

# Letter from Mayor Michael A. Nutter



March 19, 2009

Dear Citizens of Philadelphia,

A year ago, I presented a budget and Five-Year Plan that promised a new day and a new way for the City of Philadelphia, pledging increased funding for public safety, education, public health and parks, all within a plan that proposed continued wage and business tax reductions.

But I also said the time for heavy lifting had arrived. None of us could have imagined how heavy the load would become. With increasing unease, we watched the housing crisis grow, the stock market decline and mighty financial institutions crumble.

Last November as a national recession deepened, I announced an emergency budget package to close a billion-dollar deficit over the next five years, including a \$108 million deficit in the current year.

To close the deficit, we scoured the budget looking for ways to do business less expensively. We redoubled our efforts to make tax deadbeats pay their taxes and fees. And we raised fees where warranted. In addition, I took a pay-cut and we cut salaries of my top staff. I also required furloughs for exempt employees and halted all bonuses to non-union employees. I asked all elected officials and independent agencies to cut their budgets as well. We also suspended scheduled wage and business tax reductions for five years, generating \$230 million and enabling us to preserve vital services to our vulnerable populations. Only then did we impact city services with careful reductions.

But the Great Recession has been relentless in its impact on our economy. With each passing day, we've seen our tax revenues decline sharply, pension costs soar as the stock market ate away our Pension Fund's value and return and employee health care costs continue to rise. In January, just two months after closing a billion-dollar problem, I announced that a second billion-dollar gap had opened up in the Fiscal Year 2010-2014 Plan.

In the last three months, I've talked with hundreds of Philadelphians about the hard times that have settled upon us. You are worried about your jobs. You have friends and relatives out of work. The future appears in doubt.

Your concerns are my concerns. Your worries are my worries. As mayor of the City of Philadelphia, I'm responsible for the proper management of city government. And it's my job to map out a course that will take us through these dark times to the sunshine of renewed prosperity. For that time is surely coming. And, I firmly believe that things will get better, but not as soon as we all want.

During an unprecedented effort to solicit the public's ideas and preferences, my administration and I heard very strong messages. In budget workshops, at neighborhood barbershops and at kitchen tables, Philadelphians related stories of their growing concerns. They also told me they want an efficiently run government that continuously drives down costs while improving the quality of service.

Philadelphians said they want to preserve as many critical services as possible, from public safety to services that protect our children, the elderly and other vulnerable populations.

To preserve these services, I am proposing a bold plan that combines a significant reduction in the city's cost of doing business, including long overdue structural changes to the economics of city government and other efficiencies, along with new revenue of short duration.

The decision to seek a substantial infusion of new tax revenue was not made lightly. Philadelphia alone among big cities has recorded 14 consecutive years of incremental tax reductions, saving Philadelphians well more than a billion dollars. But then, Philadelphia is also heavily burdened with taxes and still has a long way to attain tax competitiveness.

I believe our best course is to seek a temporary increase in the property tax and the sales tax and not to touch the city's most hurtful and burdensome wage and business taxes. My overriding principle is to do the least harm to the city's current competitive position and to its future. Study after study has pointed to the devastating negative impact of wage and business tax increases and we must do everything possible to avoid them as a solution for our short-term fiscal problems.

In the coming months, the City will formally sit down with representatives from the four municipal unions. The city will be pursuing contract agreements that are fair to both city employees and the taxpayers who must pay for them, but, are reflective of the challenging economic environment in which we currently find ourselves. It is important for all represented and non-represented employees to share the burden that these economic times have forced all of us to shoulder. Therefore, my proposed budget and Five-Year Plan include assumptions of reduced City costs for health care benefits, pensions and work rules. Without achieving at least this level of savings in these areas, we will not be able to balance our plan.

These revenue and spending changes, along with our plan to seek Commonwealth support for key rules changes in the administration of our Pension Fund, will provide us with the tools to build a better future.

But, if we are not able to secure the pension changes from Harrisburg, the spending reductions from our employee benefit costs and from streamlining our programs, along with new revenue authorizations from City Council, then the spending and service reductions will necessarily be far, far worse and with negative consequences for a wide range of city services.

Adoption of my proposed budget and Five-Year Plan will prepare us for economic renewal in the future and will preserve critical services to Philadelphians. The tax increases are temporary and designed to leave us ready to benefit from the next wave of economic growth.

Under my fiscal plan, the City will preserve critical public safety services and will not lay off any police officers or firefighters. We will not close facilities that serve our most vulnerable populations, such as libraries, health centers, or recreation centers. My plan also ensures that there will be 36 city pools ready for our children and families this summer. However, we will continue to engage in an extensive examination of our staffing patterns and the array of services and facilities we offer to the citizens of Philadelphia to ensure that we take advantage of the changes in demographics and usage, so that we provide the most efficient array of services and facilities to citizens at the least cost.

Meanwhile, my administration will work with President Obama, Governor Rendell, and their administrations to secure every Economic Recovery dollar that is available. These dollars will not close our deficit, but these new funds will provide employment for thousands of Philadelphians and hope for a better future.

In the coming weeks my administration will present more details and more explanation of the hard choices before us. In these pages, you will find our plan for moving Philadelphia from the depths of this economic recession to a bright and prosperous fiscally sound future.

I encourage you to read our plan, and I welcome your feedback.

A handwritten signature in blue ink, appearing to read "M. A. Nutter", with a stylized flourish at the end.

Michael A. Nutter  
Mayor