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1975

HOUSE OF REPRESENTATIVES

COMMONWEALTH OF PENNSYLVANIA

HARRISBURG

RECOMMENDATIONS TO THE GENERAL ASSEMBLY ON PHILADELPHIA'S FISCAL CRISIS

The Majority Report of the Subcommittee on First-Class Cities

of the Committee on Urban Affairs

March 31, 1976

Samuel Rappaport, Chairman

Joel Johnson	Frank Oliver
Max Pievsky	William Rieger

Staff:

Ralph Snyder, Esq., Special Counsel
Richard Willey, Fiscal Analyst
Tom Diana, Fiscal Analyst
Joseph McLaughlin, Information Officer

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INTRODUCTION

The Subcommittee on First-Class Cities of the Committee on Urban Affairs of the Pennsylvania House of Representatives conducted public hearings from March 1 through March 4, 1976, on the request of the City of Philadelphia for immediate authority to impose interim new taxes and to increase certain existing taxes. The city is required by state law to obtain the authorization of the General Assembly to impose or increase taxes in the middle of a fiscal year. This report summarizes the findings and recommendations of a majority of the members of the subcommittee based upon testimony taken at the hearings and upon data gathered from other informational sources.

The city's request for the aforesaid extraordinary taxing authorization was communicated to the leaders of the General Assembly by letter from Mayor Frank L. Rizzo dated January 19, 1976. Mayor Rizzo indicated therein that additional revenues were urgently needed to avoid a projected $80 million deficit during the fiscal year ending June 30, 1976.

State Senator Henry J. Cianfrani introduced the legislation requested by the city on February 10, 1976, and the bills were referred to the Senate Finance Committee. On February 11, 1976, Speaker Herbert Fineman indicated that the House would hold public hearings before acting on the Senate initiated legislation.

Because of the urgency of the city's request, Speaker Fineman announced on February 25, 1976, that the House would proceed with public hearings even though the Senate had not yet approved the legislation. Fineman assigned the task of holding public hearings to the Committee on Urban Affairs chaired by State Representative Charles Caputo. Representative Caputo requested that State Representative Samuel Rappaport, chairman of the Subcommittee on First-Class Cities, whose members are from Philadelphia, hold the hearings.

The meetings were held in the second floor auditorium of the Central YMCA, 1421 Arch Street, Philadelphia. More than 60 witnesses testified during the four days, including the city controller, city finance director, economists, executives of leading businesses in the city, leaders of public employee unions, representatives of industries that would be directly taxed, spokesmen and women for more than 30 community, civic, and political organizations, and many citizens. Mayor Rizzo was invited to testify but declined to appear.

Although only one member of City Council appeared at the hearings, the City Council on March 7, 1976, adopted a resolution memorializing "the Senate and the House of Representatives of the Commonwealth of Pennsylvania to give favorable consideration to the legislation, advocated by the City of Philadelphia, enabling the City to fund the City's 1976 Operating Budget."

The hearings ran into the evening hours each day and covered more than 40 hours altogether. They were generally well-attended by members of the public and extensively covered by reporters from newspapers and radio and television stations.

The subcommittee's report is set forth in two parts. Part I contains the subcommittee's findings and recommendations with regard to the city's specific request for immediate legislation to authorize City Council to impose new and increased taxes to avoid a deficit in the 1975-76 fiscal year. Part II contains the subcommittee's findings and recommendations with regard to possible long-range proposals, legislative and otherwise, to help prevent a recurrence of Philadelphia's present budget problems either in that city or in other municipalities in the Commonwealth.

PART I: PHILADELPHIA'S FISCAL CRISIS

Findings

1. The City of Philadelphia faces a substantial deficit in the 1975-76 fiscal year largely because the administration has failed to control spending and has misrepresented the city's fiscal situation.

The city finance director, city controller, and virtually every expert witness to appear before the subcommittee confirmed the existence of a substantial 1975-76 deficit if projected city revenues and expenditures were to remain unchanged.

Although the city faces adverse long-range economic trends beyond its control, the most important causes of its immediate budget problems are the city's failure to control to control spending and its use of transparently unrealistic revenue to balance the 1975-76 budget. The Philadelphia City Council acquiesced in the revenue estimates and must share in the blame for the city's current fiscal plight.

Lennox Moak, city finance director, estimates the deficit at $80 million, of which the principal items are:

(1) The city projected a six percent increase in the assessed value of taxable real property for fiscal year 1975-76 over 1974-75. The actual increase is about 1.5 percent, resulting in a revenue shortfall of about $3 million.

(2) The city projected a 10 percent increase in wage and net-profit tax revenues for 1975-76. The actual increase now is expected to be 6.4 percent resulting in a revenue shortfall of about $11 million.

(3) The city budgeted $65 million in revenues that were contingent upon enactment of new legislation both by the Pennsylvania General Assembly and by the United States Congress. No such legislation was enacted, and none of these revenues materialized. The $65 million consisted of the following items.

(a) Collection of $6.3 million in delinquent real estate taxes from the Penn Central and Reading Railroads to be obtained upon the takeover of the railroads by CONRAIL.

(b) Increased personal property tax revenues of $26 million resulting from the elimination of the tax exempt status of stocks in companies that pay capital stock tax to the Commonwealth of Pennsylvania. Elimination of the exemption would have required legislative enactment by the General Assembly.

(c) An appropriation by the General Assembly to local governments of taxes the state collects from foreign life insurance companies. The city budgeted $10 million from this source.

(d) Receipt of $12 million in additional federal revenue sharing funds from a proposed $3-a barrel tax on imported oil and oil products.

(e) Receipt of $10 million in increased legal filing fees collected by Philadelphia Common Pleas Court. This would have required enactment by the General Assembly.

(f) Voluntary refunding of bonds sold in secondary markets to be legislatively authorized by the General Assembly. The city budgeted receipts of $1 million from this source.

The city proposes to eliminate the $80 million deficit by imposing the following new and increased taxes:

PROPOSED INTERIM TAXES, TAX RATES, AND PROJECTED YIELDS
FOR FY-76, GENERAL FUND, CITY OF PHILADELPHIA
(Amounts in Millions)

	Rate	Duration Start	Duration Finish	Estimated Yield FY-76
Temporary Taxes				
1. Hotel Tax	5.0	3/1/76	12/31/76	0.6
2. Food and Beverages	5.0	3/1/76	12/31/76	5.7
Permanent Taxes				
3. Amusement Tax	+5.0%*	3/1/76	-	0.7
4. Parking Lot Tax	+5.0%	3/1/76	-	0.1
5. Parking Garage Tax**	15.0%	3/1/76	-	0.2
6. Mercantile License Tax	+1/10%	3/1/76	-	8.5
7. Vending Machine Tax	$50	3/1/76	-	1.0
8. Real Property Tax	+14 mills	1/1/76	-	63.7
TOTAL				80.5
Amount Needed to Eliminate Estimated Deficit at June 30, 1976				80.0

*Broaden base.
**Assuming 10,000 spaces at $600 per space = 6,000,000 x .15 = $900,000.

William Klenk, city controller, estimated the 1975-76 deficit to be $100 million. Mr. Klenk attributes most of the $20 million difference between his estimate and Mr. Moak's projection to larger wage settlements than were provided for in the city's budget. The subcommittee lacks the time and resources to reach an independent judgment about the precise size of the deficit. However, the subcommittee finds as a fact that a substantial deficit, probably between $80 and $100 million, will occur if city revenues and expenditures remain on their current course.

2. The City of Philadelphia faces substantially higher interest payments and possible default if it does not take immediate steps to cut spending and increase revenues.

No American city can survive without frequent access to the nation's credit markets, and Philadelphia is no exception. Mr. Moak testified that the city will have to borrow $40 to $50 million on July 1, 1976, to meet its payroll and other expenses. Although substantial borrowing in early July is part of the city's normal fiscal activity, grave risks will be associated with such borrowing in 1976 because of the city's desperate financial situation.

In addition, the city will have to borrow $82 million to pay off bond anticipation notes due in December, 1976, and $75 million to pay off notes due in October, 1977.

According to the testimony of expert witnesses, the city must take two steps to protect its access to the credit markets: first, eliminate or substantially reduce the pending 1975-76 deficit; second, put its fiscal house in order by controlling spending. Without these steps, the city will be running grave risks. At best, city taxpayers will have to bear the burden of higher interest payments running into millions of dollars for decades to come. At worst, the city could be shut out of the credit markets and forced into default.

In light of the city's borrowing needs, the subcommittee finds the testimony of Brenton Harries particularly compelling. Harries, the president of Standard and Poor Co., a leading bond-rating organization, testified that the city must make substantial progress toward eliminating the 1975-76 deficit before June 30, 1976:

—May I answer your question primarily from the standpoint of (municipal bond) rater?...If the city ends up its fiscal year with a deficit of $80 million but is on the track of getting something done, I submit to you it hasn't done enough. Can there be any deficit at all? Yes, a modest amount that we could live with, and I am sure the investment banking community could live with, if the machinery is in motion to accomplish overtime the corrective measures.

Harries also said that balancing the city's budget through tax increases alone would not be an adequate solution. The city must cut spending:

—...We also would expect that the city would re-examine the expenditure side of its budget. I run a business of 1,000 people, and I could certainly cut five to eight percent if I were ordered to do so under budgetary requirements, although I think we run a very efficient company. So we would look, I think, for something on both sides: of an increase in real estate taxes and a lowering of the expense budget.

G. Morris Dorrance, Chairman of the Philadelphia National Bank, which is the leading institution in a consortium of banks providing short-term financing to the city, painted a grim scenario of what might be expected to happen if the city did not take the twin steps of cutting spending and increasing revenues:

—If measures are not adopted in the current fiscal year to balance this year's budget, measures far more burdensome than those under consideration will have to be taken to balance next year's budget with this year's deficit added to it.

A deficit this year will make it extraordinarily difficult to cut enough expenses and generate enough additional income to balance the City's 1977 budget. The services that might have to be cut and the taxes that might then have to be raised, I think would be substantially greater than they would be if the current year's budget is balanced.

In addition, failure to balance this year's budget will risk a host of extremely serious problems beyond those already discussed.

First, I suggest the public securities markets will conclude that the City does not have the will or the ability to manage its fiscal affairs prudently.

Second, the City's credit rating will suffer -- and you certainly had expert testimony on that yesterday.

Third, the City will probably not be able to sell its bonds and notes in the public markets.

Fourth, the City will probably be unable to refinance many millions of bond anticipation notes that fall due late this year and next year. I think you have recognized $82 million is scheduled to fall due in December of this year and an additional $75 million will fall due in October of 1977.

In addition, if funds cannot be borrowed in the public markets and are not otherwise available, it would be normal for the City to turn to the State for help in meeting its obligations. If this occurs, the State's credit may be adversely affected and its borrowing costs may be increased.

Other expert witnesses provided similar warnings:

Dr. Betram Zumeta, Economist, First Pennsylvania Bank and Trust Company. --I have been asked to comment on the impact of possible default. The impact of possible default, I think, we have already felt to some extent. And the more there is a threat of default, the more I think we are going to feel the impact. We are going to be shut out of the money markets. If we actually defaulted, then I think there would be an even more grevious impact.

Charles Bowser. --Once the truth is known, it will become clear to everyone that granting the taxes requested without requiring a reduction in expenditures by the city will certainly lead Philadelphia down the same disastrous road which New York followed to bankruptcy.

Greater Philadelphia Partnership*. --GPP strongly believes that any measures necessary to close an existing budget deficit or to balance future budgets must contain not only some inevitable tax increases but equally important concrete measures to control and reduce existing levels of spending.

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*The Greater Philadelphia Partnership took no official position on the city's request for emergency taxing authorization in its testimony at the hearings on the grounds that the city must first provide fuller disclosure of its future budget plans. On March 12, the GPP issued a revised statement strongly supporting the city's legislative request and citing the need to protect access to national money markets.

The Pennsylvania Economy League declined to testify at the subcommittee hearings but later broke with a long-standing tradition of avoiding partisan issues and urged the General Assembly to grant the city taxing authorization.

The testimony of expert witnesses, then, is that investor confidence demands cuts in spending and new revenues if the city is to have continued access to the credit markets. This testimony is reinforced by the testimony of an impressive array of businessmen, community leaders, and individual citizens who expressed a strong desire that the city cut back and control spending. After more than 40 hours of testimony from experts and average citizens alike, the subcommittee concludes that public confidence in the future of the city demands a program of fiscal restraint.

One of the major recommendations made by a number of expert witnesses is that the city administration should undergo thorough management and productivity studies to determine where cuts can be made efficiently and with the least damage to services. This recommendation is discussed in Part II of our report.

Although such studies are undoubtedly needed, new tax revenues and spending controls should not be delayed until the completion of studies. Witnesses who supported studies advised against delaying action on the city's immediate problems until studies are completed. For example, Mr. Dorrance said:

> —Studies of this kind will be very helpful in setting priorities and showing where savings may be effected. But the hour is late and the risk of waiting until studies of this type are completed is too great.

The city administration and the City Council must decide where and how cuts are to be made. Obviously, the least productive and least essential employees should be cut first. The recent severe and painful cuts in the capital budget must be duplicated in the general fund if Philadelphia is to remain a viable city in which to live and work.

