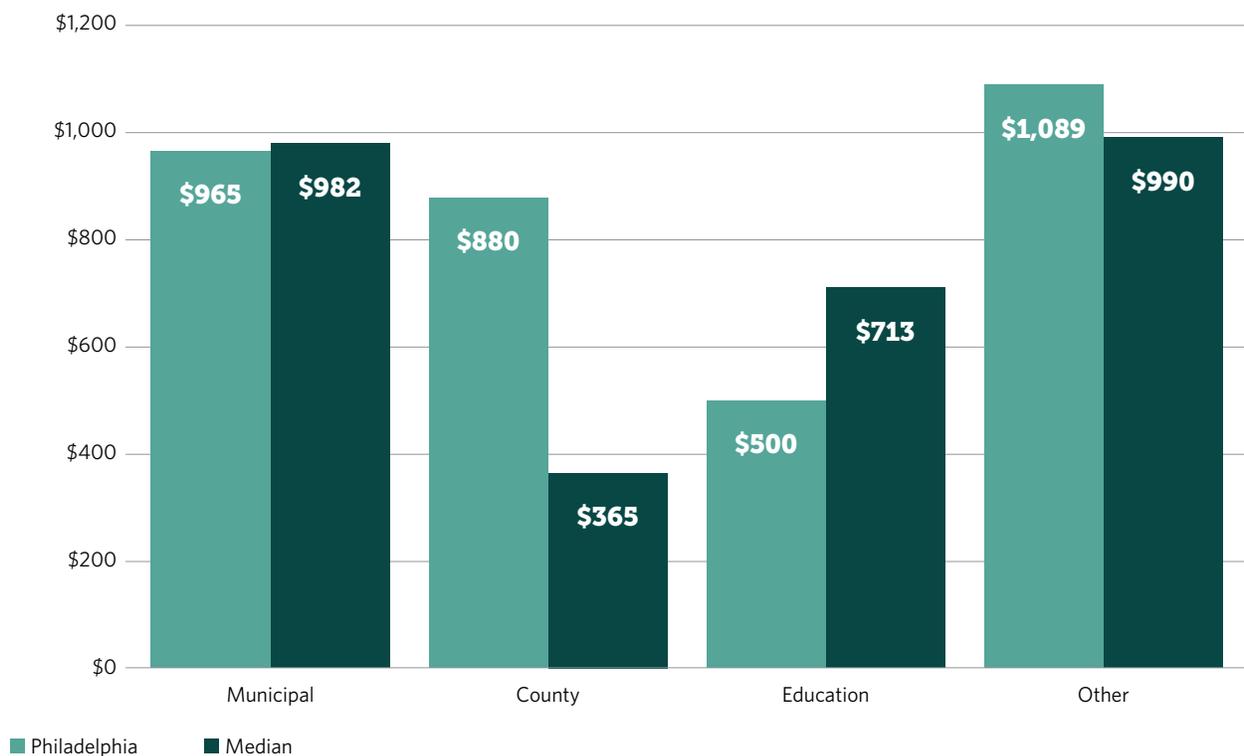
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To assess how much each program category contributed to local tax burdens in Philadelphia and the other cities, Pew calculated the level of spending financed by local tax revenues by subtracting user charges as well as federal and state aid from total expenditures.<sup>4</sup>

In Philadelphia, local tax-supported expenditures are below the median for municipal and education programs and above the median for county and other functions. The largest difference between Philadelphia and the median is in the county category, where Philadelphia's total in 2015 was more than twice the median. (See Figure 5.)

It is important to note that these expenditures do not represent the amount of tax support received from residents only, because local taxes may be paid by businesses, residents, and nonresidents.<sup>5</sup>

**Figure 5**  
**Local Tax-Supported Expenditures Per Capita by Program, FY 2015**  
Philadelphia and the median of 30 of the largest U.S. cities



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

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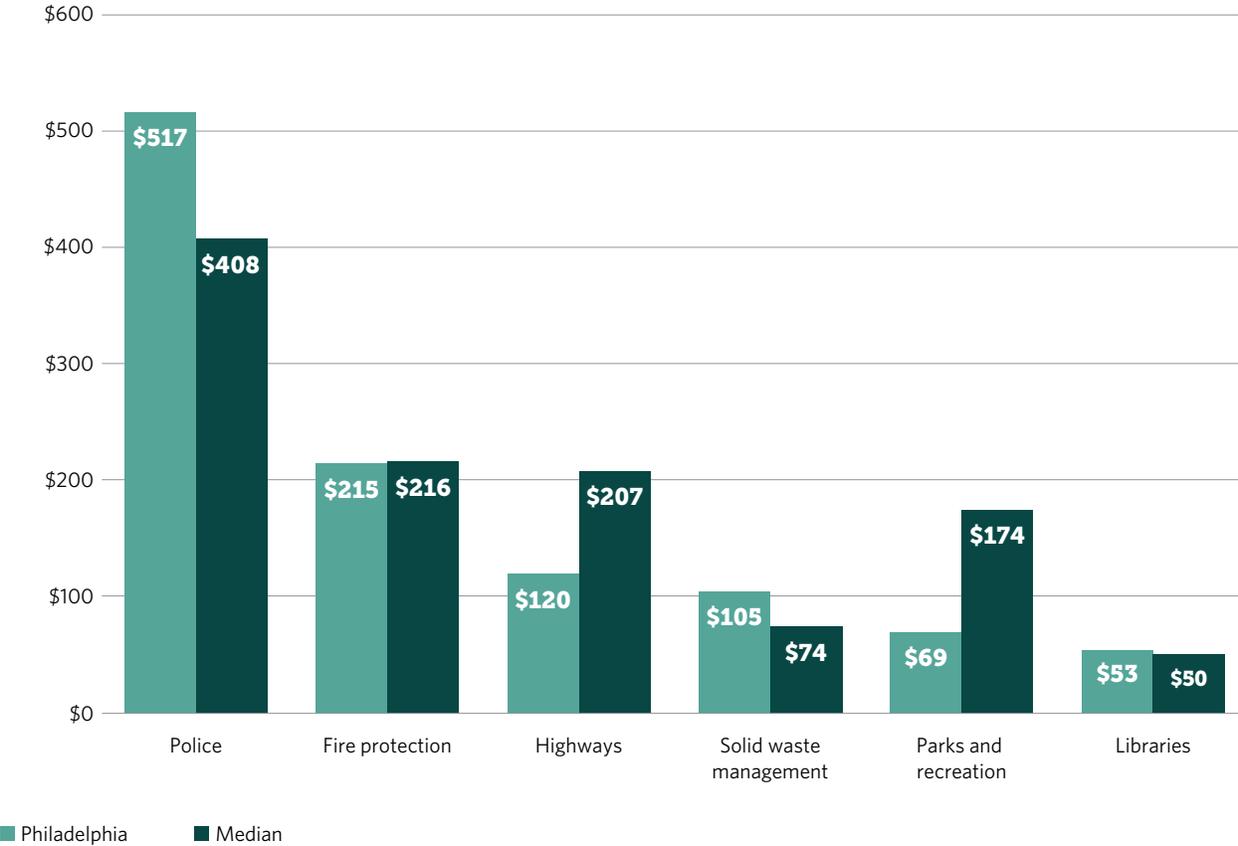
In the sections that follow, expenditures within each program category are discussed in more detail.

# Municipal programs

In Philadelphia, total spending on municipal programs in 2015, as shown in Figure 4, was \$1,204 per capita, marginally above the median.

Within the municipal category, Philadelphia’s total expenditures for police and solid waste management were relatively high, while expenditures for highways and parks and recreation were low. Expenditures for fire protection and libraries were close to the median. (See Figure 6.) Data for municipal expenditures in each city are provided in Appendix Table 3.

Figure 6  
**Municipal Expenditures Per Capita by Major Program Category, FY 2015**  
 Philadelphia and the median of 30 of the largest U.S. cities



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

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**Police.** Philadelphia's expenditures in this category were \$517 per capita, 27 percent higher than the median. The category includes the work of the police department and the medical examiner's office. In fiscal 2019, the police department's general fund operating budget was \$709 million.<sup>6</sup>

**Fire protection.** In 2015, Philadelphia spent \$215 per capita for fire protection, which is essentially at the median. This category includes fire suppression and prevention activities as well as emergency medical services provided by the fire department, and the costs of facilities that are exclusively dedicated to fire protection.

**Solid waste management.** This is another category in which Philadelphia's costs were relatively high; the city's spending of \$105 per capita was 41 percent above the median. Solid waste management includes collection of solid waste and recyclables, operation of landfills and incinerators, and street cleaning. In Philadelphia, these services are provided by the Streets Department.

**Highways.** Philadelphia spent \$120 per capita, 42 percent below the median. The category includes operation, maintenance, design, and construction of streets, highways, bridges, tunnels, and related infrastructure as well as snow removal. In Philadelphia, these functions are performed by the Streets Department and the Delaware River Port Authority. Philadelphia's low ranking was due in part to the relatively low expenditures on capital investments. Local highway capital expenditures were \$28 per capita, 66 percent below the median.

In fiscal 2017, the last year for which detailed data were available, the Streets Department's operating expenditures were \$56 million for highway programs, including road maintenance and repair, traffic management, street lighting, and engineering and design. The department's capital spending totaled \$32 million for streets, highways, street lighting, and bridge projects.<sup>7</sup>

**Parks and recreation.** Philadelphia's expenditure amounted to \$69 per capita in 2015, 60 percent below the median; only Louisville and Houston spent less. In Philadelphia, this category includes the work of Philadelphia Parks & Recreation, the Office of Arts and Culture and the Creative Economy, and the city's financial support for the Philadelphia Museum of Art and the Pennsylvania Convention Center.

**Libraries.** Philadelphia's public library spending in fiscal 2015 was \$53 per capita, 6 percent above the median. For Philadelphia, this category covers programs provided by the Free Library of Philadelphia.

## County programs

Spending for county programs in Philadelphia—public welfare, health, courts, and corrections—was comparatively high. Variations in spending among cities reflect differences in the need for these services and how much responsibility county governments have in administering and financing these programs. In Philadelphia, high levels of need for human services and criminal justice programs, as well as the relatively large role in paying for them that Pennsylvania assigns its counties, contribute to high county-program spending.

