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City's five-year plan approved despite recession warning

by **Claudia Vargas**, Staff Writer
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Philadelphia is counting on its recent good fortune with tax revenues continuing for the next five years as a way to fund new labor agreements and rising pension costs.

As presented in the latest version of the city's five-year plan - approved by the Pennsylvania Intergovernmental Cooperation Authority Wednesday - the city is assuming about $20 million more in revenue each year than originally estimated. That, however, won't completely cover the costs of new labor agreements.

Officials revised the five-year plan after Mayor Kenney signed a four-year, $170 million contract in July with the city's largest municipal union, AFSCME District Council 33.

During Wednesday's PICA board meeting, board members expressed concern over a potential recession within the next five years. PICA's five-year report points to economic reports that predict the high likelihood of a recession.

"You factored in no recession?" board member Joseph McColgan asked city Finance Director Rob Dubow.

"We factored in slower growth going forward," Dubow said, referencing the 2 percent growth assumed in revenues starting fiscal year 2019. Tax revenue growth is expecting to be about 4.5 percent in the first two years of the plan.

Dubow also said that the city is "ready" to cut costs in each department if the economy was to tank.

McColgan was the only board member to vote against the five-year plan.

For fiscal year 2016 that ended June 30, the city is estimating that $20 million more in business income and receipts (BIRT) tax revenue, totaling $455.2 million. In addition, wage, earnings and net profit taxes are also expected to be $13 million higher than projected, totaling $1.38 billion.

The real property transfer tax is estimated to be $15.7 million higher than anticipated, totaling $237 million. The city is assuming those trends will continue through 2021. And PICA agreed.

"The preliminary revenue results for FY16 suggest another year of solid performance for most taxes," the report stated.

The city plans to use its windfal to help pay for the new DC 33 contract plus future labor contracts.

City officials have set aside $328.4 million for labor obligations for the next five years. That is a $128 million increase from what the original five-year plan had set aside.

Another increased cost is pensions.

Pension payments eat up 15 percent of the city's annual $4 billion budget and are expected to keep growing.

The report points to pensions as one of the plan's risk factors. If return rates don't reach the assumed 7.75 percent, the pension gap and payments could grow even higher. Currently the city's pension plan is 45 percent funded, with a $6 billion budget hole.

"That's the ticking time-bomb in the room," board member Greg Rost said.

PICA's report also says that the new sweetened beverage tax might not result in the steady tax ($92 million annually) the city is predicting.

"The city has factored in a one percent decline in consumption and simultaneously assumed improved enforcement and collection over the life of the Plan," according to the report. "The increase in enforcement and collection is meant to account for a decrease in consumption, but according to recent trends and beverage industry experts, decline in consumption may exceed one percent."

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