3. <u>If the city is not granted emergency authorization to eliminate or substantially reduce its 1975-76 deficit, the credit and resources of the Commonwealth may ulitmately be threatened.</u>

The subcommittee has cited expert testimony that unless the city is authorized to eliminate or reduce its 1975-76 deficit before Jue 30, 1976, Philadelphia's access to the nation's credit markets would be jeopardized. Mr. Dorrance testified that ultimately, the credit and resources of the Commonwealth could be affected.

This view is supported by the example of New York City and state by the testimony of other witnesses at the hearing:

> Dr. Betram Zumeta, Economist, First Pennsylvania Bank and Trust Company. --Now there is no reason for these effects of default to happen in Philadelphia or, generally, in Pennsylvania, because the credit of the State of Pennsylvania would be involved before we were through, just as the credit of the State of New York was involved before New York City was through. To avoid them, we need only hold spending levels that are dictated by our revenue base and meanwhile conserve our remaining ability to levy new taxes, an ability which still exists (here) unlike some other jurisdictions, an ability that still exists at both the city level and the state level.

> Brenton Harries, President, Standard & Poor Co. --If Philadelphia falls into a deficit position of that amount ($80 million) and finishes the year and does nothing to correct its fiscal integrity for fiscal '77, I think you could have an economic problem here which obviously would eventually filter to the state. But that would be a longer period of time for that to evolve.

> W. Thacher Longstreth, President, Greater Philadelphia Chamber of Commerce. --I think you can see why it is so necessary that we obtain the right to go ahead and pass the necessary tax legislation and do it ourselves. We are not asking for money from the state now, and do it in a way that maybe will keep us from coming to you some day with our hats in our hands, as was the case in our neighboring state.

4. The city cannot eliminate or substantially reduce its 1975-76 budget deficit by spending cuts alone.

As desirable as such a solution would be, the subcommittee finds it would be virtually impossible to cut city spending by $80 to $100 million before June 30 to eliminate the deficit. The required cuts would not only be impossible to achieve but would severely threaten the life, health, and safety of the citizens of Philadelphia and would have adverse consequences on the entire Commonwealth. As an example, assuming the salary and job benefits of the average city employee is $12,500 a year, the city would have to lay off 25,000 employees effective April 1 to reduce spending by $80 million. This would mean discharging five out of every six general fund employees.

If the projected deficit cannot be eliminated or substantially cut by reduced spending alone, then at least some new tax revenues will be required to bring the 1975-76 budget reasonably close to being balanced. This finding is supported by the testimony of the city finance director, city controller, and virtually every expert witness. For example:

> G. Morris Dorrance, Chairman, Philadelphia National Bank. --I believe expenses can be cut. But we are already two thirds of the way through the current fiscal year, and it would be unrealistic to believe that steps can be taken to cut expenses which will result in a substantial reduction in this year's aggregate expenditures. This may leave little alternative to a temporary, emergency tax increase this year.

> Betram Zumeta, Economist, First Pennsylvania Bank and Trust Company. --I am afraid, just looking at the numbers in the situation, that we cannot avoid some tax increase.

> W. Thacher Longstreth, President, Greater Philadelphia Chamber of Commerce. --First of all, I think basically we believe that the city has to acquire the right to levy taxes or to increase the taxes in a way that will make up the difference between the revenues that are being expended and those that are being collected.

> Richard O'Malley, Wynnefield Residents Association. --The Wynnefield Residents Association wants to express its opposition to the tax increase as presently proposed by the city. We recognize that some tax increase may be necessary. We are primarily concerned about the size of the increase and the prospect of additional increases next year...

Fact sheet prepared by the Coalition for Fair Share Taxes.
--...No one (including City Controller Klenk, one of the ablest advocates of budget cuts) has been willing to claim that all or even most of the emergency tax increase or of next year's projected deficit, can be eliminated by cutting expenses. Even with cuts, Philadelphians face a whopping tax increase.

5. In addition to subjecting the city to grave risks in the credit markets, denying emergency taxing authorization will force the city to make catastrophic adjustments in the 1976-77 budget which could include even harsher tax increases, more drastic service cutbacks, or both.

If this year's deficit of $80 to $100 million is not eliminated or substantially reduced, the accumulated deficit in the 1976-77 budget will escalate to enormous proportions. The effect of delaying the city's ability to deal with its problems is to force the city to deal with a proportionally larger deficit and in a shorter period of time. The size of the problem the city will face in its 1976-77 budget, without the tax authorization, would require a heavy-handed "meat-axe" approach to raising taxes and cutting services. It would be difficult, if not impossible, to implement planned economies so as to soften the impact on taxpayers and citizens.

Specifically, the deficit in this year's city budget represents 10.2 percent of city expenditures according to Moak's figures ($80 million) and 12.8 percent according to Klenk's estimate ($100 million). If this deficit is not eliminated before June 30, it will push next year's deficit to more than $250 million or a staggering 27 percent of next year's budget. This is based upon Mr. Moak's projection of a potential deficit of about $177 million during the 1976-77 fiscal year (including an unspecified amount for wage settlements with city workers).

Mr. Klenk projects a potential deficit of about $150 million will accumulate during fiscal 1976-77 exclusive of wage settlements. Although their methods of arriving at the estimates differ, Mr. Moak and Mr. Klenk are in agreement that if this year's deficit is carried forward into next year's budget, the city will be faced with a total, accumulated deficit of more than $250 million, or about 27 percent of the city's projected total budget of about $930 million. Here is how their estimated deficits compare:

Fiscal year	Moak	Klenk
1975-76 (Deficit)	$ 80 million	$100 million
1976-77 (Deficit)	177 million	150 million
Total (Deficit)	$257 million	$250 million

The central question facing the General Assembly is not whether the city should have to deal with a projected $250 million plus deficit. The question is whether the city should be forced to make up that deficit in a single year's budget or spread the remedial action over two fiscal years to alleviate the burden on taxpayers and residents. For the benefit of those members of the General Assembly who are more familiar with the state's budget than Philadelphia's budget, eliminating a 27 percent deficit in a single year in the city's budget would equate to tax increases or service cutbacks totaling $1.3 billion in the state budget.

If the city is denied emergency power to enact taxes to reduce or eliminate this year's deficit, the mayor and City Council will be required to develop and implement plans to eliminate the $250 million city deficit beginning July 1, 1976. City officials would not be required to consult the General Assembly on the manner in which the deficit would be eliminated.

6. In addition to spending cuts and/or new municipal revenues totaling $250 million, Philadelphians will be faced with a need for spending cuts and/or tax increases ranging from $88 to $115 million to balance the school district's budget for 1976-77.

Although the budget problems of the Philadelphia School District are not strictly within the parameters of the subcommittee's inquiries, any attempt to understand the potential tax burden of Philadelphia taxpayers must consider the revenue need of the Philadelphia school system. According to the testimony of Dr. Michael Marcase, superintendent of schools, the school district's deficit for 1975-76 will be between $12 million and $15 million. If that deficit is absorbed in next year's budget, the school district's total deficit next year will be about $88 million, exclusive of wage settlements that could take the total over $100 million.

Thus, the total deficit facing the city and its public school system between now and June 30, 1977, could reach a staggering sum of more than $350 million.

Much of the school district's revenue needs probably will be met by increases in the property tax (probably in the property tax millage) or spending cuts or both.

7. The impact of tax increases on the city's economic base and on the lives of its citizens must be weighed along with the impact of service cuts.

Determining the precise effect on the city's economic base of various combinations of tax increases and service cutbacks is beyond the scope of the subcommittee's inquiry and more properly belongs to the city administration and the City Council.

The subcommittee calls attention, however, to the following testimony:

Dr. Anita Summers, Economist, Federal Reserve Bank of Philadelphia. --The issue is not whether increasing the property tax by 30 percent is going to reduce employment in the city or residents; the issue is will it reduce more or less than the alternative? And the alternative may well be reducing services...there is a great deal of documentation for the fact that reductions in services also cause people and businesses to leave. The answer we are looking for here is: what is the relative losses due to each of them...you really need to do a detailed study in the city of each of these issues to get at that answer.

Edward Schwartz, Southwest Germantown Association. --In my neighborhood we want clean streets. We want recreation aides and policemen in our parks. We want day care services and decent educational facilities for our children. What kind of a favor is anybody doing for us to say that a tax increase will become more bearable if the city eliminates important services that we need?

W. Thacher Longstreth, President, Greater Philadelphia Chamber of Commerce. --Unless we are able to put through a tax of this sort and there is a shortfall of $70 or $80 million, the first people who will probably feel the result of that shortfall will be the same persons, the persons in the lower income group, and I think they probably stand to lose more from a shortfall than from a tax increase.

Fact Sheet prepared by Coalition for Fair Share Taxes, representing numerous community groups. --Advocates of better neighborhood services, housing code enforcement, continued health care services, etc., should be cautious about wholesale budget cuts. There is ample evidence (as in the PGH situation) that the services needed by ordinary citizens will suffer most.

Representatives of the hotel, tavern, restaurant, vending machine, parking, and motion picture industries opposed the levies proposed for their industries. However, the impact of these taxes also must be weighed by the City Council along with the extra burden on city services caused by Bicentennial visitors. The hotel, food, and drink taxes appear to be one way of insuring that visitors contribute to the local expense of extra services. Mr. Longstreth opposed the increase in the gross receipts tax.

Businessmen and economists generally were of the opinion that the proposed property tax increase would not have a serious impact on decisions by businessmen to locate in the city.

Homeowners, tenants, and a representative of apartment owners generally opposed the proposed property tax increases, particularly because of its size and the suddenness with which it was proposed.

The impact of the proposed property tax increase on homeowners can be summarized as follows:

If Property is assessed at*	The current tax is	The proposed tax would be
$ 5,000	$ 238.57	$ 308.75
10,000	477.50	617.50
15,000	716.25	926.25
20,000	955.00	1,235.00
25,000	1,193.75	1,543.75
30,000	1,432.50	1,852.50
40,000	1,910.00	2,470.00
50,000	2,387.50	3,087.50

*Assessed valuation is 40 to 50 percent of market value.

8. A legislated cap on the wage tax paid by nonresidents would have disastrous effects on the economic base of the city and, in the long run, on the metropolitan region.

The city administration estimates that a cap on the wage tax paid by nonresidents would deprive the city of $1.8 million for each sixteenth of one percent not applied to nonresidents. Thus, if the city administration were to raise the wage tax to four percent next July 1, and nonresidents continued to be taxed at three and five-sixteenths percent, the city would lose about $19.8 million.

As serious as this revenue loss would be to the city, the long-range adverse economic impact would be a greater problem not only for the city but for the entire metropolitan region.

Every homeowner knows that the economic value of his property depends to a large degree on the value of his neighbors' properties. Deterioration of one house on a block can cause economic loss to every other homeowner. The greater the disparity in property value on the block, the more severe the economic problem.

Similarly, further economic deterioration of the city of Philadelphia will have an adverse impact on its suburbs and ultimately on the Commonwealth.

According to 1970 census data, the disparity between city and suburban income is greater in the Philadelphia metropolitan area than in any other area in the state. The data show Philadelphia's suburbs had the highest average family income, $14,375 a year. The city's average family income was $10,436, or 27 percent less.

The corresponding averages for all other metropolitan areas in the state are $11,498 for suburbs and $9,710 for cities, or a difference of 15.5 percent.

If the Philadelphia wage tax is capped or otherwise restricted on nonresidents, the resulting economic incentive will aggravate the disparity in income between the city and its suburbs. The economic decline of the central city will be accelerated as more affluent citizens and businesses move out into the already burgeoning suburbs and as those who cannot escape the city are taxed at even higher rates. The entire metropolitan region will suffer long-term decay that will work to the detriment of both city and suburban residents.

This finding is supported by virtually every expert witness who addressed the issue, most notably by the economists:

> Dr. Bertram Zumeta, Economist, First Pennsylvania Bank and Trust Co. --Now the question is: what kind of package of increased taxation would accelerate the outflow most: And in this connection, I point out to you that property taxes are everywhere. You cannot escape them...Now on the other hand, the wage tax can be escaped. And this is important not only to people who can just move to escape it, it is important to employers because, as Mrs. Summers pointed out, it gets built into the cost of wages they have to pay. It also affects the availability of labor to them. ...I am against the cap on the wage tax ..The reason I am against the cap on the wage tax is because it simply induces people to vote more frequently with their feet.

> Dr. Anita Summers, Economist, Federal Reserve Bank of Philadelphia. --The most likely outcome may well be that the firm will pay some of that wage tax, that in order to keep the labor supply here, they will increase their wages somewhat, maybe not all the way, that is a question we do not know the answer to, but it is very unlikely that the wage earner would alone pay for that wage increase. If the firms in Philadelphia, then, respond to this by somewhat raising their wages, then what you can expect is that the investment will decline, that the firms will be less likely to settle here than a place where they don't have to do that.

> Business groups and bankers also supported this finding:

> W. Thacher Longstreth, President, Greater Philadelphia Chamber of Commerce. --If you look along the city line, you can see there are quite a number of businesses, particularly those that are in the service industries, and that can be moved relatively easily, that have settled on that side of the line rather than on the Philadelphia side of the line, in order to avoid the wage tax. If a cap is established...you will have a rather substantial movement of people, let's say from the northeast or from the western part, where middle income people live, into the suburban communities...

> G. Morris Dorrance, Chairman, Philadelphia National Bank. --I would be very much against a cap (on the wage tax paid by nonresidents)...It seems to me that I do not want to further encourage people to move away from the City of

> Philadelphia...I think if we are going to try to divide it between the region and the city itself, we are making an enormous mistake.
>
> Graham Finney, Greater Philadelphia Partnership. --Greater Philadelphia Partnership is opposed to the imposition of a maximum ceiling on future increases in the wage tax as it affects nonresidents because such a cap...would have disastrous implications for the future of the city and the region.