Total expenditures for county programs were \$1,681 per capita in Philadelphia, the sixth-highest among the 30 cities—behind San Francisco; Charlotte, North Carolina; New York City; San Jose, California; and Denver—and more than twice the median amount of \$793 per capita.

For the nine cities in the comparison group that are consolidated city-counties, the per capita expenditure for county functions is simply the expenditure of the city-county government divided by population. For the 21 cities that are not city-counties, the FISC database allocates a portion of county expenditures to the city based on the percentage of county residents who live in the city. The total allocated expenditures for each county function are divided by the city's population to determine the per capita spending for that function.

Whether individual programs are run by the counties varies by state, as does the amount and distribution of funding provided to pay for them. Both types of decisions—administrative and financial—affect the level of tax revenues required to support a program.

### Consolidated City-Counties

Most American cities are inside a separate county. Chicago is part of Cook County; Pittsburgh is part of Allegheny County. Residents of these cities pay taxes to both their city and county governments and receive services from both.

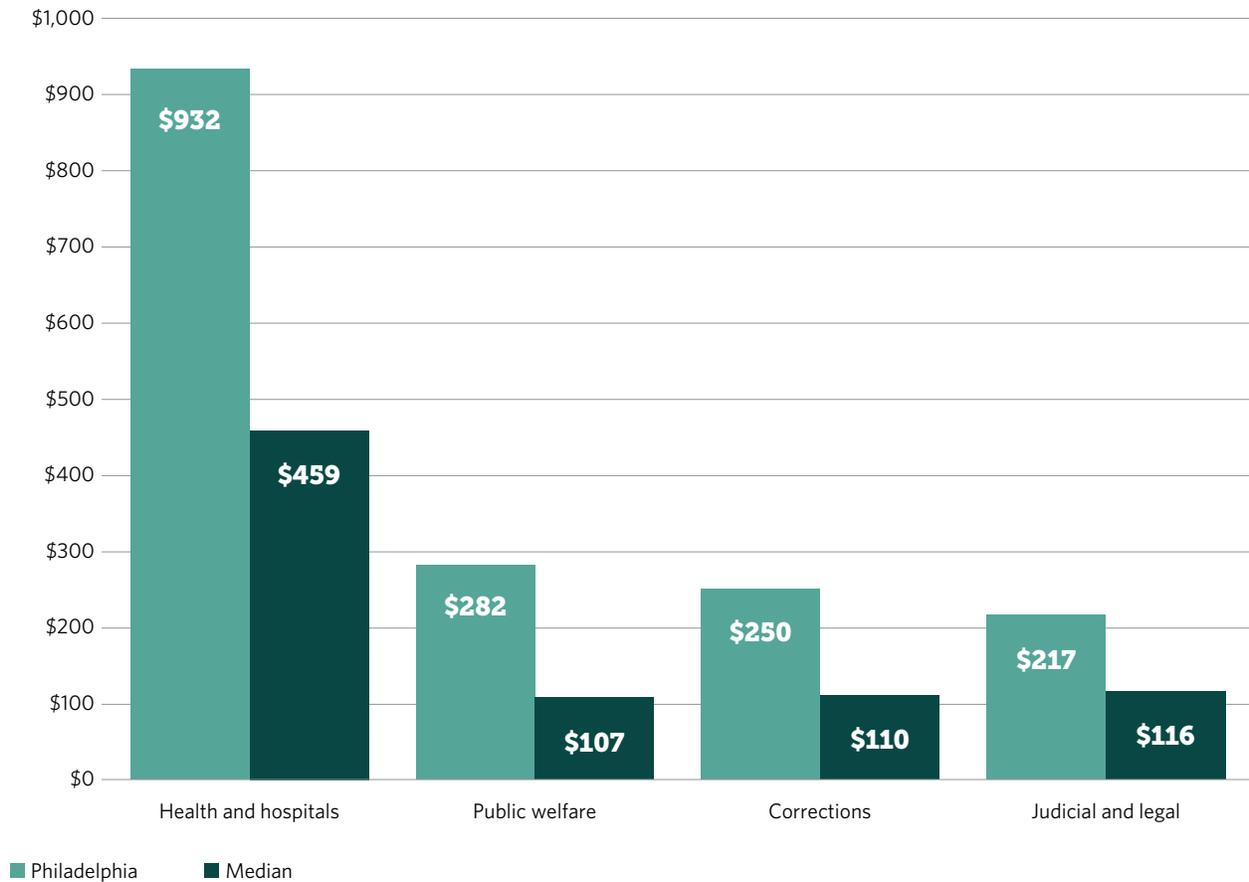
Nine of the 30 cities in this report, including Philadelphia, are not part of separate counties. They are consolidated city-counties, which means they must perform all the functions typically handled at the county level—such as courts, corrections, and public health—as well as the traditional municipal functions that include police, fire, and sanitation. And they must do so without any financial assistance from county taxes paid by residents and businesses in the surrounding suburbs.

Among the nine city-counties in this report, five have maintained this status for 100 years or more and are highly urbanized; they are Baltimore, Denver, New York City (which is made up of five counties, also known as boroughs), Philadelphia, and San Francisco.<sup>8</sup> The other four—Indianapolis; Jacksonville, Florida; Louisville, Kentucky; and Nashville, Tennessee—became city-counties more recently as a result of mergers between their core cities and the surrounding areas. In these cases, a few small, local jurisdictions remain separate.

Philadelphia's expenditures were high in each of the four categories of county programs. Expenditures per capita were more than twice the median in public welfare, health and hospitals, and corrections, and 87 percent above the median for judicial and legal programs.<sup>9</sup> (See Figure 7.) Data for per capita county expenditures in each city are provided in Appendix Table 4.

Figure 7

## County Expenditures Per Capita by Program Category, FY 2015 Philadelphia and the median of 30 of the largest U.S. cities



Source: Lincoln Institute of Land Policy, Fiscally Standardized Cities database

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**Health and hospitals.** Philadelphia's total expenditures in this category were \$932 per capita, approximately twice the median. This category includes public health, substance abuse and behavioral health services, community health clinics, health-related regulation, the cost of operating a government's own hospitals, and support provided to other public or private hospitals. In Philadelphia, these programs are operated primarily by two departments: Public Health, and Behavioral Health and Intellectual disAbility Services.

Philadelphia's relatively high spending in this category reflects its role in administering the behavioral health portion of the Medicaid program, a role that is unusual among the comparison cities. As of July 2015, Pennsylvania was one of 13 states that opted to provide behavioral health services under the Medicaid program on a "carved out" basis, meaning that services were provided and financed separately from other medical services.<sup>10</sup> Further, the state provides county governments the opportunity to directly administer these services.

Since 1997, Philadelphia has administered Medicaid behavioral health services through Community Behavioral Health, a nonprofit corporation contracted by the city government. In fiscal 2015, the city's expenditures for this program exceeded \$800 million.<sup>11</sup>

Philadelphia also incurs expenditures for substance abuse and behavioral health services provided outside the Medicaid program. All Pennsylvania counties provide these services, which are funded through federal and state grants and local revenues.

In Philadelphia, local government's role in providing primary health care is different than in some other jurisdictions. Twenty of the comparison cities make some expenditures related to public hospitals. Philadelphia is among the 10 that make no such expenditures; it has not operated a public hospital since 1977, when Philadelphia General Hospital closed.<sup>12</sup> It does operate community health centers that provide primary care in neighborhoods.

**Public welfare.** In Philadelphia, total public welfare expenditures were \$282 per capita, more than twice the median. This category includes cash and in-kind assistance programs, vendor payments for medical care and other services to children and people in need, costs for public welfare institutions such as nursing homes, and services for children and the homeless. In Philadelphia, these programs are provided by the city's Department of Human Services, Office of Homeless Services, and Department of Public Health.

**Corrections.** Philadelphia's corrections expenditures were \$250 per capita, more than twice the median. This category covers facilities for detention of adults and juveniles, including those awaiting trial, and offices of probation and parole. In Philadelphia, these services are the responsibility of the Department of Prisons, the Juvenile Justice Services Division of the Department of Human Services, and the First Judicial District of Pennsylvania.

Variations in corrections expenditures among cities reflect differences in the role of local jails, as well as differences in the prison populations. Among the counties that serve the comparison cities, Philadelphia's incarceration rate in 2015 was the highest.<sup>13</sup> Jails in Philadelphia and throughout Pennsylvania house inmates with sentences of up to two years, while in other states, jails often house only inmates with sentences of no more than one year.<sup>14</sup> In all jurisdictions, jails house pretrial detainees.

States also vary in the organization and funding of probation and parole programs.<sup>15</sup> Administrative responsibility for these programs may reside with a state's department of corrections, another state agency, county departments of corrections, or within the judiciary. In Pennsylvania, probation and parole administration is shared by the state and county governments.<sup>16</sup> Funding for probation is decentralized in Pennsylvania, with counties providing more than half the funding for local probation offices in fiscal 2014.<sup>17</sup>

**Judicial and legal.** Philadelphia's expenditure for judicial and legal services was \$217 per capita, 87 percent higher than the median. This category covers courts and activities related to courts, including prosecuting attorneys, public defenders, child support enforcement, court activities of sheriff's offices, register of wills or probate activities, and agencies that provide legal services for government itself. In Philadelphia, these services come from the First Judicial District of Pennsylvania, as well as the offices of the district attorney, sheriff, and register of wills, and the Law Department. The city also provides financial support to the Defender Association of Philadelphia, a nonprofit organization that offers legal representation for those unable to afford it.

It is not possible to determine from the Census Bureau data why Philadelphia's expenditures in this category are relatively high, although crime and caseloads are likely factors. Compared with the counties serving the comparison cities, Philadelphia's violent crime rate was 75 percent above the median, and the fifth-highest among the 30 counties.<sup>18</sup>

The differences in spending also reflect variations in court organization and funding. In some cities, some local court costs are funded directly by the state and are not included in the local court budget. For instance, in Massachusetts, the local court system is entirely state-funded, and there are no local expenditures for judicial programs.

In Pennsylvania, the state directly funds salaries and benefits for the judges of the county trial courts and the costs of the statewide court information technology system. The state also reimburses counties for certain other court costs that are incurred locally. Such court costs not reimbursed by the state are funded through a combination of local taxes and revenues from court-generated fines and fees.