In addition to the adverse economic impact of a cap on the wage tax, the subcommittee notes the strong possibility that such a cap would be in violation of the uniformity clause of the state constitution and would be overturned by the courts.

The subcommittee further notes that both the city administration and various independent groups have said that the adverse consequences of a ceiling are so great that Philadelphia would be better off having no emergency taxing authorization at all if a cap is the price of getting such legislation passed.

A cap on the wage tax, then, can be expected to encounter severe constitutional and political problems. If the city of Philadelphia is unable to obtain an emergency taxing authorization because of the issue of the cap, the city probably will be forced to enact an even higher wage tax increase effective July 1, 1976, to deal with an accumulated deficit of about $250 million.

In enacting such a tax, which would fall on residents and nonresidents alike, the City Council would not be required to consult with the General Assembly in any fashion.

Recommendations

1. The General Assembly should deny emergency taxing authority unless the city administration produces a prudent fiscal plan for the coming fiscal year which includes substantial spending cuts.

The subcommittee has not yet seen firm evidence that the Mayor and City Council understand the magnitude of the city's crisis and the degree of fiscal sacrifice needed to deal with that crisis. By granting emergency taxing authorization without such firm evidence, the General Assembly would risk giving city officials license to perpetuate the city's problems by simply raising taxes.

The city should produce a plan that will show how the city will operate if it receives emergency taxing authorization and what tax increases and/or spending cuts will be made if it is denied interim taxing power.

The fiscal plan should show a substantial cut in overall city spending to minimize the impact of tax increases. It should be noted that the legislators who will vote on the city's requests have shown a willingness to hold down spending so as to avoid increases in state taxes for the last two years. The city should exercise similar restraint.

The fiscal plan also should show how cuts will be implemented in a humane manner with the least possible adverse impact on essential city services.

2. The General Assembly should attach to the emergency legislation requested by the city a ceiling of 11 mills on any real property tax increases.

The subcommittee opposes any attempt by the General Assembly to dictate Philadelphia's budget decisions or borrowing policies from Harrisburg as being violative of home rule principles. The subcommittee also would oppose any attempt to impose on the city a Financial Control Board composed of bankers, lawyers, economists, businessmen and other nonelected persons. Such boards are repugnant to our basic system of government because they tend to remove public policy decisions from the hands of elected officials.

Any one of these steps would undermine the Home Rule Charter which has served the city well during the last 25 years.

Any one of these steps would weaken or destroy the right of Philadelphians to govern themselves and would particularly dilute participation by members of minority groups in the decision-making processes of the city. Each represents, in our judgment, a cure that is worse than the disease.

However, the subcommittee strongly supports the overwhelming testimony by expert witnesses and individual citizens that the city administration must begin to control spending immediately to minimize tax increases. The subcommittee recommends that the Pennsylvania General Assembly put an 11-mill ceiling on any property tax increases enacted by the city council for 1975-76. The purpose of the ceiling is to soften the impact on the citizens of Philadelphia and to convey forcefully to the city the legislature's desire that spending be controlled.

Cutting three mills from the city's proposed increase of 14 mills will cause the city to incur a manageable deficit of about $14 million in the 1975-76 budget. (On a cash basis the deficit might be somewhat larger because some 1975-76 property tax revenues will not be collected until after July 1.) The subcommittee would expect the city to begin to reduce the deficit immediately by making budget cuts.

In enacting a three-mill cut, the General Assembly would not be dictating Philadelphia's budget priorities but would be merely limiting its revenue through tax increases during the current year. The mayor and City Council would retain their legitimate power to set priorities within available revenues. As the city controller has pointed out, the mayor of Philadelphia has impoundment powers which could be used to reduce spending.

The subcommittee believes a modest deficit in 1975-76 will not endanger the city financially and calls attention to the following testimony:

> Brenton Harries, President, Standard and Poor Co.
> --May I answer your question primarily from the standpoint of a (municipal bond) rater?...If the city ends up its fiscal year with a deficit of $80 million but is on the track of getting something done, I submit to you it hasn't done enough. Can there be any deficit at all? Yes, a modest amount that we could live with and I am sure the investment banking community could live with, if the machinery is in motion to accomplish overtime the corrective measures (emphasis added).

3. If the city provides an adequate 1976-77 fiscal plan, with substantial spending cuts, the General Assembly should grant emergency taxing authorization.

The subcommittee believes the city should be given the authority to begin solving its problems before the end of the fiscal year. Although denying the city's request might be a politically popular step in the eyes of many citizens of Philadelphia, the subcommittee is convinced it would create unduly severe hardships for the people of the city and for suburban taxpayers in the fiscal year beginning July 1. In addition, delaying a solution to Philadelphia's budget problems will subject the city to unnecessary and undesirable risks in the nation's credit markets.

The weight of the expert testimony was that if Philadelphia is not given taxing power now, the credit and resources of the Commonwealth may be threatened in the not-too-distant future. In such an event, the General Assembly, which is now asked only to give the city the power to raise its own taxes, may eventually be asked to provide loan guarantees or direct state aid requiring an increase in state taxes.

In Finding Number 10 of the report filed by minority members of this subcommittee, reference is made to the case of Mastrangelo v. Buckley, 433 PA 352 (196 Findings 11 through 14 of the minority report make clear the the minority members have misread Mastrangelo and thus have distorted the intention of the Supreme Court.

The minority apparently believes that the General Assembly has no right to grant interim taxing power absent a concomitant amendment to the City Charter, duly approved by the electorate, and that a grant of power would violate Article IX of Pennsylvania's Constitution.

In Mastrangelo, the Supreme Court, in striking down a series of City Council-passed interim tax bills, recognized that while the City Charter grants to Philadelphia's City Council to interim right of taxation and while no specific right to tax on an interim basis was granted by the General Assembly, "if it is desirable that the city or any other municipality be permitted to enact interim taxation such a problem is for the legislative branch of government." (433 PA 378). It is clear from the dissents filed in the case that the majority of the court meant to recognize the properiety of a grant of legislative power by that General Assembly. It is equally clear that this session can supply that power.

4. <u>The General Assembly should reject any attempt to put a ceiling on the wage tax paid by nonresidents.</u>

The subcommittee recognizes and understands the strong feeling on the part of many suburban residents that they should not have to pay the same wage tax rate as residents of the city. Philadelphia residents hold equally strong feelings that at present it is only through the nonresident wage tax that the city can be compensated for services which it provides to suburban workers and to all residents of the region. The local cost of the Philadelphia International Airport, for example is borne entirely by the city although more nonresidents than residents probably make use of its facilities.

Moreover, expert testimony indicates that a different rate between city and suburban taxpayers would do long-range damage to the economic base of the city and, ultimately to the metropolitan region.

The subcommittee further notes the strong possibility that a different rate on residents and nonresidents would be found unconstitutional.

If the city is denied emergency taxing authorization because of the cap on the wage tax or any other issue, the City Council would be forced to raise the wage tax even higher effective July 1 to help deal with a projected $250 million deficit in the 1976-77 budget. The increase in the wage tax, possibly to more than 5 percent, could be put into effect by the City Council without any input from city or suburban legislators.

The subcommittee believes that the best way to hold down the wage tax on residents and nonresidents alike and to protect the regional economy is to support the city's tax requests without a cap.

PART II: RECOMMENDATIONS FOR FISCAL REFORM

Findings

1. The City of Philadelphia has seriously damaged public confidence in the credibility of its revenue estimates.

The composition of the bulk of the city's 1975-76 deficit, as viewed by the city administration, has been outlined in Part I of this report. The principle elements are $65 million in revenues dependent on action by the state and federal governments and $14 million in wage and property tax receipts which did not materialize.

Philadelphia's Home Rule Charter (Chapter 3) provides that the mayor is responsible for preparing a budget message and a proposed budget ordinance based upon projected revenue receipts which cannot be altered by City Council. Although City Council cannot appropriate more than the administration projects in revenue receipts, there does not appear to be any requirement that the Council spend every dollar of estimated revenue.

The subcommittee notes that although the city's need for additional revenues through legislative action by the General Assembly was disclosed in April, 1975, legislation authorizing those revenues was not introduced until June 11, some three weeks before the end of the 1974-75 fiscal year. The General Assembly at that time was preoccupied with enactment of a state budget. A number of the city's programs would have had to have been law by July 1, 1975, to realize the full revenue benefits. The subcommittee also notes that these new revenues were widely criticized in the press as "unrealistic" at the time they were first described by the city finance director.

Intergovernmental transfer payments have become increasingly important to Philadelphia in the last 15 years. In 1960, transfer payments from the federal and state governments amounted to $11.6 million, or 4.5 percent of the city's total general fund revenues. In 1974, federal and state transfer payments were $268.6 million, or 30.1 percent of total city general fund revenues.

The subcommittee recognizes that the city has balanced previous budgets with unenacted federal revenues, the most notable example of which is federal revenue sharing. Former Mayor Tate's last budget (1971-72) anticipated revenue sharing funds not yet passed by Congress, and these funds ultimately were received, allowing the city to avoid a tax increase.

Nevertheless, the substantial size of transfer payments in the city's budget and projections that federal payments will begin to taper off in the next five years give cause for concern that intergovernmental transfers be treated carefully, prudently, and if possible, objectively in preparing municipal budgets.

The subcommittee notes that Mr. Moak's presentation to the subcommittee disclosed very little about the way the city estimates its revenues. Exhibit "A" of Moak's prepared presentation states:

> --In March, 1975, when the present estimates were being prepared, economists were generally optimistic concerning the projected levels of employment in the nation and in Philadelphia. Most persons thought that after a sag in the Winter of 1974-75, the levels of employment in Philadelphia which characterized the Fall of 1974 would prevail.
>
> Unfortunately, this has not happened. There was a major decrease in employment early in 1975 and there was a continued sag through August, 1975 (the last month for which preliminary estimates are available).

The increases forecast in the real property tax receipts ignored the experience of recent years which saw assessed valuation rise at a much lower level than six percent. The city's forecast of an increase in wage and net-profits tax receipts took a very rosy view of a gloomy economy.

2. Philadelphia faces long-range fiscal and economic problems because of underlying forces which also affect other large cities in the industrial northeastern United States and many medium-size and smaller cities in the Commonwealth.

Although the scope of the subcommittee's inquiries are limited to Philadelphia's immediate budget problems, we believe it is vital that the General Assembly recognize that Philadelphia and many other cities in the Commonwealth face potentially severe fiscal and economic problems largely because of forces beyond their control.

An examination of the state's 17 largest cities in terms of four indicators of financial health show that Philadelphia's ills are not unique. Specifically, the data show:

(1) That all of the other large cities in the Commonwealth have had to rely increasingly on federal and state transfer payments to balance their budgets in recent years. Decreasing formulas built into federal law indicate that transfer payments to large cities will begin to taper off in the next five years.

(2) That all of the other cities are losing population visa-vis their suburbs.

(3) That the other cities generally have funding problems with their pension plans for municipal employees. One hundred uniformed and nonuniformed pension systems in 40 Pennsylvania cities have an unfunded liability of almost $1 billion.

(4) That the latest bond-rating of the cities are generally lower than they were in December, 1970.

These trends are cited to help put Philadelphia's problems into perspective and to support two of the sucommittee's long-range recommendations.

Recommendations

1. The General Assembly should consider drafting a Uniform Municipal Accounting Act, one purpose of which would be to discourage or eliminate the inclusion of unrealistic revenues in local government budgets.

The subcommittee cannot condone the inclusion in the city's budget of unrealistic revenues dependent entirely upon legislative action by the state and federal governments. Had there been objective accounting standards which would have precluded the city from balancing its 1975-76 budget with the $65 million in "problematic" revenues, the city would have had to face fiscal realities in the spring of 1975.

The subcommittee also believes that uniform municipal accounting standards would assist bond-rating agencies and potential investors in determining the marketability of municipal bonds. Brenton Harriers, president of Standard and Poor, recommended that the 50 states develop disclosure legislation in his testimony before the United States Senate Securities Subcommittee on February 25.

We recommend, therefore, that the General Assembly undertake, through an appropriate committee, the task of studying the need for such legislation and of preparing a draft based on the study. As we envision the act, it would provide clear guidelines to be followed in connection with various aspects of fiscal procedures, including objective definitions of the types of revenues that can be included in the budget. Particularly, the draft should attempt to establish standards for inclusion of revenues from other levels of government and the accounting method -- accrual or cash -- to be employed.

The General Assembly could mandate compliance with the accounting standards as a condition to the receipt of appropriations made by the General Assembly.

2. The subcommittee urges the mayor and his financial advisor to consider the use of more scientific methodology to determine tax yield.

The subcommittee believes the city should have been able to produce a more accurate forecast of property tax and wage tax receipts than it did in the spring of 1975. Dr. Anita Summers of the Federal Reserve Bank told the subcommittee that the University of Pennsylvania's economic model of the city "has a pretty good track record of forecasting". She said the model would have permitted a more accurate forecast of wage tax revenue.

The subcommittee believes the city should imitate the practice of the Commonwealth's budget office, which uses a particular forecasting service on a year-in, year-out basis to insure consistent, accurate, and objective forecasts.

3. The Philadelphia city government should undergo thorough management and productivity studies to determine how spending can be effectively controlled with the least damage to city services.

The subcommittee believes that greater efficiency in government with concomitant savings is essential to Philadelphia's future. Although budget exigencies may demand a curtailment of services, the subcommittee cannot agree that across-the-board curtailment, such as proposed by the finance director on March 6, is a wise step, other than on a temporary basis.

It is clear that the budget uncertainties for 1976-77 and thereafter require a thorough review first by a management survey team of businessmen, industrialists, economists, bankers, accountants and others having expertise in municipal financing. The team should have the power to retain the services of a management survey expert. Among the duties of this oversight team will be a productivity study of the present personnel to determine whether a reduction in payroll expense can be attained without sacrificing the programs now in effect.

Among the duties of this team would be to inquire into the management of funds, although the testimony indicates that little improvement is possible here.

Once personnel reduction has been tested by productivity standards, should program reduction become essential, further budget slashing will become a matter of priorities. Here too, across the board reduction is inimical to the best interest of the city.

The subcommittee would hope that the city would realize savings from such a study similar to those realized at the state level from Governor Shapp's management review projects. The 1972 businessmen's review resulted in permanent savings of $164 million a year and one-shot savings of $102 million. The 1975 management review recommended steps to save $350 million a year and $155 million in one time costs.

4. The city should consider billing citizens for property taxes on a quarterly or semi-annual basis.

Semi-annual or quarterly billing of citizens for property taxes was recommended by a number of witnesses representing consumer and community organizations. The subcommittee believes the city should give the suggestion serious consideration. Not only would quarterly or semi-annual billing soften the impact of the taxes on most citizens, but it would tend to flatten the city's revenue receipts curve and possibly lead to lower interest charges. Theoretically, the city would be able to avoid some borrowing in anticipation of the property tax revenues which now arrive late in the fiscal year.

5. <u>The General Assembly should consider drafting stand-by legislation to provide for emergency procedures for dealing with defaults by any of the Commonwealth's cities.</u>

The fiscal crisis in New York City and state and underlying trends affecting other Pennsylvania cities dictate that the General Assembly should consider preparing emergency legislation to help prevent municipal defaults. The subcommittee hopes that such legislation will not be needed by Philadelphia or any other city in the Commonwealth. However, we also believe that, in view of the magnitude of the damage that could result to all Pennsylvanians should a municipal default occur, the General Assembly would be wise to prepare stand-by legislation granting the state emergency powers. The task of preparing a draft of such legislation should be assigned to an appropriate joint House-Senate task force or legislative agency.

6. <u>The General Assembly should consider legislation mandating that state intergovernmental transfer payments to local governments are paid within the fiscal year for which the funds are intended to be used.</u>

Mr. Moak testified that the city was forced to incur borrowing costs because federal and state transfer payments often were not received by the city until after the end of the fiscal year for which they were intended. Such delays apparently are one reason that the city administration has resorted to accrual accounting procedures with regard to transfer payments. The General Assembly should consider legislation mandating prompt payment of such transfers so that they will enable local budgets to be balanced on a cash basis and with less borrowing charges.

THE EMERGENCY TAX PACKAGE

A Background Report on City Finance

by

The Greater Philadelphia Partnership

March 2, 1976

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THE EMERGENCY TAX PACKAGE

I. Background

On January 19, 1976, the Finance Director of the City of Philadelphia revealed that the City was facing a current year deficit of $80 million. At the same time he stated that the City would seek emergency authorization from the State Legislature to raise taxes to offset the Fiscal Year 1976 deficit before presentation of the City budget for 1976-77. Pressure to disclose the deficit and to seek emergency tax relief had been exerted by the City's commercial banks as a precondition to provision of short-term tax anticipation notes to meet an imminent cash flow problem faced by the City administration.

The major tax increase being proposed by the City administration is a 14 mill (or 29.3%) increase in the real property tax which is projected to yield $65.3 million. Other parts of the package include a permanent increase in the mercantile license tax ($8.5 million) and a series of temporary and permanent taxes directed at economic activity to be generated during the Bicentennial.

Legislation to obtain approval of these mid-year tax increases is now being considered in Harrisburg amidst a heated debate among business, neighborhood, political, and suburban and city taxpayer groups. Confusion surrounds the reasons for the sudden emergence of the deficit, alternatives to the emergency tax package, the timing of the request and its likely impact measured in terms of equity, the competitive status of the City, and the provision of public services in Philadelphia.

Many are also waiting for the second shoe to drop; namely, the issuance of the 1976-77 executive budgets for both the City and the School District of Philadelphia, on or before the Charter-prescribed date of April 1.

This report by the Greater Philadelphia Partnership seeks to cut through the issues, alternatives, and implications surrounding the emergency tax package by providing hard data where it exists, an analysis of possible impact, and a set of recommendations for consideration by the citizens of Philadelphia and their elected representatives.

In preparing the report, GPP is most grateful for the research assistance of the Pennsylvania Economy League, the Research Department of the Federal Reserve Bank of Philadelphia, and members of the Council on Regional Economic Policy. The analysis and the conclusions, however, are strictly its own, having been discussed by a special Public Finance Task Force, the Executive Committee and the Board of Directors of the Partnership.

II. Overview

The current $80 million deficit in the City's General Fund marks a substantial departure from recent experience by the City of Philadelphia which has received high marks from credit analysts and other observers of municipal finance, as well as by the voting electorate. While a year-end deficit is not unusual for a large public body such as Philadelphia, the size and scope of the current deficit and its causes now raise immediate and long-range concerns about Philadelphia's fiscal affairs.

While the first report in this GPP series on the City's finances, the "Context of the Current Fiscal Crisis," differentiates between New York City's continuing fiscal agony and our own situation, severe basic problems facing Philadelphia must be addressed. Not only are the watchful eyes of the nation's money markets looking intensely at our situation, but so are the eyes of homeowners, businessmen, pensioners, and investors, large and small. Tens of thousands of economic decisions profoundly affecting the City's future competitive position, quality of living and the budgets of individuals, families, and business ride on how we handle the immediate crisis, its underlying causes, and the attitudes and climate it is generating.

Let us begin by asking the key question: How did the City get into the position in which it now finds itself? The answer lies in a complex set of forces and decisions that need to be confronted before determining corrective steps that must be taken. Some of these factors lie well beyond the control of local policy and practice; others are just as clearly the result of errors of omission or commission by local leadership: elected, appointed and privately based as well.

(1) Effects of Recession/Inflation

Certainly, months of economic stagnation compounded by steady inflation at the national and international level have taken a heavy toll on the relatively inflexible fiscal condition of the City of Philadelphia. Like private corporations, Philadelphia is at the mercy of such economic forces, only much more so. Operating through complex, time-consuming, political processes, rooted in place, providing a variety of services that simply cannot be cut off, the City has been vulnerable to soaring costs, reduced tax yields, and shifting national economic policies. Historically, local government has always taken a beating in times of recession and depression. The years 1974-76 have certainly been no exception for this city.

(2) The Special Burdens of a Mature City and a Static Economic Base

Beneath the immediate effects of the current recession, the City has also been experiencing the erosion of parts of its economic base that tend to generate additional governmental costs. While recent studies show a modestly favorable employment outlook (with a near balance between lost manufacturing and newly-gained white collar employment over the past decade or more), other events affecting the socio-economic condition of the City have left their scars on the City of Philadelphia's current and future fiscal outlook.

There has been a national, regional and local slowdown in the overall rate of economic growth, as measured in population, employment and income terms. The mature Northeast, for example, as a whole, has lost considerable economic and political advantage to the "Sun Belt" of the southern and southwestern states especially.

There is continuing high, chronic unemployment, most severe among minority and youthful components of the labor force. The aging physical plant and infrastructure of the City show signs of increasing wear, deterioration, and abandonment. The steady clustering of the poor and dependent within the boundaries of the City has created intensified pressures for public assistance and other kinds of basic public services. Federal and state assistance for some vital functions (e.g., community development) has plateaued, after many years of steady increase. New construction and development activity continues to favor suburban rather than central city locations.

In short, the multiple, costly, chronic problems of an old city like Philadelphia, when added to the short term realities of recession and inflation, have contributed greatly to the current fiscal crisis of the City, and these problems will not disappear when the recession itself has eased or passed into history.

(3) Specious New Revenue Sources in the 1976 Operating Budget

The most easily traceable cause of the City's estimated $80 million deficit, however, is found in the highly speculative revenue proposals on which the 1976 Operating Budget was based and "brought into balance" as required by the City Charter. All of the nation's cities have confronted the inroads of recession and inflation-fed cost increases; Philadelphia may be unique in having chosen until now to balance these realities with paper proposals. Public shock and misunderstanding of the proposed emergency tax package comes in part from realizing that not one of the new revenue proposals used to balance the 1976 budget has materialized.

In his budget message to City Council in April, 1975, Mayor Rizzo outlined a six point, $65.3 million revenue package, each piece of which was dependent upon Federal or State legislative action. The proposals included:

TABLE 1

New Revenue Proposals
1975-76 Operating Budget
City of Philadelphia

	(in millions)
Delinquent Real Estate Taxes Owed by Railroads	$ 6.3
Federal Energy Revenue Sharing	12.0
Tax on Foreign Life Insurance Premiums	10.0
Refunding of Bonds	1.0
Personal Property Tax Exemption	26.0
Civil Court Fees	10.0
TOTAL	$65.3

Source: 1975-76 Mayor's Operating Budget, "The Mayor's Message," P.5 City of Philadelphia

As already noted, none of these revenue measures has been approved by the Congress or the State Legislature. Whether the assumptions behind their original presentation reflected honest hopes or blatant political expedience is not for this report to determine. Painfully clear, however, is the fact that failure to realize required additional revenues from realistic sources (e.g. increases in existing broad-based taxes) has created today's "emergency situation." Blame for this condition must be shared by the Mayor, the City's administrative leadership, the City Council, and all others who recognized the problem but failed to speak up and address it squarely during 1975.

(4) Disappointing Yields from Current Revenue Sources

Exacerbating the failure to realize new revenue sources have been 1975 revenue projections which, in retrospect, seem as well to have been built with undue optimism, given the well-known state of the economy. Wage earnings and net profit tax yield for 1976 was projected at $334 million. While total taxable wages were increasing, the wage tax base itself declined in 1975 because of a loss of jobs, leaving a currently estimated $14 million shortfall in this vital category.

Likewise, the property tax revenue projections were based upon a 6% increase in assessed valuations, a figure far above the 1.4% assessment rise now recorded for 1976 by the Board of Revision of Taxes.

A summary of these and other revenue projections is displayed in Table 2.

(5) Soaring Expenditure Patterns

In recent years and through several administrations, expenditures by City government have steadily increased, thus ever-widening the gap to be filled by available revenue sources. Some have been unavoidable increases; others would have been clearly within the control of a disciplined municipal economy as the following summary will indicate.

Between 1972-76, the General Fund grew from $562.9 million to $780.8 million, or an increase of 38.7%. During the same period, locally generated tax revenues increased by only 15.5%. The difference, fortunately, has been met mainly by increasing intergovernmental transfers from state and federal sources.* This shift in revenue sources is shown in Table 3.

While such funding has greatly helped the City to survive without additional taxes, further growth from such sources seems at least temporarily blocked as a result of fiscal restraint being exercised by the Ford administration. Given its own fiscal problems, the State has also been forced to limit additional help to its cities and towns.

The steady climb in General Fund expenditures is shown in Table 4. Some of the underlying factors deserve comment at this time.

(a) Growth in the Number of Public Employees

Until very recently, the personal services component of the operating budget has steadily increased through continuing additions to the numbers of City employees. In the period since 1960, regular full-time City employment has grown from 27,578 to 35,609, an increase of 8,031 jobs or 29.1%. During the

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* The steady, life-saving growth in intergovernmental sources has been the result of the advent of general revenue sharing, through which formula-based federal funds that come to the City for broad purposes, as well as the conversion of many categorical grants-in-aid into block grants for such functions as community and manpower development.

TABLE 2

Budgeted and Re-estimated
Revenues from Taxes in Effect
on July 1, 1975 City of Philadelphia

	FY 75	FY-76 Budgeted	FY-76 Estimated
Wage Tax	253	276	267
Earnings Tax	30	36	34
Mercantile Tax	30	30	32
Real Property Transfer Tax	4	6	4
Real Property	104	108	106
TOTAL, ALL RECURRING REVENUES FROM TAXES IN EFFECT AT 7/1/75	445	483	469

Source: Mayor's Operating Budget and Programs FY 1976

and Office of the Director of Finance, Jan. 19, 1976

TABLE 3

Growth in General Fund
Revenues, 1972-76, City of Philadelphia

Source of Revenue	1972 Actuals	1976 Estimated	Percent Change
Property Taxes	118.5	111	6.3
Wage	213.8	267	24.8
Earnings	24.1	34	41.9
Net Profits	17.3	18	4.0
Mercantile License	25.5	32	25.4
Other Taxes	7.2	7	(2.7)
Total Taxes	406.4	469	15.5
Non-Tax Local Revenues	99.2	42*	(57.6)
Intergovernmental Revenues	73.5	198.4	169.9

Source: Mayor's Operating Budget and Programs, Fiscal Year 1973, Office of Director of Finance, Jan. 19, 1976

*Note: The huge drop in locally generated non-tax revenues results from a transfer of certain accounts to other funds (i.e. SEPTA, Gas Works, Parking facilities, Airation) outside of General Fund.