## Education programs

Philadelphia's education expenditure was \$1,689 per capita, 9 percent higher than the median.<sup>19</sup> The category, which primarily covers elementary and secondary education, includes instruction, school lunch, transportation, vocational and special education, libraries, facility maintenance, and payments to charter schools.<sup>20</sup> In Philadelphia, these expenditures were made by the School District of Philadelphia.

## Other programs

Programs in this category include public transit, housing and community development, natural resources, financial administration, multi-function public buildings, other administration, interest on general debt, and miscellaneous programs. Total expenditures on such programs in Philadelphia in 2015 were \$1,635 per capita, 20 percent higher than the median. They included expenditures by the city government and the Philadelphia Housing Authority for housing and community development, by SEPTA and the Delaware River Port Authority for mass transit, and for interest on general debt by the city, school district, SEPTA, and other special districts.

See Appendix tables 1, 3, and 4 for additional information on spending in Philadelphia and the comparison cities by program category.

## Factors influencing Philadelphia's taxing and spending patterns

Multiple factors contribute to Philadelphia's taxing and spending patterns. Among them are the city's relatively high service needs, the administrative responsibilities delegated by the state of Pennsylvania, the costs of labor, and fiscal capacity. These factors contribute to the city's relatively high spending, tax revenues, and tax rates.

### Need for service

The need for service is a critical factor affecting service levels and expenditures. Two measures of need for local programs are poverty and crime. In 2015, Philadelphia's poverty rate ranked fourth among the 30 comparison cities, behind only Detroit, Milwaukee, and Memphis, Tennessee.<sup>21</sup> And the city's 2015 violent crime rate was the seventh-highest among the 30 cities.<sup>22</sup>

Research suggests that poverty affects not only the need for social programs such as public welfare, health, and housing, but also programs not directly related to poverty, such as police and fire services.<sup>23</sup> One study on Philadelphia found that the cost of poverty-related programs to city taxpayers in fiscal 2002 was \$343 million.<sup>24</sup> In 2015 dollars, that would be \$458 million.<sup>25</sup>

Some of the services that Philadelphia provides to low-income residents—such as child welfare and behavioral health services—stem from state mandates and are accompanied by substantial state funding. The impact of poverty on local taxes is especially significant in social program areas where the city provides services that are not mandated or fully funded by the federal or state governments. Two examples are the district health centers and homeless programs, on which Philadelphia spends \$59 million and \$81 million, respectively. The city's decision to provide these programs reflects local officials' assessments of the needs of city residents.<sup>26</sup>

Philadelphia's crime rate also affects the need for criminal justice services. A 2012 study by the Center for American Progress found that violent crime in Philadelphia resulted in a direct budgetary cost of \$351 million for police, courts, and corrections.<sup>27</sup>

Research conducted outside Philadelphia has found that crime rates affect incarceration rates and court caseloads, factors that are key drivers of spending for corrections, courts, prosecutors, and public defenders.<sup>28</sup>

## Fiscal capacity

A second factor that influences spending and taxes is the fiscal capacity of local government. Fiscal capacity is the amount of resources available to be taxed, whether it be individual income, business activity, real estate, or retail sales. Local governments with high fiscal capacity can provide a high level of services without levying high tax rates.

Three of the major tax bases for the comparison cities are property, personal income, and sales. On each of these measures of fiscal capacity, Philadelphia is weak.

Consider real estate. Philadelphia's market value of taxable property per capita was \$58,012 in 2015, 22 percent below the median of \$74,429 among the comparison cities. Philadelphia ranked 21st in the measure.<sup>29</sup> (See Figure 8)

Figure 8

## Personal Income and Market Value of Real Property Per Capita, FY 2015

Philadelphia and the median of 30 of the largest U.S. cities



Source: U.S. Census Bureau, American Community Survey, 2015 one-year estimates, Comprehensive Annual Financial Reports

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Another indicator of the tax base is personal income. Philadelphia’s per capita income in 2015 was \$23,961, 16 percent below the median of \$28,519 among the comparison cities. Measured against other counties, Philadelphia’s personal income was 20 percent below the median of \$29,988.

Retail sales also are a measure of fiscal capacity; local governments in every comparison city rely on a sales tax to generate revenue. In 2012, the last year for which comparative data were available, Philadelphia’s retail sales totaled \$12,907 per capita, 35 percent below the median.<sup>30</sup>

## County responsibilities in Pennsylvania

State policy also has an impact on local tax and spending patterns in two important areas: how much responsibility the state delegates to counties and how much the state funds local governments.<sup>31</sup>

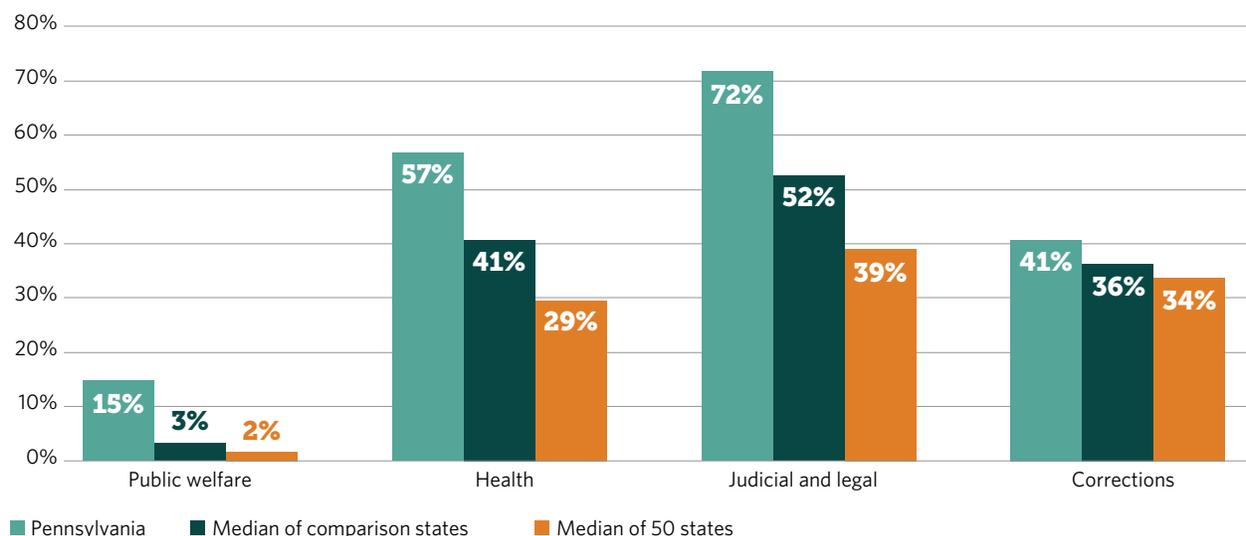
Relative to other states, Pennsylvania gives its counties a substantial level of administrative and financial responsibility, including providing and funding services in public welfare, health, the local court system, and corrections. Figure 9 shows the percentage of overall spending for county functions assumed by local governments in Pennsylvania, as well as the median of the 21 states that include at least one of the 30 comparison cities in this report and the median of all 50 states.<sup>32</sup>

In each program category, local governments in Pennsylvania are responsible for a greater share of overall state and local direct spending. The high level of financial responsibility that Pennsylvania delegates to its local governments for these functions directly affects Philadelphia.

Figure 9

### Local Direct Expenditures as a Percentage of State and Local Expenditures for County Functions, FY 2015

Pennsylvania compared with other states



Source: U.S. Census Bureau, Annual Survey of State Government Finances

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## City-county status

As noted earlier, Philadelphia's spending on county functions in 2015 was high in comparison to other cities. The impact of this spending on local taxpayers was heightened by Philadelphia's status as a city-county.

City-counties must rely on a single tax base to finance both municipal and county functions; in other locales, county functions are financed by a broader tax base. In addition, the factors that influence the need for county programs—such as those related to poverty and crime—may be greater in city-counties because they do not include suburbs, which generally have lower needs in these areas.

In terms of the tax base, two key measures are the values of taxable real property and personal income. Among the comparison cities that are not city-counties, the counties had higher per capita taxable real estate values than the cities inside them in 13 of 21 cases.<sup>33</sup> The same was true for the counties' per capita personal incomes.

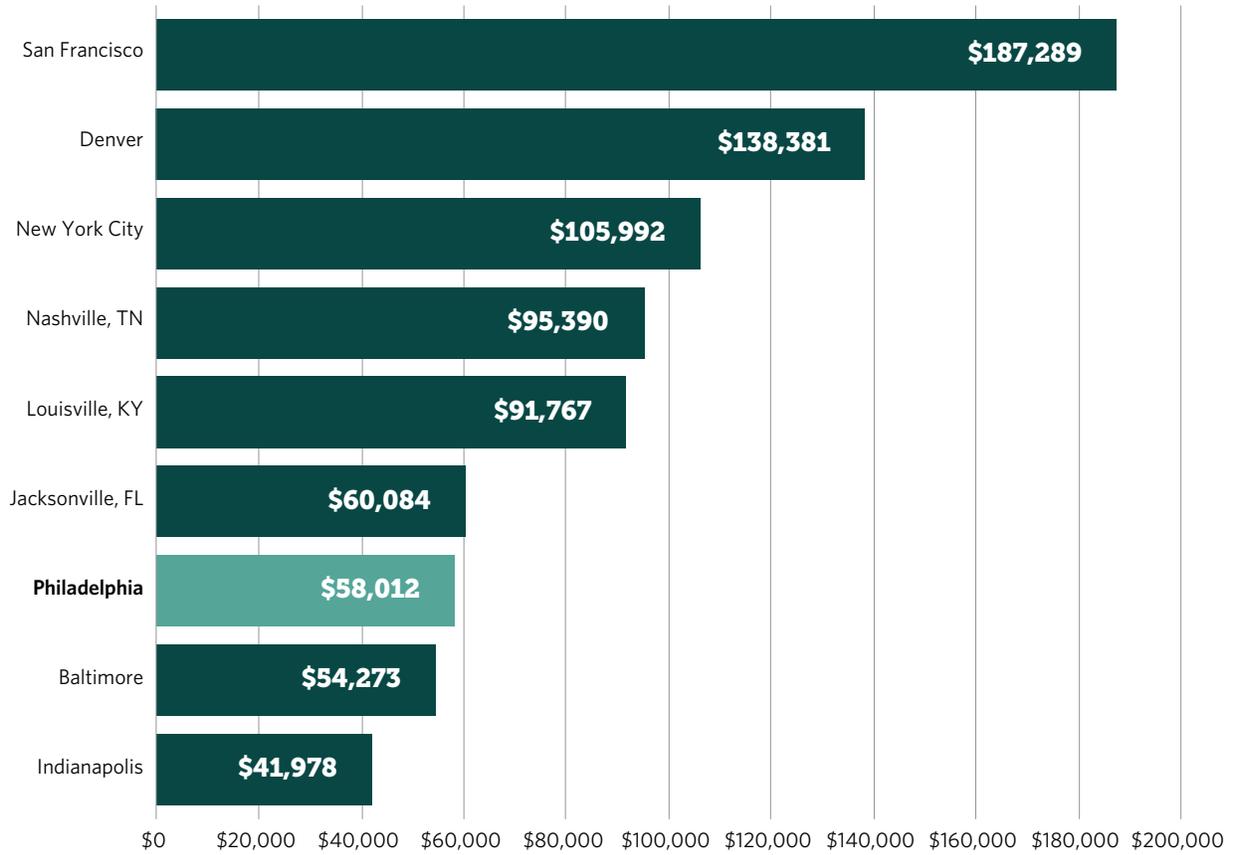
In terms of the factors that influence the need for services, among the 21 cities that are not consolidated city-counties, the countywide poverty rate was lower than the city poverty rate in every case except El Paso, Texas. The countywide crime rate was lower than the city rate in every case.