TABLE 4

General Fund Expenditures By
Major Classification, 1970-76
City of Philadelphia

	(in millions) FY 70	FY 76	Increase Amount	Percent
Personal Services	$267.7	$417	$149.3	55.7
Purchased Service	62.3	160	97.9	156.8
Materials, Supplies & Equipment	26.9	30	3.1	11.5
Employee Benefits, Contributions, Indemnities, Refunds of Taxes	46.7	92	45.3	97.0
Debt Service	55.5	76	20.5	36.9
Other	6.1	6	(.1)	(1.6)
TOTAL	$465.2	$781	$315.8	67.8

Source: Mayor's Operating Budget FY 1970 and Office of the Director of Finance, January 19, 1976 same period, the number of regular, full-time "exempt" (non-Civil Service) positions has grown by 4,097 jobs, or 231.5%. It should be noted that the increase in employment is partially the result of shorter municipal employee work weeks.

Over the last five years, however, total City employment has first peaked and now begun a slight decline, largely the result of job freeze policies imposed by the Finance Director. Table 5 presents comparable data on filled positions financed through the General Fund between 1971 and the present. Further analysis is required to disaggregate patterns within particular service areas and job categories and between permanent civil service, provisional civil service, and exempt positions.

(b) Higher Wages for Public Employees

Personal Services account for approximately 53.3% of total expenditures in the City's General Fund in 1975-76. The very recent and sizeable growth in this figure reflects less a pattern of increasing employment than the continuing generosity of City government toward its employees, uniformed and non-uniformed. Between 1971-75, police salaries increased from $9,900 (maximum pay range) to $14,022, a 42% rise; firefighters salaries grew by $4,022, a 40% increase; and non-uniformed employee pay increased by $3,230 on the average, a 37% growth. During this same period the average earnings in manufacturing employment increased by slightly less than 30%.

In the current budget year, the City negotiated an increase that provides a 12.8% pay increase for non-uniformed City employees represented by AFSCME. This contract was for the current year only and expires, along with all other contracts involving public employees of both the City and School District, on June 30, 1976...four days before the Bicentennial celebration, a far from accidental circumstance. Over the last four years, the union wage settlements have averaged about 6.4% compounded annually, according to the Finance Director.

The cumulative effect of these settlements has been not only to achieve parity between previously under-paid public employees and their counterparts in the private sector. Instead, at present, a very generous parity-plus advantage exists between the pay scales of most categories of City workers and their counterparts working for private firms.1/ This is extensively documented in a February 5 report of the Pennsylvania Economy League and summarized in Table 6.

The PEL report concludes:

> Not only is the pay favorable, but the City's employee benefits - holidays, vacations, sick leave, and pensions - are far more generous than those in private industry. One of those benefits was increased this year when employees were given 14 holidays, an addition of one holiday. Moreover, City employees have three personal leave days, for a total of 17 holidays or equivalent, compared to an average 9-10 in private industry.2/

1/ It should be noted, however, that in 1972, the wage and salary differentials of City and private employees were as high as 50% in favor of municipal employees.

2/ PEL, Citizens Business, 2/5/76

TABLE 5
City of Philadelphia, General Fund,
Regular Full-Time Positions, Filled
12/26/71, 6/27/75, and 1/4/76

	12/26/71	6/27/75	1/4/76
Council	67	77	78
Mayor	30	63	62
Managing Director Group	24,711	23,590	22,591
Police	8,315	8,892	8,357
Fire	3,028	3,128	3,005
Streets	3,847	3,677	3,540
Health	1,320	1,045	1,022
PGH	2,475	2,085	2,033
Recreation	868	835	816
Public Property	906	786	772
Other	3,952	3,142	3,056
Finance Group	855	781	767
City Rep. Group	196	190	190
Other Agencies	2,444	1,696	1,682
Free Lib.	816	719	688
Courts	1,712	2,053	2,061
GRAND TOTAL	30,015	29,169	28,119

Source: Personnel Inventory Reports Personnel Dept. 12/26/71 and Office of the Director of Finance 6/27/75, 1/4/76

TABLE 6

Occupational Earnings
Philadelphia Private and City
November 1975

Job Title in BLS Pay Surveys	No. of City Employees as of 11-74	Average Annual Pay Private	Average Annual Pay City	City Greater (Less) than Private Amount	City Greater (Less) than Private Percent
Data Processing					
Key Punch Operators B	90	$ 7,091	$ 10,166	$ 3,075	43.3%
Tabulating Machine Operators B	27	9,151	11,492	2,341	25.5
Computer Operators B	15	9,452	12,169	2,717	28.7
Weighted Mean	132	7,781	10,665	2,884	38.0
Office Clerical					
Bookeep. Machine Operators B	12	6,648	10,287	3,639	54.7
Clerks - Accounting A	162	8,864	11,303	2,439	27.5
Messengers	20	6,413	8,888	2,475	38.5
Stenographers - General	132	7,743	9,536	1,793	23.1
Stenographers - Senior	429	8,786	10,991	2,205	25.1
Switchboard Operators A	48	8,082	10,585	2,503	30.9
Typists B	429	6,257	9,200	2,943	47.0
Weighted Mean	1,232	7,717	10,196	2,478	33.5
Custodial and Material Movement					
Guards and Watchmen	137	6,556	8,972	2,416	36.8
Janitors, Porters, Cleaners	552	7,621	9,620	1,999	26.2
Laborers, Material Handling	996	10,106	10,477	371	3.6
Weighted Mean	1,685	9,003	10,073	1,070	13.7
Professional and Technical					
Computer Programmers B	12	12,722	14,655	1,933	15.2
Computer Programmers C	4	11,992	13,347	1,355	11.3
Computer Systems Analysts A	12	18,562	20,821	2,259	12.1
Computer Systems Analysts B	18	15,486	16,636	1,150	7.4
Weighted Mean	46	15,264	16,924	1,661	11.0
Maintenance Trades					
Carpenters, Maintenance	54	13,948	12,792	(1,156)	(8.2)
Electricians, Maintenance	79	13,113	12,846	(267)	(2.0)
Helpers, Maintenance Trades	142	10,920	11,086	166	1.5
Mechanics, Auto. Maintenance	278	13,488	12,737	(751)	(5.5)
Painters, Maintenance	60	12,090	12,792	702	5.8
Weighted Mean	613	12,748	12,378	(370)	(2.6)

Sources: Private: U.S. Bureau of Labor Statistics, Area Wage Survey, Philadelphia, Pa., N.J., November 1975, Preliminary (December 1975). City: U.S. Bureau of Labor Statistics, Municipal Government Wage Survey, Philadelphia, Pa., November 1974 (December 1974), as updated by PEL to reflect pay increase effective 7/1/75.

(c) Pensions and Fringe Benefits

Adding considerably to the financial burdens created by long-term increases in total employment and a marked rise in the wages and salaries of public employees are the sharply increased costs to the City of the pension benefits of municipal employees. Again quoting the Pennsylvania Economy League, Philadelphia's pension benefits are "among the most liberal in the largest U. S. cities and vastly more liberal than those of the typical private employer." (PEL, Citizens Business, October 2, 1975.)

Existing pension arrangements allow, for example, police and firemen to retire at ag 46 (45 as of July, 1976) with variations in the size of pension as determined by the length of service.1/ Under this system, a City employee may retire after 20 years of service at a benefit level equal to one-half of his last year's earnings. Some sources claim that this alternative has given rise to large increases of overtime pay for soon-to-retire employees in order to maximize pension benefits.

The City's role in the pension system has been closely defined by two State Court rulings 2/ ordering the City both to pay the interest on unfunded past liabilities as well as to increase its payments for currently accruing liabilities. The State Supreme Court's interpretation of the Home Rule Charter's requirement for "actuarially sound" financing has resulted in a sharp growth in the City's annual contributions to the Board of Pensions and Retirement. Between 1970-76, payments have increased by 64.4% to an annual amount in 1976 of nearly $50 million.

(d) Debt Service

The debt service component of the operating budget has also shown significant growth in recent years. Between 1972 and 1976, obligations under the Capital Budget have fluctuated between a one-time high of $150 million in 1973, to a low of $20.3 million in 1971. During this period, debt service in the General Fund grew from $35.5 million (6.3 percent of General Fund budget) to $76 million (9.7%).

This growth in debt service results from major development projects undertaken by the City, the use of new credit instruments (i.e., revenue bond activities), increased short-term borrowing, as well as higher interest rates triggered by the New York City fiscal crisis in particular, and the changing character of the municipal bond mark in general. The combined impact of these matters has been a 37% increase in the City's debt between 1970-1976.

(6) Changing Accounting Practices

Finally, brief reference should be made to the influence that changing accounting practices may have had or are having on recording and interpreting the true

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1/ Under the City's pension ordinance, the retirement benefits are the highest of (1) annual average of regular and longevity salary during the highest five years; or (2) regular and longevity salary during any consecutive 12 months; or (3) annual rate of last pay period's salary, excluding longevity.

2/ Dombrowski v. City of Philadelphia
Bogen v. City of Philadelphia

nature of the City's fiscal condition.

The City Controller, in a report issued January 19, 1976, has charged that changes in City accounting practices, adopted in 1975, which "do not violate accounting or legal principles...(have) materially served to mask the deteriorating financial condition of the General Fund." (Office of the Controller, Comment on the Financial Condition of the City, January 19, 1976, p. 1.)

The report asserts that "had General Fund revenues and expenditures been reported on the same basis in Fiscal 1975 as in prior years, the 1975 deficit would have been $41.5 million (instead of the reported $12.3 million deficit)."

The debate over City accounting practices, and particularly the treatment of intergovernmental revenues on a cash accrual basis, will continue. GPP will hope to comment in more detail on this matter in later reports. At this point, however, comment will focus only on how to treat the acknowledged $80 million deficit.

III. The Emergency Tax Package

Cash flow requirements, caused by uneven, in some cases reduced, receipts from various revenue sources, caused the City administration to seek short-term loans, in the form of tax anticipation notes, from Philadelphia's commercial banks in early January, 1976. As a precondition to financing the City's immediate deficit, the banks required the City (1) to make a full public disclosure of its 1976 operating deficit; and (2) to seek immediate tax increases to offset the stated deficit.

On January 19, 1976, the Director of Finance disclosed an $80 million General Fund deficit and presented the City administration's plan for interim tax increases which, under the Charter, require authorization by the State Legislature. The tax package includes both temporary and permanent tax increases and is spelled out in Table 7. The anticipated yield of the entire package is estimated by the City to be $80.5 million.

The particular mix of tax measures selected by the City administration would appear to reflect the following considerations, among others:

1. An effort to insure that the City's Bicentennial generated costs are offset, in large part, by the revenue potential of an estimated 25 million visitor days in Philadelphia during 1976.

2. Continued sharing of the tax burden between business and non-business sources within the city.

3. A capacity, by reliance on the property and mercantile license taxes, to generate revenues on a more immediate, one-time and retroactive basis than, for example, the wage tax could insure.

4. Direct avoidance of suburban objections to emergency use of the wage tax.

5. Unwillingness to offer spending cuts as a second part of the deficit-closing process.

Any set of tax proposals is calculated to generate claims of unfair treatment, regressivity, and adverse immediate and long-term impacts. The response to the current proposals has been no exception, although aggravated by the timing and the magnitude of the increases requested.

There is neither time nor capacity to fathom the actual implications of the tax package as proposed, or of specific items within the total proposal. Some outline of likely implications - carefully labeled as such - is worthwhile, however, if only to call attention to the gravity of the decisions that must be made and the unknown consequence of making them.

Property Tax

- Large, year-end, unanticipated increases may have a detrimental effect on the extent to which low and moderate income rental apartments are maintained, given the limited disposable income of tenants and the clear determination of landlords to maintain some profit margin. The tax increase could result in further abandonments in this housing sector.

TABLE 7

PROPOSED INTERIM TAXES AND TAX RATES FOR FY-76
GENERAL FUND, CITY OF PHILADELPHIA

(amounts in millions)

	Rate	Duration Start	Duration Finish	Estimated Yield FY-76
Temporary Taxes				
1. Hotel Tax	5.0	3/1/76	12/31/76	0.6
2. Food and Beverages	5.0	3/1/76	12/31/76	5.7
Permanent Taxes				
3. Amusement Tax	+5.0%*	3/1/76	-	0.7
4. Parking Lot Tax	+5.0%	3/1/76	-	0.1
5. Parking Garage Tax**	15.0%	3/1/76	-	0.2
6. Mercantile License Tax	+1/10%	1/1/76	-	8.5
7. Vending Machine Tax	$50	3/1/76	-	1.0
8. Real Property Tax	+14 mills	1/1/76	-	63.7
TOTAL				80.5
Amount Needed to Eliminate Estimated Deficit at June 30, 1976				80.0

*Broaden base
**Assuming 10,000 spaces at $600 per space = 6,000,000 x .15 = $900,000.

Source: Office of the Director of Finance
January 19, 1976

- The immediate tax increase, coupled with rising perception of added tax hikes in FY 1977, may have a psychological impact on homeowners considering improvements to their homes.

- Businessmen contemplating decisions about building, expanding or continuing to operate in Philadelphia may be tempted to add a strong minus to their list of plusses and minuses of doing so.

- Individual, business and family budgets will receive an added, unexpected strain to be met at the very time the economy is beginning to show signs of recovery.

- The hike provides additional disincentives to investors and developers contemplating new housing construction or renovation within the city limits.

- The selling market for multi-family properties in the city's poorer areas is likely to be further weakened.

- A larger proportion of the City's residents will likely be priced out of the homebuying market.

- Added financial strain will be placed on the City's most vulnerable homeowners, especially the moderate-income resident who purchased his home recently and the homeowner living on a fixed income.

- Given varying tax assessment practices, homeowners in the older, close in residential areas will be forced to carry a larger relative financial burden than homeowners in other parts of the city.

Mercantile License Tax

Combined with the property tax, this increase may further damage Philadelphia's competitive position vis-a-vis its suburbs and the rest of the nation. The increase may have an especially damaging impact on businesses which have large volume sales but a low net income relative to volume (e.g., wholesalers and distributors).

Temporary Taxes

These efforts, aimed at tourist and convention visitors to the City during the Bicentennial, may have a dampening effect upon the very sources that they would tap. The expected yield is also highly contingent upon actual numbers attracted to the City which, in turn, may be a function of the images projected by Philadelphia as it grapples with its fiscal crisis.

Vending Machine Taxes

This tax of $50 per machine, may make the cost of operating a large volume vending business in Philadelphia virtually unprofitable.

Whatever the impact of any particular tax may be - or their combined impact - it is inescapable that the current deficit must be closed through some set of revenue-producing measures in proper combination with expenditure reductions.

All will trigger their particular consequences. As New York City has already discovered in its haste to pass new measures, some items (e.g., the bond transfer tax) have aroused such adverse consequences as to warrant equally instantaneous repeal. The same possibilities clearly exist in examining Philadelphia's emergency package and provide sufficient grounds for some to resist precipitous action without, in particular, fuller disclosure of 1977 budget requirements for the City and School District.

In examining the City's revenue projections for the 14 mill property tax increase, GPP found an anticipated tax collections rate of approximately 82%, as opposed to an 89% rate for real property taxes in effect at the beginning of 1975-76. This differential reflects the probability that many bulk receivers (Savings and Loan Associations) and homeowners do not have the cash to meet the tax burdens imposed by the emergency measures. In addition, delays in the mailing of the emergency property tax bills, whether caused by State Legislature or Councilmanic delays in the passage of necessary legislation, might be expected to result in even lower collection rates by the end of FY 76.

The Other Side of the Deficit: City Expenditures

In dealing with the immediate problem of a cash and budgetary deficit, actions other than emergency revenue-raising measures are available to the City. New revenues are doubtless necessary to overcome the magnitude of the existing gap and to meet bank stipulations for short-term borrowing; steps to reduce and control City expenditures mark a companion step already being taken by countless cities across the nation both to show that the local government means business and to bring home the seriousness of the situation.

Only the imposition of a firm hiring freeze under the personal direction of the Finance Director has thus far been volunteered by the City administration in Philadelphia. Table 5 illustrates that this freeze has resulted in filling 836 fewer staff positions under the General Fund than were originally budgeted at the start of FY 76. Of these, 349 are "frozen" positions in the Police and Fire Departments where legal issues (e.g., sex discrimination) are responsible for preventing new entry level positions in the respective training academies. Another 239 frozen positions exist at Philadelphia General Hospital.

What more can be done in the balance of the current fiscal year?

The City's ability to reduce expenditures over and above the additional impact of the current "freeze" is limited both by the flow of intergovernmental funds to Philadelphia and by the extent to which the City has already obligated itself in the balance of the fiscal year.

As shown in Table 8, some $58 million in General Fund appropriations for 1976 are for programs which receive more than 50% of their funds from the State or Federal governments and are, therefore irreducible without incurring an equal reduction in intergovernmental revenues.

Another $347 million in personal service costs are in program areas that do not receive intergovernmental revenue support, of which $80 million are for fringe benefits.

In short, significant reductions in 1976 spending are limited. The only real leverage lies in further reducing the number of City employees but, this option too, has shortcomings. While, for example, a 10% reduction in employees would

TABLE 8

General Fund Estimate
of Expenditures and Obligations
FY 1976, City of Philadelphia

(millions)

	Original Appropriation for Year	Dir. of Finance Estimate for Year 1/19/76	Obligations Through 10/31	12/31	2/29	Unobligated March 1, 1976
Total Budget	$781	$781	$330			
Personal Service	405	417	145			130(31%)
Programs: 50% of more reimbursable						
Drug Abuse	1					
Welfare	4					
Health	10					
PGH	22					
Riverview	2					
Courts	19					
Sub-total	58	NA				20
Not Reinbursable	347	NA				110
Fringe Benefits:						
Pensions	49					
FICA	13		4			
Welfare Plan	17		8			
Other	1	—	—			
Total	80	80	12			
Purchase of Services	161	160	113			
Materials and Supplies	29	29	17			
Equipment	2	1	3			
Contributions, etc.	12	12	6			
Debt Service	84	76	31			
Payments to Other Funds	7	6	2			

Source: Office of the Director of Finance result in an immediate savings of $13 million, the costs of severance pay, compensatory time and other benefits owed to these employees - as well as the likelihood of legal actions brought by unions, make such a large cut unmanageable, at least in the short-run.

When related to next year's budget needs for both the City and School District, however, some level of immediate reductions in personnel, over and above the current job freeze, take on both practical and symbolic significance. Not all the requirements of the City can or should be met through revenue-raising efforts. Expenditure reductions - carefully considered and sensibly executed, are the other, equally important side of the coin if the City is to begin to close the growing gap and gain public confidence in the difficult process of doing so.

IV. Options Regarding the Emergency Tax Package

Essentially three options are available to the Greater Philadelphia Partnership and the citizens of the City of Philadelphia in responding to fiscal realities and the proposed emergency tax package. While there is no escaping the crisis that looms, there are alternatives to the emergency tax package approach.

The first of these would be to take no position on either the question of enabling legislation or immediate tax increases, thus leaving to others the critical decisions that must be made. GPP regards this as an unacceptable alternative, smacking of passivity in the face of hard evidence and the need for prompt action. It is thus carried no further in this section.

The two serious options are these:

1. To support the City administration's request that the State Legislature approve pending legislation to permit tax increases designed to balance the FY 1976 budget; or

2. To oppose that request and, by so doing, force a review of not only the disclosed 1977 deficit but the fiscal requirements of City and School District for the year ahead before a combination of revenue-raising and expenditure-cutting measures are taken.

This section is concerned with the implications of following these separate courses of action, together with some reference to possible strategies for effectuating the desired results of each approach.

1. Support the Emergency Tax Plan Proposed by the City

The report has already mentioned the specific taxes in the emergency package and speculated about some of the effects resulting from their quick imposition. Other considerations loom beyond the taxes themselves. For example, legislative manuevering to secure their passage has now brought the wage tax into the heart of any debate about the advisability of the original package.

A) The Wage Tax Rider

At this writing, the Pennsylvania State Senate has approved by the barest majority of 26 votes a legislative package that would permit the City to authorize taxes on hotel occupancy, food and beverages sold at retail and vending machines, and to increase other taxes (i.e., property, amusement and mercantile license) before the end of the fiscal year.

In addition, the Senate has approved an amendment to this package which states:

> "The Council of any city of the first class (i.e. Philadelphia) shall not impose a tax on wages of non-residents of the city who render services in such city in excess of 3 1/3%."

If made into law, the price of passing this revised emergency tax package will be to delimit future use of the only other broad-based tax revenue, the wage tax. This issue is now central to consideration of the entire tax package.

This non-resident wage tax limitation amendment was exacted by suburban legislators as their price for support of the overall package. The rationale lies in the belief that the emergency tax package merely represents phase one in a process to get the City back on a sound financial footing; that stage two will have to involve a healthy increase in the City wage tax to insure a balanced 1977 budget.

Since approximately one-fourth of the revenues generated by the wage tax come from the incomes of non-residents employed in and taxed by the City, ~~this~~ amendment reflects a politically understandable position for the representatives of suburban taxpayers who lack any direct voice in Philadelphia's budgetary and tax decision-making process.

Since the 1940's when the City first began to levy a tax on employee wages, the wage tax has become the most important source of General Fund revenues. The growth in importance of this tax parallels the decline in the yield of the real property tax, as shown in the Table 9. Between 1940 and 1975, the wage tax as a percent of all General Fund receipts has grown from 19.5 percent to 43.2 percent while the real property tax declined from 47 percent to 14.9 percent. In addition, given slow growth in the market and assessed value of real property, the wage tax offers greater sensitivity to the pace of the economy.

If, as expected, the City is forced to raise the wage tax rates to provide necessary revenues for FY 77, the non-resident ceiling will effectively both shift a larger portion of the tax burden to Philadelphia residents and add another reason for families and firms to abandon the City of Philadelphia.*

The crucial question thus posed is: By accepting the wage tax ceiling as a price for securing short-term relief in FY 1976, is Philadelphia selling away for an indeterminate future much of the flexibility of its most important revenue resource? A look at New York City's fiscal problems, where years of compromise with "up-state" interests badly undercut the city's economic base, may suggest that the trade-offs for Philadelphia are too severe.

B) Expenditure Considerations

To date, in discussions with area banks or the legislature, no stipulations about reduced expenditures, either immediate or over time, have been offered or required as the quid pro quo for the extension of short-term financing or approval of the emergency tax package. Some banking officials have urged the City to reduce its deficit through a combination of tax increases and expenditure reductions, but with the exception of the pre-existing job freeze, no other steps have been put into effect.

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*Just how much of an additional increase in wage tax rates might be required as a result of a non-resident wage tax ceiling remains speculative at this point. One factor suggesting that the shifting burden might be high is the assumption that the average suburban residents who work in the city have higher incomes than city workers.

TABLE 9

GENERAL FUND RECEIPTS
CITY OF PHILADELPHIA, 1920-75

YEAR	AMOUNT (in millions)				
	TOTAL	REAL PROPERTY	PERSONAL PROPERTY	INCOME EARNINGS NET PROFITS	INTERGOVERNMENTAL TRANSFERS
1920	$ 67.7	$ 38.9	$2.7	$ -	$ -
1930	94.0	50.8	5.2	-	-
1940	83.0	39.1	3.1	16.2	-
1950	158.2	47.7	2.5	37.5	-
1960	216.4	80.7	3.7	70.9	-
1965	271.9	94.8	4.6	90.8	13.2
1970	462.4	110.7	4.6	212.0	37.5
1975	693.7	104.0	4.0	300.0	176.8

YEAR	PERCENT				
1920	100.0	57.5	3.9	-	-
1930	100.0	54.0	5.5	-	-
1940	100.0	47.0	3.7	19.5	-
1950	100.0	30.1	1.5	23.7	-
1960	100.0	37.2	1.7	32.7	-
1965	100.0	34.5	1.6	33.4	4.8
1970	100.0	23.9	0.9	45.8	8.1
1975	100.0	14.9	.05	43.2	25.4

The opportunity to leverage significant or merely symbolic reductions in City spending will be lost for the moment if the Legislature and the City Council support the emergency revenue program without imposing expenditure constraints as well. Approval of the emergency package can be construed as an "encouragement" by the City administration to continue "business as usual." Efforts to reform governmental spending practices, in both the City and School District, may be lost with the passing of the immediate crisis. Meeting the deficit in FY 76 may relax constraints governing labor negotiations with public employees whose contracts expire by June 30, 1976.

C) Access to the Money Markets

In many eyes, failure to pass the emergency tax package will cost the City of Philadelphia access to the nation's money markets for both short and long-term financing, and thereby create severe damage to the City's credit rating and competitive position. This concern is cited by many concerned individuals as the major reason to support the emergency tax package.

This line of reasoning is strongly affected by complex and technical considerations, the timing of cash flow requirements, and the receipt of intergovernmental funds and similar matters. Some observers would argue that there are ways, short of effecting all or portions of the emergency package, to avoid the penalties of default. Such questions can only be answered in dialogue between the principal banks and the City administration. They should be pursued before any final position is taken on the basis of financial access criteria.

One specific line of inquiry might be early divulgence of the FY 77 budgets of the City and School District and the additional revenue requirements and money market issues posed by them.

Consideration of the effects of default itself, should it occur, are presented in the next section of this report.

2. Oppose the Emergency Tax Package

Without reference to the proposed non-resident lid on the wage tax, a position of opposition to the emergency tax package warrants examination of these issues:

- How would the City meet its obligations?
- What would the impact be on City services?
- How would such a move be treated in the money markets?
- Could the distribution of "pain and sacrifice" be made more equitable so that no one group was unfairly treated?
- What actions would be required to insure the restoring of fiscal responsibility?

If the non-resident lid is presumed to be an added part of the package, additional questions are, of course, raised.

A) Get the Entire Picture on the Table

The assumption behind a position of opposition to the original emergency proposals is that no other event is as likely to force the City administration to control or reduce spending, patronage, waste and mismanagement where such practices indeed exist, or to impress the entire city and region with the present and long-term gravity of the combined fiscal problems of the City and School District.

Also, by combining the current year's deficit with the budget needs of both the City and School District for FY 1977, the total requirements faced by Philadelphia citizens will be disclosed and overall determinations can be made about how to deal with them.

B) In the Event the Emergency Tax Package is Not Passed...

Responsible individuals have, in the last several days, hinted that in the event of failure to pass the emergency measures, there may be ways to avoid default and to assure the flow of adequate cash to pay the City's continuing obligations until new revenues are secured early in the new fiscal year. A combination of City-bank forbearance, deferment of some obligations, and other techniques would have to be resorted to. The point is that imminent default would seem to be avoidable. A key choice then becomes: (a) use of such techniques vs (b) passage of the emergency proposals (with the wage tax ceiling becoming a crucial added ingredient in making that decision).