City-county status may be especially burdensome in Philadelphia. Based on its poverty rate, crime level, and tax base, Philadelphia appears confronted by challenges that some of the other city-counties do not face.

Among the nine city-counties in this study, Philadelphia's per capita market value of taxable property ranks seventh. The city's per capita income was the lowest of the nine city-counties. (See Figures 10 and 11.)

Figure 10

## Market Value of Taxable Real Property Per Capita in Consolidated City-Counties, FY 2015

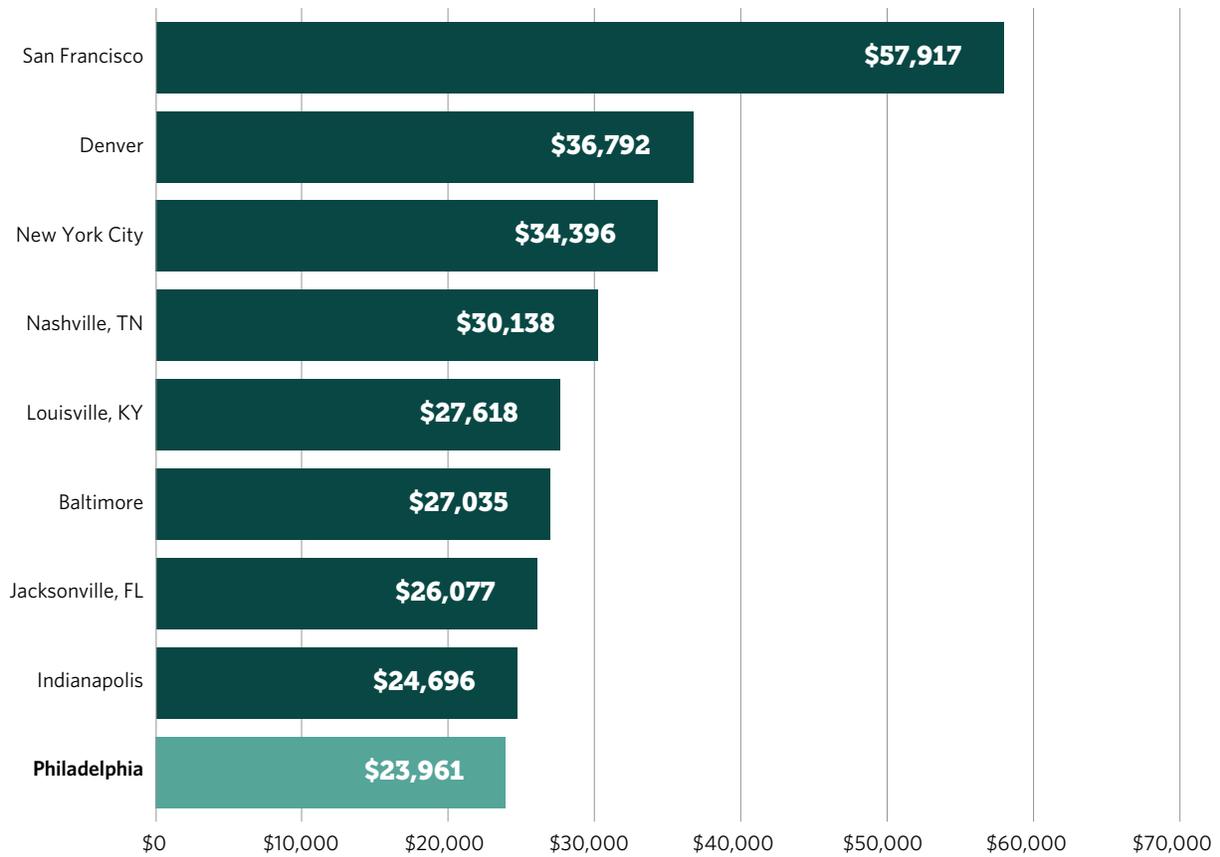


Source: U.S. Census Bureau, American Community Survey, 2015 one-year estimates, Comprehensive Annual Financial Reports

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Figure 11

## Personal Income Per Capita in Consolidated City-Counties, FY 2015



Source: U.S. Census Bureau, American Community Survey, 2015 one-year estimates

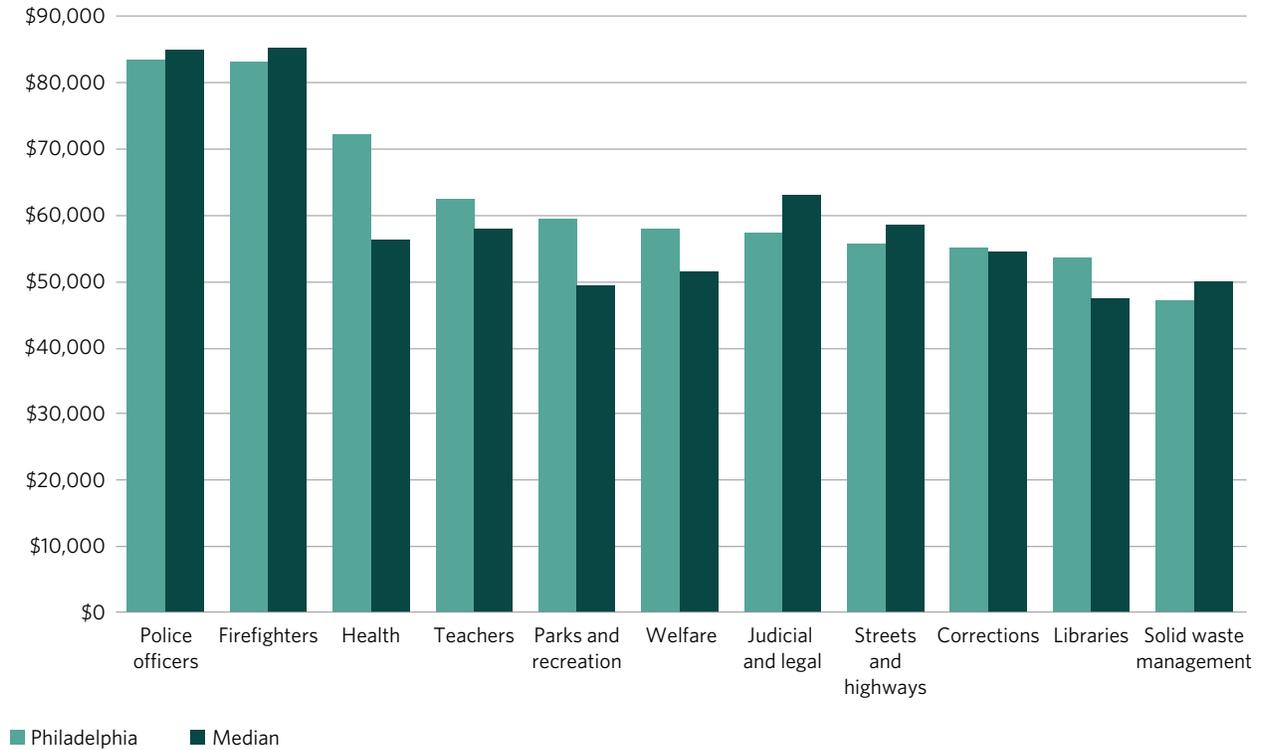
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### Labor costs

The cost of labor appears to be a factor in Philadelphia’s relatively high local government spending, primarily due to the cost of employee benefits. Analysis of Census Bureau payroll data for Philadelphia and comparison cities and counties found salaries for local government employees in Philadelphia to be close to the median, although somewhat higher for some functions and lower for others.<sup>34</sup> (See Figure 12.)

Figure 12

## Average Wages Per Full-Time Employee by Occupation Philadelphia and the median of comparison cities or counties



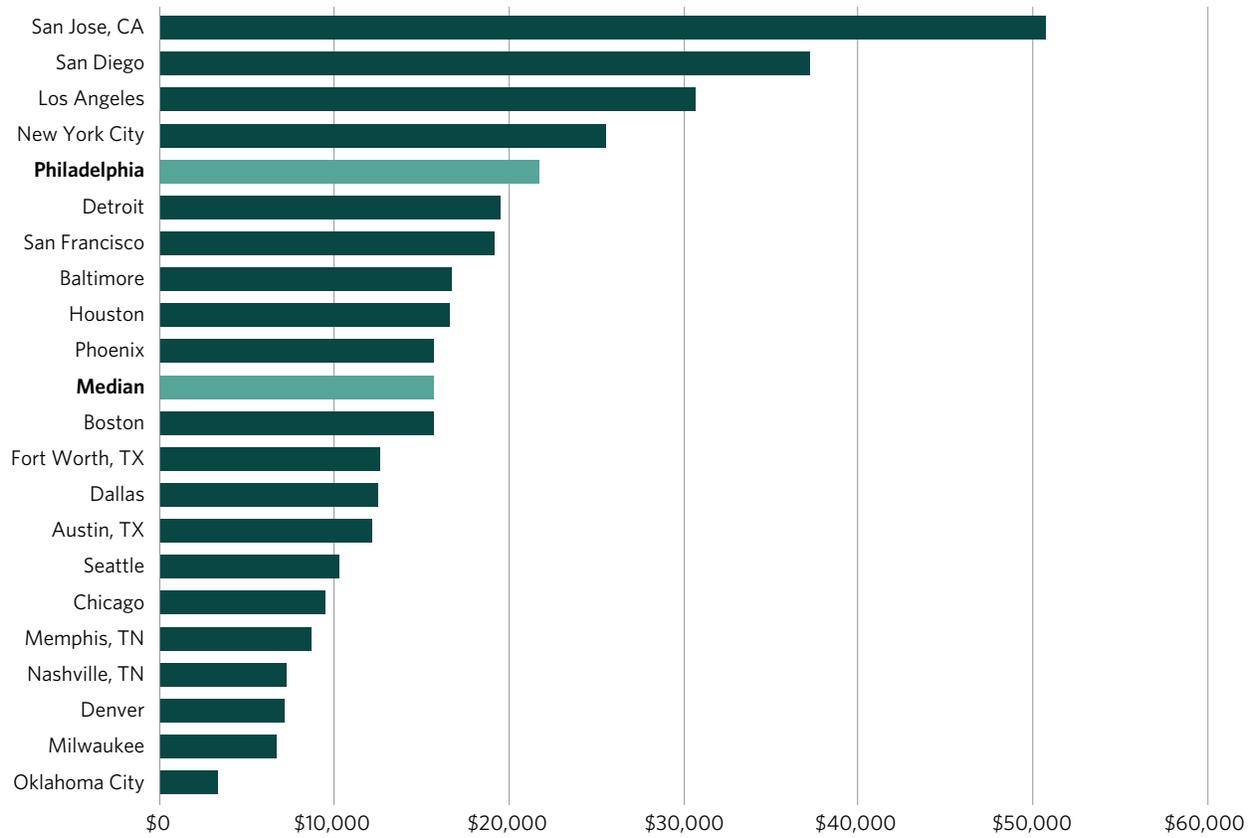
Source: U.S. Census Bureau, 2015 Annual Survey of Public Employment and Payroll  
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Philadelphia's pension costs, a major component of employee benefits, are relatively high. In 2015, the average employer contribution per active member for Philadelphia's municipal retirement system was \$21,718, ranking fifth of 21 cities for which data were available. The median among these cities was \$15,653 per member. (See Figure 13.)<sup>35</sup>

Figure 13

## Average Employer Pension Contributions Per Active Member, FY 2015

Philadelphia and other larger cities with locally administered pension systems



Source: Census Bureau, 2015 Survey of Public Pensions

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## Conclusion

This analysis reveals that the high tax burden in Philadelphia—and the levels of revenue and expenditures that produce that burden—is attributable to a variety of factors, starting with city-county status.

Philadelphia spends more on county programs—including public welfare, health, courts, and corrections—than most other large cities. Spending and local funding for municipal programs and public education are not unusual relative to those cities.

As a city-county, Philadelphia cannot rely on residents of suburban areas—which tend to have lower poverty, less crime, and stronger tax bases—to help pay the cost of county functions, as is the case in cities that are part of larger counties. In addition, Philadelphia is a city-county in a state that has given its counties significant service and financial responsibilities.

The social and economic realities of the city are important as well—high poverty, relatively high crime, and a relatively weak tax base. Poverty and crime create a demand for city services; a weak tax base affects the ability to pay for those services.

The challenge for policymakers is to take all these factors into account as they manage Philadelphia’s fiscal future.

## Appendix

Table 1

### Total Expenditures Per Capita by Program Category in 30 of the Largest U.S. Cities, FY 2015

	Municipal functions	County functions	Education	Other functions	All functions
Austin, TX	\$1,264	\$747	\$1,440	\$1,073	\$4,524
Baltimore	\$1,679	\$282	\$2,127	\$1,715	\$5,803
Boston	\$1,380	\$536	\$1,947	\$1,675	\$5,538
Charlotte, NC	\$975	\$3,084	\$1,588	\$1,481	\$7,129
Chicago	\$1,545	\$664	\$2,131	\$2,377	\$6,717
Columbus, OH	\$1,288	\$707	\$1,712	\$1,371	\$5,078
Dallas	\$1,016	\$1,004	\$1,518	\$1,361	\$4,899
Denver	\$1,152	\$1,794	\$1,887	\$2,316	\$7,149
Detroit	\$1,529	\$861	\$1,052	\$2,049	\$5,491
El Paso, TX	\$813	\$826	\$1,847	\$855	\$4,341
Fort Worth, TX	\$900	\$662	\$1,547	\$903	\$4,012
Houston	\$1,072	\$741	\$1,571	\$1,312	\$4,696
Indianapolis	\$819	\$1,552	\$1,538	\$721	\$4,630
Jacksonville, FL	\$965	\$183	\$1,336	\$971	\$3,455
Las Vegas	\$1,472	\$799	\$1,399	\$924	\$4,594
Los Angeles	\$1,691	\$1,651	\$1,817	\$1,780	\$6,939
Louisville, KY	\$537	\$178	\$1,498	\$721	\$2,934
Memphis, TN	\$1,072	\$703	\$1,315	\$971	\$4,061
Milwaukee	\$1,392	\$861	\$1,788	\$790	\$4,831
Nashville, TN	\$1,059	\$521	\$1,489	\$905	\$3,974
New York	\$1,562	\$2,874	\$3,365	\$4,611	\$12,412
Oklahoma City	\$1,093	\$125	\$1,473	\$572	\$3,263

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Table 1, continued

	Municipal functions	County functions	Education	Other functions	All functions
Philadelphia	\$1,204	\$1,681	\$1,689	\$1,635	\$6,209
Phoenix	\$924	\$482	\$1,278	\$736	\$3,421
Portland, OR	\$1,351	\$787	\$1,483	\$1,584	\$5,205
San Antonio	\$906	\$991	\$2,029	\$900	\$4,827
San Diego	\$1,082	\$867	\$1,684	\$1,427	\$5,061
San Francisco	\$2,421	\$3,345	\$1,230	\$3,464	\$10,459
San Jose, CA	\$1,373	\$2,079	\$1,544	\$1,657	\$6,654
Seattle	\$1,887	\$683	\$1,212	\$1,642	\$5,424
Median	\$1,178	\$793	\$1,545	\$1,366	\$4,980

Table 2

## Revenues Per Capita by Type in 30 of the Largest U.S. Cities, FY 2015

	Taxes	Federal aid	State aid	User charges	Miscellaneous	Total
Austin, TX	\$2,789	\$204	\$501	\$643	\$207	\$4,345
Baltimore	\$2,083	\$661	\$2,140	\$342	\$124	\$5,350
Boston	\$3,259	\$485	\$1,426	\$196	\$243	\$5,608
Charlotte, NC	\$2,072	\$396	\$1,160	\$3,030	\$412	\$7,071
Chicago	\$2,597	\$589	\$1,760	\$440	\$516	\$5,902
Columbus, OH	\$2,598	\$713	\$1,232	\$424	\$219	\$5,186
Dallas	\$2,473	\$274	\$831	\$782	\$196	\$4,556
Denver	\$3,026	\$358	\$1,327	\$1,741	\$635	\$7,087
Detroit	\$1,605	\$364	\$2,101	\$433	\$334	\$4,837
El Paso, TX	\$1,482	\$219	\$1,603	\$588	\$103	\$3,995
Fort Worth, TX	\$2,066	\$143	\$1,020	\$480	\$347	\$4,056
Houston	\$2,738	\$203	\$921	\$457	\$341	\$4,659

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Table 2, continued

	Taxes	Federal aid	State aid	User charges	Miscellaneous	Total
Indianapolis	\$1,438	\$24	\$1,939	\$933	\$143	\$4,478
Jacksonville, FL	\$1,493	\$176	\$1,000	\$347	\$320	\$3,336
Las Vegas	\$1,698	\$131	\$1,930	\$620	\$266	\$4,644
Los Angeles	\$2,311	\$440	\$2,668	\$954	\$527	\$6,901
Louisville, KY	\$1,648	\$184	\$687	\$237	\$128	\$2,884
Memphis, TN	\$2,106	\$235	\$1,191	\$588	\$314	\$4,434
Milwaukee	\$1,441	\$115	\$2,251	\$809	\$209	\$4,825
Nashville, TN	\$2,220	\$196	\$838	\$304	\$330	\$3,888
New York	\$6,187	\$642	\$3,154	\$1,508	\$582	\$12,073
Oklahoma City	\$1,663	\$113	\$879	\$293	\$266	\$3,214
Philadelphia	\$3,004	\$442	\$2,223	\$382	\$252	\$6,303
Phoenix	\$1,451	\$153	\$1,242	\$425	\$207	\$3,477
Portland, OR	\$2,688	\$310	\$1,359	\$477	\$188	\$5,022
San Antonio	\$1,878	\$233	\$1,327	\$670	\$202	\$4,310
San Diego	\$2,111	\$260	\$1,648	\$551	\$519	\$5,089
San Francisco	\$4,991	\$592	\$2,735	\$1,671	\$477	\$10,466
San Jose, CA	\$2,665	\$342	\$2,249	\$1,548	\$371	\$7,175
Seattle	\$2,980	\$417	\$994	\$1,006	\$373	\$5,770
Median	\$2,166	\$267	\$1,343	\$570	\$290	\$4,831