In the very unlikely event that such arrangements cannot be made and default occurs, the following events might transpire as the impact is felt:

- Payment of obligations to suppliers of goods and services to the City might have to be delayed, stretched out, or altogether abandoned. Any of these possibilities could result in litigation against the City by contractors;

- Layoffs of City employees might be required as well as the likelihood of "payless paydays" or the issuance of script in lieu of paychecks. Such a move would undoubtedly bring the threat of strikes, work slowdowns, and suit;

- The City might be unable to meet its debt service obligations on the $50 million tax anticipation loans made by a consortium of local banks or its July 1 payments on other long term loans, raising for the first time the probability of default;

- Payments into the Pension Fund, due to be made by the end of the Fiscal Year, might have to be postponed. Given State Supreme Court opinions requiring the City to increase and stay current with its pension contributions, pensioners and unions might go back to the courts for corrective action;

- Projects in the Capital Budget and program might have to be cancelled or deferred;

- City employee union wage settlements might be severely restricted if not impossible;

- The City's credit rating would almost certainly be dropped to a lower level. (On this point it should be noted that the Finance Director does not plan to seek any long-term loans for capital projects until August, September, or October, by which time a restoration of the present credit rating would be possible.)

LABOR MARKET LETTER

PHILADELPHIA AREA

A Monthly Review of Current Employment Developments and Prospects

VOL. XXXXI No. 2 FEBRUARY Released 3/25/76

EMPLOYMENT AND UNEMPLOYMENT

A total of 1,826,000 residents in the Philadelphia Labor Market Area had jobs in February. This total was 1,800 higher than January. There were no significant changes during the last month among the four employment divisions: manufacturing, nonmanufacturing, self-employed and agriculture. Total resident employment in February last year was 1,819,700 or 6,300 less than the current month.

The February 1976 rate of unemployment was 10.3 percent of the labor force derived from a total of 209,500 jobless workers. In January, the rate was 10.5 percent with 213,600 unemployed. Last February 185,500 unemployed produced a rate of 9.3 percent of that month's labor force. The Philadelphia Labor Market Area is classified "E" an area of substantial unemployment.

INDUSTRY CHANGES SINCE JANUARY

Manufacturing employment declined slightly with a loss of 400 jobs from January to February. The durable goods loss was in nonelectrical and electrical machinery. A mid-winter upturn of 800 in apparel served to counter a drop in printing and publishing among the nondurables. All other factory changes were insignificant and compensatory within individual industries. Factory production workers average hourly earnings increased fifty three cents during 1975. The February rate of $5,37 an hour produced an average weekly wage of $211.04.

Nonmanufacturing industries showed a gain of 3,000 jobs. Construction and retail trade were lower because of adverse seasonal and weather factors. A gain of 8,400 in the service industry was noneconomic and represented the return of non-instructional staff to private schools and colleges after the holidays. A seasonal increase in the public school sector of government accounted for an additional 1,400 jobs.

OUTLOOK

There is little prospect that employment will improve noticeably in March. Small seasonal increases among the nonmanufacturing industries are expected. Most of this gain, however, will be countered by scattered declines throughout the factory industries. The volume and rate of unemployment in March should show little change from February.

John A. Dougherty

John A. Dougherty, District Manager

COMMONWEALTH OF PENNSYLVANIA DEPARTMENT OF LABOR AND INDUSTRY BUREAU OF EMPLOYMENT SECURITY

Pennsylvania State Employment Service

2048 Arch Street PHILADELPHIA, PA.—19103 238-7675

BUR-1507 REV 12-70

A Public Service - COMMUNITY LABOR MARKET INFORMATION

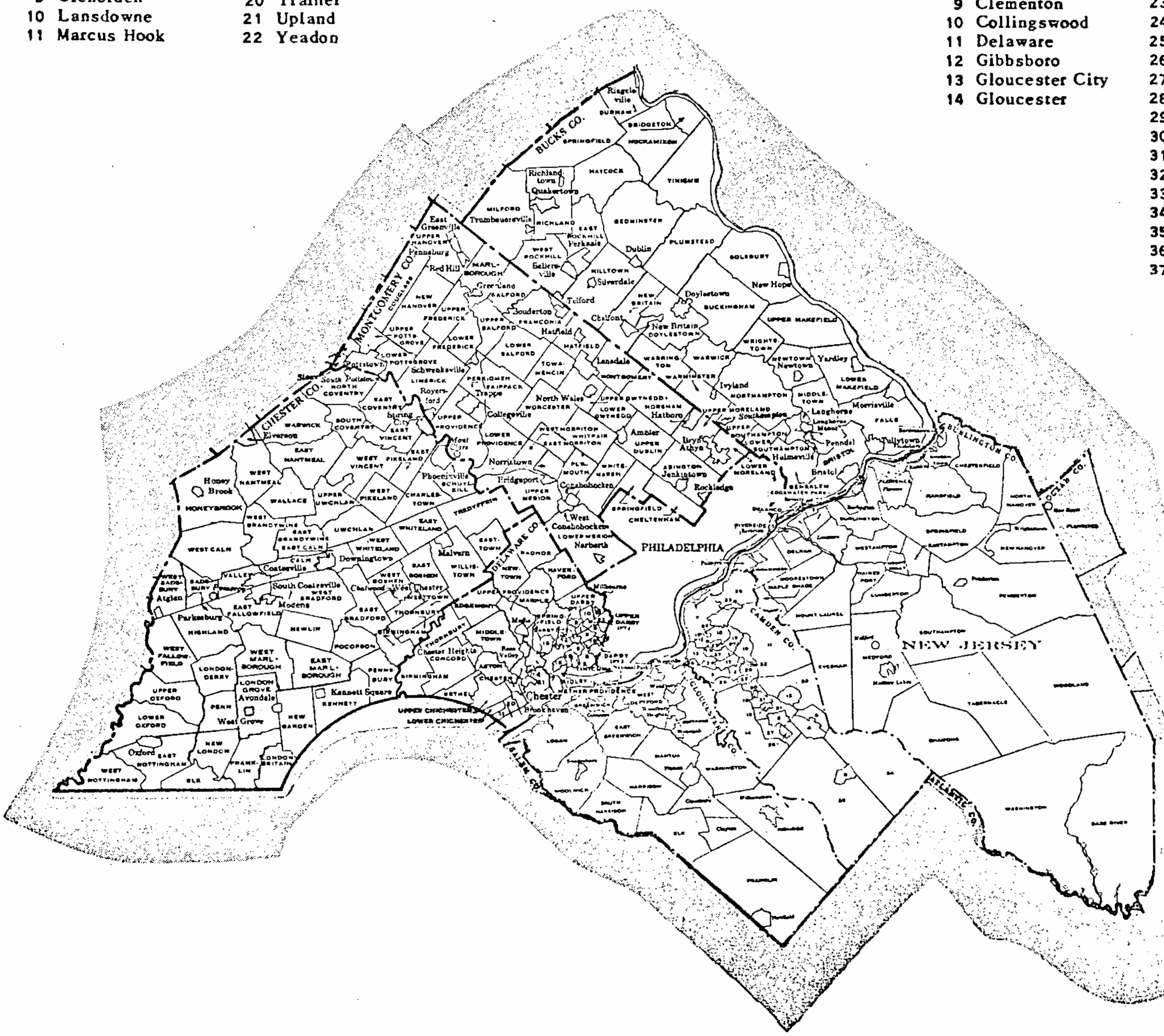
PHILADELPHIA LABOR MARKET AREA

DELAWARE CO., PA.

1 Aldan
2 Clifton Heights
3 Collingdale
4 Colwyn
5 Darby
6 East Lansdowne
7 Eddystone
8 Folcroft
9 Glenolden
10 Lansdowne
11 Marcus Hook
12 Morton
13 Norwood
14 Parkside
15 Prospect Park
16 Ridley Park
17 Rutledge
18 Sharon Hill
19 Swarthmore
20 Trainer
21 Upland
22 Yeadon

CAMDEN CO., N.J.

1 Audubon
2 Barrington
3 Bellmawr
4 Berlin
5 Berlin
6 Brooklawn
7 Camden
8 Chesilhurst
9 Clementon
10 Collingswood
11 Delaware
12 Gibbsboro
13 Gloucester City
14 Gloucester
15 Haddon
16 Haddonfield
17 Haddon Heights
18 Hi-Nella
19 Laurel Springs
20 Lawnside
21 Lindenwold
22 Magnolia
23 Merchantville
24 Mount Ephraim
25 Oaklyn
26 Pennsauken
27 Pine Hill
28 Pine Valley
29 Runnemede
30 Somerdale
31 Stratford
32 Tavistock
33 Voorhees
34 Waterford
35 Winslow
36 Wood-Lyne
37 Audubon Park



SCALE
10 0 10

ADDITIONAL COPIES OF YOUR LABOR MARKET LETTER OR COPIES OF LETTERS PREPARED FOR OTHER MAJOR INDUSTRIAL COMMUNITIES IN PENNSYLVANIA WILL BE PROVIDED UPON REQUEST

January estimates, as well as those for each month of 1975, were revised according to procedures established by the U. S. Bureau of Labor Statistics, the agency which supervises the development of State and area estimates. The revision brings the estimates in line with those developed for Pennsylvania through the Current Population Survey (household survey) conducted by the Federal Government for 1975. This revision is made annually at this time of year.

TABLE 1 PHILADELPHIA LABOR MARKET AREA

FEBRUARY 1976
(In Thousands)
ESTIMATED TOTAL CIVILIAN LABOR FORCE

RESIDENT DATA 1/	FEB. 1976 2/	JAN. 1976	DEC. 1975	FEB. 1975	Net Change From	
					JAN. '76	FEB. '75
CIVILIAN LABOR FORCE	2035.5	2037.8	2067.0	2005.2	-2.3	+30.3
EMPLOYMENT 3/	1826.0	1824.2	1874.9	1819.7	+1.8	+6.3
UNEMPLOYMENT	209.5	213.6	192.1	185.5	-4.1	+24.0
% CIVILIAN LABOR FORCE	10.3	10.5	9.3	9.3	xxxx	xxxxx
UNEMPLOYMENT (Seasonally Adj.)	194.7	200.2	208.6	172.4	-5.5	+22.3
% CIV. LABOR FORCE (Seas. Adj.)	9.5	9.7	10.1	8.5	xxxx	xxxxx

NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

ESTABLISHMENT DATA 4/	FEB. 1976 2/	JAN. 1976	DEC. 1975	FEB. 1975	Net Change From	
					JAN. '76	FEB. '75
NONAGRICULTURAL WAGE & SALARY 5/	1770.1	1767.3	1815.6	1769.4	+2.8	+0.7
ALL MANUFACTURING INDS.--TOTAL	447.5	447.9	449.0	459.5	-0.4	-12.0
Durable Goods Inds.--Total	232.5	233.1	233.6	246.2	-0.6	-13.7
Lumber & Wood products	1.8	1.9	2.0	2.1	-0.1	-0.3
Furniture & Fixtures	7.0	6.9	6.9	7.3	+0.1	-0.3
Stone, clay & glass products	13.7	13.7	14.1	15.2	0.0	-1.5
Primary metals	28.4	28.4	28.3	32.5	0.0	-4.1
Fabricated metal products	35.4	35.4	35.3	36.2	0.0	-0.8
Nonelectrical machinery	49.2	49.5	49.6	52.8	-0.3	-3.6
Electrical machinery	48.1	48.3	48.5	51.0	-0.2	-2.9
Transportation equipment	21.7	21.6	21.2	20.7	+0.1	+1.0
Instruments & related products	16.9	17.0	17.1	17.6	-0.1	-0.7
Misc. manufactures & ordnance	10.3	10.4	10.6	10.8	-0.1	-0.5
Nondurable Goods Inds.--Total	215.0	214.8	215.4	213.3	+0.2	+1.7
Food products	41.0	41.3	41.5	39.5	-0.3	+1.5
Tobacco products	0.3	0.3	0.3	0.7	0.0	-0.4
Textile products	16.3	16.2	16.2	15.5	+0.1	+0.8
Apparel & related products	35.5	34.7	34.5	33.5	+0.8	+2.0
Paper products	19.8	19.6	19.8	19.0	+0.2	+0.8
Printing & publishing	34.7	35.2	35.2	37.0	-0.5	-2.3
Chemical products	37.3	37.5	37.7	38.2	-0.2	-0.9
Oil & coal products	12.8	12.8	12.9	12.8	0.0	0.0
Rubber & misc. plastics prods.	16.1	16.0	16.1	16.0	+0.1	+0.1
Leather products	1.2	1.2	1.2	1.1	0.0	+0.1
ALL NONMANUFACTURING INDS.--TOTAL	1321.8	1318.8	1366.2	1308.6	+3.0	+13.2
Mining	1.1	1.1	1.1	1.3	0.0	-0.2
Contract construction	61.1	63.2	70.1	67.3	-2.1	-6.2
Transportation & public util.	95.9	95.8	98.3	97.9	+0.1	-2.0
Wholesale trade	102.5	102.9	103.8	103.8	-0.4	-1.3
Retail trade	280.6	285.0	306.8	275.5	-4.4	+5.1
Finance, ins. & real estate	108.0	108.0	108.0	108.0	0.0	0.0
Service and miscellaneous	382.7	374.3	386.0	364.3	+8.4	+18.4
Government	289.9	288.5	292.1	290.5	+1.4	-0.6
Federal government	75.5	76.2	77.3	77.1	-0.7	-1.6
State & local government	214.4	212.3	214.8	213.4	+2.1	+1.0
PERSONS INVOLVED IN LABOR-MANAGEMENT DISPUTES	0.8	0.6	0.4	1.3	+0.2	-0.5

See footnotes on reverse side.