Table 3

## Municipal Expenditures Per Capita by Program Category in 30 of the Largest U.S. Cities, FY 2015

	Police	Fire protection	Solid waste management	Highways	Parking	Parks and recreation	Libraries	Inspection and regulation	All municipal functions
<b>Austin, TX</b>	\$388	\$156	\$105	\$347	\$0	\$208	\$60	\$0	\$1,264
<b>Baltimore</b>	\$766	\$310	\$189	\$206	\$31	\$95	\$56	\$26	\$1,679
<b>Boston</b>	\$527	\$352	\$85	\$185	\$4	\$126	\$75	\$26	\$1,380
<b>Charlotte, NC</b>	\$418	\$153	\$79	\$133	\$0	\$161	\$31	\$0	\$975
<b>Chicago</b>	\$574	\$262	\$74	\$281	\$3	\$280	\$58	\$12	\$1,545
<b>Columbus, OH</b>	\$413	\$240	\$81	\$218	\$5	\$249	\$59	\$22	\$1,288
<b>Dallas</b>	\$366	\$200	\$58	\$188	\$0	\$151	\$22	\$32	\$1,016
<b>Denver</b>	\$381	\$225	\$13	\$219	\$0	\$254	\$60	\$0	\$1,152
<b>Detroit</b>	\$558	\$200	\$79	\$322	\$8	\$295	\$42	\$25	\$1,529
<b>El Paso, TX</b>	\$276	\$155	\$75	\$109	\$0	\$176	\$19	\$5	\$813
<b>Fort Worth, TX</b>	\$346	\$149	\$58	\$208	\$4	\$101	\$23	\$11	\$900
<b>Houston</b>	\$435	\$217	\$32	\$258	\$5	\$63	\$30	\$30	\$1,072
<b>Indianapolis</b>	\$218	\$226	\$51	\$159	\$1	\$75	\$73	\$16	\$819
<b>Jacksonville, FL</b>	\$448	\$166	\$68	\$112	\$4	\$116	\$38	\$13	\$965
<b>Las Vegas</b>	\$317	\$316	\$6	\$430	\$11	\$318	\$34	\$40	\$1,472
<b>Los Angeles</b>	\$855	\$261	\$90	\$230	\$8	\$172	\$55	\$20	\$1,691
<b>Louisville, KY</b>	\$181	\$103	\$41	\$84	\$30	\$58	\$22	\$18	\$537
<b>Memphis, TN</b>	\$524	\$273	\$100	\$59	\$0	\$80	\$24	\$12	\$1,072
<b>Milwaukee</b>	\$525	\$202	\$55	\$326	\$41	\$161	\$53	\$29	\$1,392
<b>Nashville, TN</b>	\$329	\$177	\$35	\$144	\$0	\$300	\$60	\$14	\$1,059
<b>New York</b>	\$622	\$234	\$180	\$303	\$6	\$140	\$41	\$36	\$1,562
<b>Oklahoma City</b>	\$303	\$234	\$71	\$158	\$25	\$273	\$1	\$28	\$1,093

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Table 3, continued

	Police	Fire protection	Solid waste management	Highways	Parking	Parks and recreation	Libraries	Inspection and regulation	All municipal functions
<b>Philadelphia</b>	\$517	\$215	\$105	\$120	\$109	\$69	\$53	\$17	\$1,204
<b>Phoenix</b>	\$373	\$189	\$76	\$133	\$1	\$106	\$28	\$19	\$924
<b>Portland, OR</b>	\$354	\$182	\$38	\$394	\$12	\$248	\$90	\$33	\$1,351
<b>San Antonio</b>	\$307	\$187	\$77	\$112	\$6	\$184	\$30	\$3	\$906
<b>San Diego</b>	\$411	\$161	\$39	\$201	\$2	\$178	\$47	\$44	\$1,082
<b>San Francisco</b>	\$564	\$389	\$7	\$651	\$236	\$355	\$124	\$95	\$2,421
<b>San Jose, CA</b>	\$394	\$240	\$117	\$281	\$12	\$217	\$55	\$56	\$1,373
<b>Seattle</b>	\$405	\$223	\$281	\$520	\$16	\$292	\$85	\$65	\$1,887
<b>Median</b>	\$408	\$216	\$74	\$207	\$5	\$174	\$50	\$21	\$1,178

Table 4

### County Expenditures Per Capita by Program Category in 30 of the Largest U.S. Cities, FY 2015

	Health and hospitals	Public welfare	Corrections	Judicial and legal	All county functions
<b>Austin, TX</b>	\$442	\$34	\$148	\$123	\$747
<b>Baltimore</b>	\$205	\$0	\$0	\$77	\$282
<b>Boston</b>	\$416	\$111	\$0	\$9	\$536
<b>Charlotte, NC</b>	\$2,728	\$203	\$139	\$14	\$3,084
<b>Chicago</b>	\$323	\$111	\$99	\$131	\$664
<b>Columbus, OH</b>	\$131	\$377	\$49	\$151	\$707
<b>Dallas</b>	\$841	\$31	\$58	\$74	\$1,004
<b>Denver</b>	\$1,287	\$210	\$178	\$119	\$1,794
<b>Detroit</b>	\$204	\$268	\$145	\$244	\$861
<b>El Paso, TX</b>	\$616	\$10	\$107	\$93	\$826

Continued on next page

Table 4, continued

	Health and hospitals	Public welfare	Corrections	Judicial and legal	All county functions
Fort Worth, TX	\$505	\$2	\$55	\$100	\$662
Houston	\$585	\$5	\$64	\$86	\$741
Indianapolis	\$1,297	\$8	\$134	\$113	\$1,552
Jacksonville, FL	\$88	\$62	\$0	\$33	\$183
Las Vegas	\$325	\$125	\$202	\$147	\$799
Los Angeles	\$764	\$587	\$154	\$146	\$1,651
Louisville, KY	\$70	\$30	\$68	\$10	\$178
Memphis, TN	\$476	\$34	\$64	\$129	\$703
Milwaukee	\$540	\$75	\$150	\$96	\$861
Nashville, TN	\$233	\$66	\$97	\$125	\$521
New York	\$1,014	\$1,574	\$199	\$87	\$2,874
Oklahoma City	\$12	\$2	\$69	\$42	\$125
Philadelphia	\$932	\$282	\$250	\$217	\$1,681
Phoenix	\$208	\$37	\$113	\$125	\$482
Portland, OR	\$313	\$235	\$184	\$55	\$787
San Antonio	\$763	\$103	\$59	\$66	\$991
San Diego	\$191	\$375	\$133	\$168	\$867
San Francisco	\$2,366	\$562	\$275	\$141	\$3,345
San Jose, CA	\$1,367	\$397	\$191	\$124	\$2,079
Seattle	\$275	\$176	\$79	\$153	\$683
Median	\$459	\$107	\$110	\$116	\$793

## Methodology

The comparisons in this report are based on data obtained from the Fiscally Standardized Cities (FiSC) database, which was developed by researchers at the Lincoln Institute of Land Policy, a foundation in Cambridge, Massachusetts. This database includes financial information on 150 major U.S. cities from 1977 to 2016. It is designed to enable comparisons across cities that account for the financial activities of all local governments that serve the residents of the city—not just the city government itself. The institute calls this concept the “fiscally standardized city.”

The FiSC database is constructed from financial information on individual local government units—cities, counties, school districts, and special districts—contained in the U.S. Census Bureau’s Annual Survey of Local Government Finances (ASLGF).<sup>36</sup>

In creating each fiscally standardized city, the creators of the database allocate to that city a portion of revenues and expenditures for government entities with service areas that extend beyond city boundaries, based on the ratio between the city population and the population of the larger government entity.<sup>37</sup>

In this report, Pew compares the 2015 FiSC data for Philadelphia and other major cities. The comparison list includes 30 of the 31 most populous U.S. cities as of July 1, 2015. Washington was excluded from the comparison group because it functions as a state government as well as a local government.

The FiSC data are available from the Lincoln Institute of Land Policy website, <http://datatoolkits.lincolninst.edu/subcenters/fiscally-standardized-cities/website>. The analysis in this report was based on data available from this website and additional information on intergovernmental revenue and expenditures that the Lincoln Institute provided to Pew.

## Scope of the analysis

The FiSC data sorts local government expenditures into 29 functions that represent activities undertaken by local government. In this report, the focus is on understanding the key financial drivers of local tax burdens in cities. For this reason, Pew includes in the analysis only revenue and expenditures related to governmental functions that are typically financed in whole or in part through local tax revenue. Revenue and expenditures related to functions primarily financed by user charges are excluded. These include water supply systems, sewerage, electric power systems, gas supply systems, liquor stores, air transportation, and seaport facilities.<sup>38</sup>

## Classification of governmental functions

A primary goal of the analysis was to quantify the extent to which different governmental functions contribute to the local tax burden in Philadelphia. Pew also sought to assess whether the organization of local government—particularly Philadelphia’s status as a city-county—was a factor influencing Philadelphia taxes. For this purpose, governmental functions were classified into four broad categories reflecting the type of local government that is usually responsible for performing it. They are city, county, school district, and special district.

For each function, Pew calculated the percentage of FiSC spending made in each of these four categories. Functions were classified as “municipal” when most spending was usually made by city government, as “county” when most spending was usually made by county government. Public education was assigned its own category. All remaining functions were classified as other.

This approach led to the following classifications:

- **Municipal:** Police, fire protection, solid waste management, inspection and regulation, parking, highways, parks and recreation, and libraries.
- **County:** Public welfare, health, hospitals, corrections, and judicial and legal.
- **Education:** Elementary, secondary, and higher education.
- **Other:** Public transit, housing and community development, natural resources, financial administration, public buildings, other government administration, interest on general debt, and other.

Pew based the distinction between municipal and county categories on the distribution of expenditures within the 21 fiscally standardized cities among the 30 studied that are not city-counties. A function was classified as municipal if at least 70 percent of FiSC expenditures on that function were made by city government in a majority of the 21 cities. It was classified as a county function if at least 70 percent of the expenditures were made by county government. Each municipal function met this criterion in at least 15 of the 21 cities, and each county function in at least 13 of them.<sup>39</sup>

## Components of expenditure and revenue

Expenditure data includes spending on current operations, interest on debt, assistance and subsidies, insurance benefits and repayments, capital outlay, and intergovernmental expenditures to state government.<sup>40</sup> Pew made certain adjustments to the FiSC expenditure data to ensure that pension expenditures were comparable across cities. This adjustment is described further below.

Revenues include taxes, intergovernmental aid from federal and state government, user fees, and miscellaneous revenue sources. However, intergovernmental revenues or user fees associated with the excluded functional categories listed above were not included.

## Total expenditures and local tax-supported expenditures by function

*Total expenditure* for each function is the amount contained in the FiSC database, with an adjustment for pension costs for some cities.

*Local tax-supported expenditures* for each function was calculated by Pew using the following formula. For any given function:

$$\text{Local tax-supported expenditures} = \text{total expenditures} - \text{federal and state aid} - \text{user charges.}$$

In this equation, total expenditures, federal and state aid, and user charges represent the amounts reported in the Census Bureau data as associated with a function.<sup>41</sup>

## Pension expenditure adjustment

Pew adjusted the FiSC data for certain cities to ensure that costs related to public employee retirement systems were presented on a consistent basis.

For each government included in the Census Bureau's ASLGF, financial data are reported from the perspective of the governmental entity as a whole. Revenues and expenditures are defined, respectively, as funds received by the government from external sources (such as taxpayers or other governments) and funds paid to external

recipients (such as employees, private firms, or other governments). Transactions that occur within the government—interfund payments or transfers—are netted out in the reported data.

As a result, when a local government administers a pension system for its own employees, the government's employer pension contribution does not appear as an expenditure in the ASLGF data because it is an interfund transfer, typically from the general fund to a pension fund. Where a local government's employees are covered under an externally administered pension system—such as a state-administered system—the government's employer contribution to that system generally is included in ASLGF expenditures.

To account for this difference, Pew, working with Census Bureau officials, adjusted the FiSC expenditure data for certain cities.<sup>42</sup> The goal was to ensure that expenditures for each FiSC included all employer pension contributions within each functional category, whether those contributions were made to a self-administered or externally administered retirement system.

The approach was as follows: Pew provided to the Census Bureau a complete list of state and local pension systems covering employees of cities, counties, and school districts included within each of the 30 comparison FiSCs. The bureau reviewed the list and indicated those cases in which the employer pension contribution was excluded from the ASLGF expenditure data. Officials determined that the employer contribution was excluded for 33 pension systems covering employees in 14 FiSCs.

Table 1 lists each excluded contribution, by FiSC, government entity, and pension system. In most cases, the excluded contribution was made to a locally administered pension system, although in some cases the contribution was made to a state-administered system.<sup>43</sup>

Next, the amount of the excluded contributions was determined. When the contribution was to a locally administered system, the amount was determined using the Census Bureau's 2015 Survey of Public Pensions,<sup>44</sup> codes X04 (the amount paid by the parent government) and X05 (the amount paid by other local governments on behalf of their employees or by state government). If the excluded contribution was made to a state-administered system, the Census Bureau provided Pew with the amount.

Finally, expenditures for each of the 14 FiSCs with excluded contributions were increased by the appropriate per capita amount. The increased expenditure was allocated across functions based on full-time payroll by functional category from the Census Bureau's 2015 Annual Survey of Public Employment and Payroll.<sup>45</sup> If a city operated more than one pension system—as when separate systems were operated for police officers, firefighters, and civilian employees—the contribution to each system was allocated separately to functions based on payroll.

Table 1  
Pension Expenditure Adjustment Amount

Fiscally standardized city	Government entity	Pension system	Adjustment (per capita)
Chicago	City of Chicago	Municipal Employees Annuity and Benefit Fund of Chicago	\$43
		Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago	\$4
		Policemen's Annuity and Benefit Fund of Chicago	\$69
		Firemen's Annuity and Benefit Fund of Chicago	\$40
Columbus, Ohio	City of Columbus	Ohio Police and Fire Pension Fund	\$75
		Ohio Public Employees Retirement System	\$49
Dallas	City of Dallas	Employees' Retirement Fund of the City of Dallas	\$20
		Dallas Police and Fire Pension System	\$87
Detroit	City of Detroit	City of Detroit Retirement System—General Retirement System	\$81
		City of Detroit Retirement System—Police and Fire Retirement System	\$168
	Wayne County	Wayne County Employees' Retirement System	\$41
El Paso, Texas	City of El Paso	Employees Retirement Trust	\$25
		Firemen and Policemen's Pension Fund	\$38
Houston	City of Houston	Firefighters' Relief and Retirement Fund	\$41
		Police Officers' Pension System	\$51
		Municipal Employees Pension System	\$50
	Harris County	Texas County and District Retirement System	\$18
Los Angeles	City of Los Angeles	Fire and Police Pension System	\$160
		Los Angeles City Employees' Retirement System	\$79
	Los Angeles County	Los Angeles County Employees Retirement Association	\$124
Philadelphia	City of Philadelphia	City of Philadelphia Public Employees Retirement System	\$348

Continued on next page

Table 1, continued

Fiscally standardized city	Government entity	Pension system	Adjustment (per capita)
<b>Phoenix</b>	City of Phoenix	City of Phoenix Employees' Retirement System	\$53
		Arizona Public Safety Personnel Retirement System (police contribution only)	\$54
<b>San Antonio</b>	City of San Antonio	Fire and Police Pension Fund	\$55
		Texas Municipal Retirement System—Civilian	\$16
<b>San Diego</b>	City of San Diego	San Diego City Employees' Retirement System	\$180
	San Diego County	San Diego County Employees Retirement Association	\$126
<b>San Francisco</b>	City and County of San Francisco	San Francisco Employees' Retirement System	\$599
<b>San Jose, California</b>	City of San Jose	Police and Fire Department Retirement Plan	\$147
		Federated City Employees Retirement System	\$76
<b>Seattle</b>	City of Seattle	Seattle City Employees' Retirement System	\$68
		Firefighters Pension Fund and Police Relief and Pension Fund	\$11
		Law Enforcement Officers' and Fire Fighters' Retirement System	\$11

Source: Pew analysis of Lincoln Institute of Land Policy Fiscally Standardized Cities database and Census Bureau Survey of Public Pensions.

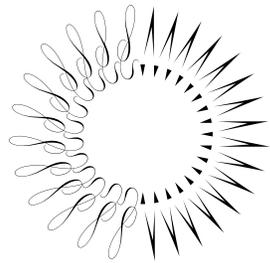
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## Endnotes

- 1 The methods of construction of the database are described in detail on the website of the Lincoln Institute of Land Policy at <https://datatoolkits.lincolnst.edu/subcenters/fiscally-standardized-cities>. The methodology section discusses the FiSC database in more detail.
- 2 There are other ways of comparing taxes among cities than on a per capita basis. One is to examine the taxes paid by typical households. Every year, the Office of the Chief Financial Officer of the District of Columbia produces a report looking at the major state and local taxes paid by families at various income levels in the District and the largest cities in each of the 50 states. In recent years, the analysis, which focuses on taxes on income, property, sales, and motor vehicles, has shown that Philadelphians have among the highest household tax burdens. The most recent edition of the report, which covers 2016, can be found at <https://cfo.dc.gov/node/1303081>. The results presented here are different from the District of Columbia study in two other respects: They exclude state taxes and include all local taxes, including those paid by nonresidents and businesses.
- 3 The “other” category includes some costs that could be related to municipal or county programs or education but are not allocated to these functions due to data limitations. For instance, it includes all interest on general debt incurred by cities, counties, school districts, or special districts, and some of these costs reflect debt service that supports municipal, county, or education programs. Similarly, some costs included within the Census Bureau’s “other and unallocable” category include administrative costs for vehicles or information technology that may support municipal or county programs. This affects the data for all the cities.
- 4 The Census Bureau does not classify intergovernmental revenue or user-charge revenue in some functional categories, such as police and fire protection. For these categories, tax-supported expenditures equal total expenditures.
- 5 It should also be noted that local user fees may be paid by businesses, residents, or nonresidents. The portion of costs in each category financed through user charges is not included in tax-supported expenditures.
- 6 This amount excludes the cost of employee benefits for police employees, which are budgeted in the Finance Department.
- 7 Philadelphia Office of the Director of Finance, Office of Budget and Program Evaluation, “Guide to the Fiscal Year 2019 Operating Budget Detail” (2019), <https://www.phila.gov/finance/pdfs/budgetdetail/Mayors%20FY%202019%20Operating%20Budget%20Detail%20-%20Book%201.pdf>; Philadelphia Office of the Director of Finance, “Supplemental Report of Revenues & Obligations: Fiscal Year Ended June 30, 2017” (2017), <https://www.phila.gov/investor/PDF/SUPPLEMENTAL%20REPORT%202017%20-%20FINAL.pdf>.
- 8 Baltimore is officially considered an independent city. However, it performs the functions of a county as well as a city. So, for purposes of this report, it is classified as a city-county.
- 9 Because Philadelphia does not operate a public hospital, its hospital expenditures are zero, compared to a median of \$246 per capita.
- 10 Vernon K. Smith et al., “Medicaid Reforms to Expand Coverage, Control Costs and Improve Care: Results From a 50-State Medicaid Budget Survey for State Fiscal Years 2015 and 2016” (2015), Henry J. Kaiser Family Foundation and National Association of Medicaid Directors, <https://www.kff.org/medicaid/report/medicaid-reforms-to-expand-coverage-control-costs-and-improve-care-results-from-a-50-state-medicaid-budget-survey-for-state-fiscal-years-2015-and-2016>.
- 11 City of Philadelphia, “Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2015” (2015), 31, [https://www.phila.gov/investor/pdfs/2015%20Comprehensive%20Annual%20Financial%20Report%20\(CAFR\).pdf](https://www.phila.gov/investor/pdfs/2015%20Comprehensive%20Annual%20Financial%20Report%20(CAFR).pdf).
- 12 See Donna Gentile O’Donnell, *Provider of Last Resort: The Story of the Closure of the Philadelphia General Hospital* (Philadelphia: Camino Books, 2005).
- 13 Philadelphia’s jail incarceration rate in 2015 was 739.2 per 100,000 residents of age 15 to 64. The median incarceration rate among the FiSC counties was 246.3. Vera Institute of Justice, Incarceration Trends Project, online database available at <http://trends.vera.org/incarceration-rates?data=localJail&geography=states>. These numbers do not reflect the post-2015 decline in Philadelphia’s jail population.
- 14 Brian Albert, “State Prisoners in County Jails,” National Association of Counties (2010), <http://naco.org/sites/default/files/documents/State%20Prisoners%20in%20County%20Jails%20Updated.pdf>.
- 15 Jason Horwitz and Alex Rosaen, “Incentives in State Probation Systems: Relation to Structure and Practices” (2013), Anderson Economic Group, LLC, [https://www.prisonfellowship.org/site/wp-content/uploads/2015/12/Incentives-in-State-Probation\\_AEG\\_March-2014.pdf](https://www.prisonfellowship.org/site/wp-content/uploads/2015/12/Incentives-in-State-Probation_AEG_March-2014.pdf).
- 16 Ram Subramanian and Rebecca Tublitz, “Realigning Justice Resources: A Review of Population and Spending Shifts in Prison and Community Corrections” (2012), Vera Institute of Justice, <https://www.vera.org/publications/realigning-justice-resources-a-review-of-population-and-spending-shifts-in-prison-and-community-corrections>.
- 17 Pennsylvania General Assembly, Legislative Budget and Finance Committee, “Funding of County Adult Probation Services” (2015), <http://lbf.c.state.pa.us/Resources/Documents/Reports/509.pdf>.