NOTE: Nonagricultural (includes agricultural service) establishment wage and salary employment, hours and earnings and labor turnover data in this publication are based on a monthly sample survey of employers conducted in cooperation with the United States Bureau of Labor Statistics. These data exclude farm workers, self-employed, unpaid-family workers, and domestic workers in private homes. Earnings data are averages of gross earnings and do not represent wage rates. Employment data represent estimates of total wage and salary worker employment in all nonagricultural establishments during the pay period which includes the 12th of the month, and include all temporary, permanent, full-time, part-time, executive, office, supervisory, sales, service, technical, maintenance, production and nonsupervisory employees. Employment data in this release have been revised to first quarter 1975 benchmarks, and are therefore, not strictly comparable with figures published prior to February 1976 All employment data are based on industry classifications in accordance with the revised 1967 Standard Industrial Classification Manual.

Total employment and unemployment estimates (resident data) have been revised in accordance with new standardized methodology developed by the United States Bureau of Labor Statistics, adopted and required by United States Manpower Administration. All in-depth inquiries relative to methodology or the resulting data should be addressed to the national or regional office of the Bureau of Labor Statistics, U. S. Department of Labor.

FOOTNOTES

1 Estimates of workers by place of residence. These data are extrapolated from the 1975 Current Population Survey (CPS) benchmark and have been adjusted for commuting and dual job holding. Consequently, they are not comparable to establishment-based nonagricultural wage and salary data.

2 Data for current month are preliminary and are subject to revision.

3 Includes wage and salary workers (including agriculture), self-employed and unpaid family workers (including agriculture), domestic workers, and persons involved in labor-management disputes.

4 Estimates of jobs by place of work.

5 Includes persons involved in labor-management disputes.

* When applicable, excludes a significant number of persons not at work and not seeking work because of direct involvement in a labor-management dispute.

TABLE 2. AVERAGE GROSS EARNINGS AND WORKING TIME OF PRODUCTION WORKERS IN MANUFACTURING INDUSTRIES
PHILADELPHIA LABOR MARKET AREA

(Bucks, Chester, Delaware, Montgomery and Philadelphia Counties in Pennsylvania and Burlington, Camden and Gloucester Counties in New Jersey)

FEBRUARY 1976

Industry	Average Weekly Earnings			Average Weekly Hours			Average Hourly Earnings		
	FEB. 1976	JAN. 1976	FEB. 1975	FEB. 1976	JAN. 1976	FEB. 1975	FEB. 1976	JAN. 1976	FEB. 1975
ALL MANUFACTURING INDS. - TOTAL	$211.04	$211.58	$185.71	39.3	39.4	37.9	$5.37	$5.37	$4.90
Durable Goods Inds. - Total	228.02	227.77	198.39	40.5	40.6	38.9	5.63	5.61	5.10
Lumber & wood products	213.72	198.58	178.36	41.1	39.4	39.2	5.20	5.04	4.55
Furniture & fixtures	149.82	165.89	141.37	33.0	36.3	33.5	4.54	4.57	4.22
Stone, clay & glass products	221.49	213.03	190.90	41.4	40.5	39.2	5.35	5.26	4.87
Primary metals	256.46	262.68	237.33	39.7	40.6	40.5	6.46	6.47	5.86
Fabricated metal products	237.89	237.89	198.91	41.3	41.3	38.4	5.76	5.76	5.18
Nonelectrical machinery	239.13	234.55	215.86	40.6	40.3	39.9	5.89	5.82	5.41
Electrical machinery	200.82	205.58	186.06	40.9	41.7	40.1	4.91	4.93	4.64
Transportation equipment	281.96	274.14	201.28	42.4	41.1	34.0	6.65	6.67	5.92
Instruments & related products	198.51	196.17	178.99	39.0	39.0	39.6	5.09	5.03	4.52
Misc. manufactures & ordnance	166.42	165.59	135.34	40.1	39.9	37.7	4.15	4.15	3.59
Nondurable Goods Inds. - Total	194.44	195.20	172.22	38.2	38.2	36.8	5.09	5.11	4.68
Food products	195.70	200.46	180.81	38.6	39.0	38.8	5.07	5.14	4.66
Tobacco products	146.67	151.60	126.67	38.7	40.0	38.5	3.79	3.79	3.29
Textile products	146.25	140.10	128.83	36.2	35.2	35.2	4.04	3.98	3.66
Apparel & related products	139.62	138.29	111.55	35.8	35.1	31.6	3.90	3.94	3.53
Men's boys' suits & coats	167.20	163.16	124.43	38.0	36.5	30.8	4.40	4.47	4.04
Other apparel products	126.67	126.62	104.96	34.8	34.5	32.0	3.64	3.67	3.28
Paper products	216.94	219.34	191.90	41.4	41.7	40.4	5.24	5.26	4.75
Printing & publishing	221.91	224.11	206.64	36.2	36.5	36.0	6.13	6.14	5.74
Chemical products	232.25	236.34	206.06	39.1	40.4	39.4	5.94	5.85	5.23
Oil & coal products	315.62	304.50	265.33	43.0	42.0	41.2	7.34	7.25	6.44
Rubber & misc. plastics products	200.51	196.80	180.25	41.6	41.0	39.1	4.82	4.80	4.61
Leather products	143.96	142.12	125.65	40.1	38.0	35.0	3.59	3.74	3.59

1/ See footnote on Table 1.

TABLE 3. LABOR TURNOVER RATES IN MANUFACTURING, BY INDUSTRY
PHILADELPHIA LABOR MARKET AREA

(Bucks, Chester, Delaware, Montgomery and Philadelphia Counties in Pennsylvania and Burlington, Camden and Gloucester Counties in New Jersey)

JANUARY 1976

(Per 100 Employees)

Industry	Employment (In Thous.) Jan. 1976	ACCESSION RATES						SEPARATION RATES								
		Total			New Hires			Total			Quits			Layoffs		
		Jan. 1976	Dec. 1975	Jan. 1975	Jan. 1976	Dec. 1975	Jan. 1975	Jan. 1976	Dec. 1975	Jan. 1975	Jan. 1976	Dec. 1975	Jan. 1975	Jan. 1976	Dec. 1975	Jan 197
ALL MANUFACTURING a/	447.9	2.8	1.8	2.8	1.4	0.9	1.1	2.7	2.8	5.3	0.7	0.5	0.8	1.3	1.8	3.7
Durable Goods	233.1	2.6	1.8	2.6	0.9	0.7	0.9	2.5	3.1	4.5	0.5	0.4	0.6	1.3	2.2	2.9
Stone, clay & glass	13.7	2.0	0.7	3.4	0.8	0.4	0.6	2.7	5.3	5.4	0.6	0.3	0.9	1.3	4.5	4.0
Primary metals	28.4	6.2	5.9	1.8	0.5	0.3	0.6	4.5	5.5	4.7	0.3	0.3	0.5	3.1	4.4	2.5
Fab. metal prods.	35.4	3.0	1.4	3.4	0.8	0.6	1.0	2.7	2.2	5.8	0.5	0.4	0.6	1.3	1.2	4.3
Nonelectrical mach.	49.5	1.6	0.8	2.5	0.9	0.6	0.8	2.3	1.4	3.5	0.5	0.4	0.7	1.3	0.5	1.9
Electrical mach.	48.3	1.9	1.3	2.4	1.0	0.6	0.7	1.8	2.2	4.7	0.5	0.5	0.5	0.7	1.3	3.2
Transportation equip.	21.6	2.1	1.1	2.8	0.5	0.4	2.0	2.9	2.9	7.1	0.3	0.2	0.4	2.0	2.1	5.5
Inst. & rel. prods.	17.0	1.3	1.2	1.1	1.0	1.0	1.0	2.5	0.7	1.8	0.6	0.3	0.7	0.9	0.1	0.6
Nondurable Goods	214.8	3.1	1.8	3.1	1.8	1.1	1.4	2.8	2.6	6.1	0.9	0.6	0.9	1.3	1.3	4.5
Food products	41.3	3.6	2.1	2.2	1.9	1.4	1.5	3.7	2.4	6.5	0.9	0.5	1.2	2.0	1.3	4.8
Textile products	16.2	4.3	2.6	8.0	2.9	1.9	1.1	2.9	5.1	12.5	1.2	1.2	0.9	1.3	3.6	11.3
Paper products	19.6	3.2	1.3	5.2	1.7	0.8	1.1	2.1	2.2	5.3	0.9	0.6	0.6	0.5	1.0	4.0
Chemical products	37.5	2.0	1.5	1.4	1.0	0.7	1.1	1.9	1.8	3.7	0.4	0.3	0.4	1.1	0.9	2.4
Oil & coal products	12.8	0.2	0.5	0.6	-	0.4	0.4	0.5	0.7	1.1	0.3	0.1	0.2	-	0.3	0.7
Rubber & misc. plas.	16.0	2.2	1.2	2.4	0.5	0.4	0.5	1.3	4.5	7.8	0.4	0.2	0.5	0.1	3.0	6.6

a/ Includes labor turnover data for industries not listed separately as well as those listed.

NOTE: Labor turnover rates for most recent month are preliminary. Employees involved in work stoppage resulting from labor-management disputes are not counted as labor turnover actions. Dash (-) equals rate of less than 0.05 per 100 employees. INA equals information not available.

TABLE 4. NUMBER OF INDIVIDUALS ON NONAGRICULTURAL PAYROLLS IN PHILADELPHIA CITY

FEBRUARY 1976

Industry	Feb. 1976	Jan. 1976	Dec. 1975	Feb. 1975	Annual Average 1975	Annual Average 1974
NONAGRICULTURAL WAGE & SALARY	808.8	804.1	827.0	807.9	810.6	838.4
ALL MANUFACTURING IND. _ TOTAL	165.3	164.9	166.0	166.8	165.5	187.4
Durable Goods Ind. - Total	62.0	62.0	62.6	64.5	63.2	72.5
Furniture & fixtures	3.2	3.1	3.1	3.2	3.2	3.8
Stone, clay & glass products	2.0	2.0	1.9	2.1	2.1	2.6
Primary metals	3.3	3.3	3.4	4.2	3.7	4.4
Fabricated metal products	16.2	16.1	16.2	15.9	15.8	19.0
Nonelectrical machinery	10.7	10.7	10.8	12.3	11.2	13.6
Electrical machinery	16.1	16.0	16.1	17.5	16.8	19.1
Transportation equipment	3.9	4.1	4.1	2.8	3.5	3.0
Instruments & related products	2.3	2.3	2.6	2.7	2.6	3.0
Misc. manufactures & ordnance	3.6	3.7	3.7	3.1	3.4	3.5
Other durable goods	0.7	0.7	0.7	0.7	0.7	0.5
Nondurable Goods Ind. - Total	103.3	102.9	103.4	102.3	102.3	114.9
Food products	21.2	21.5	21.8	20.6	20.9	21.6
Textile products	9.3	9.3	9.1	8.8	9.2	11.6
Apparel & related products	24.7	24.0	23.9	23.5	23.2	27.0
Paper products	6.6	6.5	6.7	6.2	6.3	7.9
Printing & publishing	20.0	20.2	20.3	21.2	20.8	22.7
Chemical products	13.1	13.1	13.1	13.4	13.2	13.6
Oil & coal products	5.5	5.4	5.5	5.3	5.4	6.5
Rubber & misc. plastics prods.	1.9	1.9	2.0	2.0	2.1	2.2
Other nondurable goods	1.0	1.0	1.0	1.3	1.1	1.8
ALL NONMANUFACTURING IND. - TOT.	643.5	639.2	661.0	641.1	645.1	651.0
Contract construction	18.6	19.5	20.9	21.1	22.0	23.4
Transportation & public util.	56.1	56.2	57.0	57.3	56.7	59.3
Wholesale trade	51.5	51.8	52.2	52.7	52.5	55.4
Retail trade	100.7	102.9	112.3	102.8	104.0	107.8
Finance, ins. & real estate	65.0	64.8	64.9	65.0	65.0	66.8
Service & miscellaneous	198.9	191.3	199.8	190.1	191.0	185.7
Government	152.7	152.7	153.9	152.1	153.9	152.6
Federal government	54.1	54.3	55.0	55.3	55.3	58.1
State & local government	98.6	98.4	98.9	96.8	98.7	94.5

See footnotes on reverse side of Table 4.

NOTE: Annual averages may not add to totals due to rounding.

Note: Nonagricultural wage and salary worker employment is based on a monthly sample sample survey of employers compiled in cooperation with the United States Bureau of Labor Statistics and the Manpower Administration. These data exclude agricultural workers, self-employed, unpaid family workers, and domestic workers in private homes. Employment data represent estimates of total wage and salary worker employment in all nonagricultural establishments during the pay period which includes the 12th of the month, and include all temporary, permanent, full-time, part-time, executive, office, supervisory, sales, service, technical, maintenance, production and non-supervisory employees. Employment data in this release have been revised to first quarter 1975 benchmarks.

1/ Data for current month are preliminary and are subject to revision.

* When applicable, excludes a significant number of persons not at work and not seeking work because directly involved in a labor-management dispute.