- 18 Residents of some of the 30 comparison cities are served by more than one county. For these cities, the comparison county is the one that serves the largest percentage of the city population.
- 19 Education spending at the school district level is often expressed in terms of expenditure per pupil. Expenditure per capita, which is reported here, is a different calculation.
- 20 Significant costs related to higher education are included in the FiSC data for only three of the comparison cities: Charlotte, North Carolina; Denver; and New York City. In these cities, the Census Bureau considers local higher education institutions as a part of city or county government. In the other cities, higher education entities, including the Community College of Philadelphia, are considered separate governmental units and are not included in the FiSC data.
- 21 U. S. Census Bureau, "American Community Survey" (2015), one-year estimates, <https://www.census.gov/programs-surveys/acs/technical-documentation/table-and-geography-changes/2015/1-year.html>.
- 22 Federal Bureau of Investigation, Uniform Crime Reporting Program, "Offenses Known to Law Enforcement" (2015), <https://ucr.fbi.gov/crime-in-the-u.s/2015/crime-in-the-u.s.-2015>.
- 23 See Janet Rothenberg Pack, "Poverty and Urban Public Expenditures," *Urban Studies*, Vol. 35, no. 11 (1998): 1995-2019, <https://doi.org/10.1080/0042098983980>; and Pascale M. Joassart-Marcelli, Juliet A. Musso, and Jennifer R. Wolch, "Fiscal Consequences of Concentrated Poverty in a Metropolitan Region," *Annals of the Association of American Geographers*, Vol. 95, no. 2 (2005): 336-56, <https://doi.org/10.1111/j.1467-8306.2005.00463.x>.
- 24 This amount includes tax financing for programs in public health, human services, corrections, and emergency services. See Robert P. Inman, "Should Philadelphia's Suburbs Help Their Central City?", *Business Review*, Q2 (2003), Federal Reserve Bank of Philadelphia, <https://www.philadelphiafed.org/-/media/research-and-data/publications/business-review/2003/q2/brq203ri.pdf?la=en>
- 25 Calculation based on the Consumer Price Index—All Urban Consumers for the Philadelphia metropolitan area. Data was accessed from <https://www.bls.gov/cpi/data.htm>.
- 26 Fiscal Year 2017 actual spending from City of Philadelphia Fiscal Year 2019 Operating Budget Detail, Book II. District health centers amount includes spending by the Ambulatory Health Services division of the Department of Public Health, and homeless services amount includes spending by the Office of Homeless Services. Amounts include expenditures within the General Fund and Grants Revenue Fund and exclude employee benefit costs. <https://www.phila.gov/finance/pdfs/budgetdetail/Mayors%20FY%202019%20Operating%20Budget%20Detail%20-%20Book%202.pdf>.
- 27 Robert J. Shapiro and Kevin A. Hassett, "The Economic Benefits of Reducing Violent Crime: A Case Study of 8 American Cities," Center for American Progress (2012), <https://www.americanprogress.org/issues/economy/reports/2012/06/19/11755/the-economic-benefits-of-reducing-violent-crime>.
- 28 Michelle S. Phelps and Devah Pager, "Inequality and Punishment: A Turning Point for Mass Incarceration?", *The Annals of the American Academy of Political and Social Science*, Vol. 663, Issue 1 (2016): 185-203, <https://doi.org/10.1177/0002716215596972>; Thomas M. Arvantes and Martin A. Asher, "State and County Incarceration Rates: The Direct and Indirect Effects of Race and Inequality," *American Journal of Economics and Sociology*, Vol. 57, no. 2 (1998): 207-222, <https://www.jstor.org/stable/3487495>; Carlisle E. Moody Jr. and Thomas B. Marvell, "Appellate and Trial Court Caseload Growth: A Pooled Time-Series—Cross-Section Analysis," *Journal of Quantitative Criminology*, Vol. 3, no. 2 (1987): 143-167, [https://www.jstor.org/stable/23365619?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/23365619?seq=1#page_scan_tab_contents); and Christian Henrichson, Joshua Rinaldi, and Ruth Delaney, "The Price of Jails: Measuring the Taxpayer Cost of Local Incarceration," Vera Institute of Justice (2015): <https://www.vera.org/publications/the-price-of-jails-measuring-the-taxpayer-cost-of-local-incarceration>.
- 29 Due to assessment limits, values for some other cities and counties may not reflect actual market value. See the discussion in Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparison Study: For Taxes Paid in 2015" (2016): 40-41, <https://www.lincolnst.edu/publications/other/50-state-property-tax-comparison-study-0>.
- 30 Data are drawn from the 2012 Economic Census conducted by the U. S. Census Bureau. Figures were not available for Baltimore; El Paso, Texas; and Jacksonville, Florida. Retail sales was defined to include sales in four industries: retail trade; accommodation and food services; arts, entertainment and recreation; and other services (except public administration). This definition follows that in Yesim Yilmaz et al., "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002," New England Public Policy Center Working Paper 06-2 (2006), a joint report with the Urban-Brookings Tax Policy Center, <https://www.bostonfed.org/publications/new-england-public-policy-center-working-paper/2006/measuring-fiscal-disparities-across-the-us-states-a-representative-revenue-systemrepresentative-expenditure-system-approach-fiscal-year-2002.aspx>.
- 31 Research has found an important link between functional responsibilities and expenditures for public welfare programs by city governments. See Elaine B. Sharp and Steven Maynard-Moody, "Theories of the Local Welfare Role," *American Journal of Political Science* 35, no. 4 (1991): 934-950, <https://www.jstor.org/stable/2111500>.

- 32 Amounts include direct expenditures only. Intergovernmental expenditures—payments from one governmental unit to another—are excluded. The hospitals function is not shown in Figure 9. Pennsylvania is the only state with no local government spending for hospitals.
- 33 Some of the comparison cities have more than one overlapping county. In this case, the comparison is with the county that serves the largest proportion of city residents.
- 34 For municipal functions shown in the figure, the comparison is to wages in the median city in the comparison group. For county functions, the comparison is to the median county. For teachers, the comparison is to the median of teacher salaries in the jurisdiction that provides public education in the city, which may be a city, county, or school district. In cases in which multiple school districts serve city residents, the comparison district was that which served the largest percentage of the city’s public-school students. This determination was made based on the FiSC allocation data. See Adam H. Langley, “Methodology Used to Create Fiscally Standardized Cities Database, Working Paper16AL1,” Lincoln Institute of Land Policy (2016), [https://www.lincolnst.edu/sites/default/files/pubfiles/2292\\_1632\\_Langley%20WP16AL1.pdf](https://www.lincolnst.edu/sites/default/files/pubfiles/2292_1632_Langley%20WP16AL1.pdf).
- 35 Data are from the U.S. Census Bureau’s 2015 Survey of Public Pensions. The comparison is based on the average employer contribution per active member for pension systems operated by city or city-county government. Pension systems operated by school districts, county governments, or special districts are excluded. Employer contributions include contributions by the city, other local governments, and state government. In cases where the city or city-county sponsors more than one retirement system, the comparison is based on the average cost per member for all systems other than those covering teachers or other public education employees. Among the 30 comparison cities, data were not available for El Paso, Texas; Jacksonville, Florida; and cities that contribute to state-sponsored pension systems: Charlotte, North Carolina; Columbus, Ohio; Indianapolis; Las Vegas; Louisville, Kentucky; Portland, Oregon; and San Antonio.
- 36 For details about this survey, see U.S. Census Bureau, “Annual Survey of State and Local Government Finances” (2016), <https://www.census.gov/programs-surveys/gov-finances.html>; and U.S. Census Bureau, “Government Finance and Employment, Classification Manual” (2006), [https://www2.census.gov/govs/pubs/classification/2006\\_classification\\_manual.pdf](https://www2.census.gov/govs/pubs/classification/2006_classification_manual.pdf).
- 37 For details on the FiSC methodology, see Adam H. Langley, “Methodology Used to Create Fiscally Standardized Cities Database,” Lincoln Institute of Land Policy (2016), [https://datatoolkits.lincolnst.edu/pubs/dl/2292\\_1632\\_Langley%20WP16AL1.pdf](https://datatoolkits.lincolnst.edu/pubs/dl/2292_1632_Langley%20WP16AL1.pdf).
- 38 Some of these functions were not performed by local government in many of the 30 comparison cities. Expenditures related to electric power systems were reported in only 12 cities, gas supply systems in six, liquor stores in one, air transportation in 28, and seaport facilities in 15.
- 39 Hospitals were classified as a county function. Six of the 21 cities had no local government expenditures for hospitals. Of the 15 cities that did have local hospital expenditures, 100 percent of these expenditures were made at the county level in 11 cities.
- 40 Intergovernmental expenditures to local governments are excluded from the FiSC database to avoid double counting payments from one government to another within one city.
- 41 The U.S. Census Bureau and the FiSC database do not report intergovernmental or user charge revenue for the following functions: police, fire protection, inspection and regulation, libraries, corrections, judicial and legal, financial administration, public buildings, other government administration, and interest on general debt. Revenue associated with these functions is reported as other intergovernmental aid or charges. For these functions, tax-supported expenditure equals total expenditure.
- 42 For cities with self-administered pension systems, payments to retirees and other beneficiaries are included in ASLGF expenditures and shown in the FiSC database as employee retirement trust expenditures. These expenditures were excluded from the analysis.
- 43 This was the case for contributions to the following state pension systems: Ohio Police and Fire Pension Fund and Ohio Public Employees Retirement System (Columbus); Texas County and District Retirement System (Houston); Arizona Public Safety Personnel Retirement System (Phoenix); Texas Municipal Retirement System—Civilian (San Antonio); and Law Enforcement Officers’ and Fire Fighters’ Retirement System (Seattle).
- 44 U.S. Census Bureau, “2015 Annual Survey of Public Pensions: State & Local Tables” (2015), <https://www.census.gov/data/tables/2015/econ/aspp/aspp-historical-tables.html>.
- 45 U.S. Census Bureau, “Annual Survey of Public Employment & Payroll (ASPEP)” (2015), <https://www.census.gov/programs-surveys/apesp.html>.



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