



## POLICY BRIEF

### How Well Does Philadelphia Support its Public Schools? A New Perspective

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*This policy brief provides a new perspective on Philadelphia’s support for its public schools, measuring its local effort from the perspective of the taxpayer who must also pay for municipal and county services rather than by the more traditional measure of local spending per student. Comparing Philadelphia to the rest of the 20 largest US cities and to Pittsburgh, the second largest school district and city in the state, it finds that Philadelphia ranks above the median on the three measures employed: 10th in spending per capita for schools, 5th in spending per \$1,000 in personal income for schools, and 8th in the percentage of locally raised revenues it devotes to schools. The brief shows that Philadelphia, with greater poverty, ranks higher than Pittsburgh on local school support per personal income but lower on the per capita and education share measures, partly because Pittsburgh has a lower burden for county services, which are also supported by relatively affluent suburbs. The brief finds that between FY 2011 and FY 2014, Philadelphia increased its local support for schools by four times the statewide average and ranks third-- ahead of all but two of the state’s 500 school districts – on increased local effort over this period. Finally, the brief suggests a conclusion that will surprise many. Contrary to the oft-repeated assertion that Philadelphia is the first or second highest taxed big city in the US, this analysis finds that Philadelphia is about average in per capita tax burden among the 20 largest cities, although 6th on tax burden per \$1,000 in personal income. With respect to these measures, Philadelphia’s problem seems to be not how much it taxes but rather how it taxes. A combination of state laws that limit its taxing options, less state support for county services and schools, deep poverty, and its large unfunded pension liability – a problem it shares with the Commonwealth and hundreds of other cities -- has resulted in a tax structure that is economically inefficient and constrains its ability to hold and increase jobs.*

#### Introduction

Most assessments measure local support for public schools from the perspective of students, that is, in terms of locally raised dollars per student; our assessment measures local school support from the perspective of taxpayers, that is, in terms of its relative burden on a citizenry that must also pay for county and municipal government services.

In so doing, our analysis focuses attention on a unique characteristic of Philadelphia compared to all other school districts in Pennsylvania and most other large urban school districts in the US: its contiguous boundaries with both a large city and a large county. In all other Pennsylvania and most large urban US districts, the local share of very expensive and largely redistributive county services such as welfare, courts, and prisons, are shared with more affluent suburban jurisdictions, thus arguably creating more “tax room” for local school support.

Although this structural factor is sometimes given passing mention in testimony, discussions, and reports on Philadelphia school funding, it has not been systematically quanti-

fied, which is one of the unique features of this brief. We also report Philadelphia’s increase in local school revenues since FY 2010, and we compare its increased local effort to those in all other Pennsylvania school districts between FY 2010 and 2014, again the latest data available.

#### Background

Whether Philadelphia adequately supports its public schools has been debated for decades both in Harrisburg and in Philadelphia. Some of the city’s critics in the state Capitol have long argued that local support for Philadelphia’s public schools is low compared to local support for other school districts, including urban school districts like Pittsburgh.

Passionate school advocates within the city have argued that the mayor and City Council do not provide sufficient financial support for the schools, seemingly confirming the views of suburban and upstate legislators that their perceptions of low local support are accurate. Although at least some of these advocates also argue that the state should

increase its funding for Philadelphia schools, they often express little hope for that result, and their arguments can be seen, to some degree, as self-fulfilling prophecies.

**Recent independent assessments have been interpreted by some to support the view that Philadelphia ranks low in local school support compared to large cities nationally**

Recent independent assessments have been interpreted by some to support the view that Philadelphia ranks low in local school support compared to large cities nationally. In a report in 2013, Patrick Kerkstra noted that Philadelphia ranked 79th in support for schools among the 100 largest districts.<sup>1</sup> The measure used was the percentage of spending per pupil raised from local taxpayers in FY 2010, the latest data then available from the National Center for Educational Statistics (NCES). The average for the 100 largest districts was 46%, Kerkstra reported, while Philadelphia contributed just over 30% of state-local-federal funds. He also reported that of 267 Pennsylvania school districts with more than 2,000 students, only 19 ranked lower in percentage of spending raised from local sources.

A study by the non-partisan Education Commission of the States and published by The Philadelphia Research Initiative of the Pew Charitable Trusts in January 2015 found that Philadelphia ranked eighth among 10 large urban districts selected for comparative analysis in local support for schools, behind Boston, Milwaukee, Cleveland, New York, Baltimore, Chicago, and Detroit. This analysis used as the key measure the percentage of operational revenue per student raised from local taxpayers in the 2012-13 school year, also the latest data then available. It also found that Philadelphia depended more on state aid than half of these districts. Using another measure, local spending per student, Philadelphia ranked fourth, behind Boston, New York, and Chicago. The Pew report noted that Pennsylvania ranks among the lowest of the states in state share of state-local support for schools, requiring local governments to fund a larger share. The same study showed Philadelphia trailed Pittsburgh in percentage of local support for schools (and also in state aid per student and total spending per student).<sup>2</sup>

Both reports could be read to suggest that based on comparisons with other urban districts, Philadelphia should increase its support for schools, although neither specifically endorses that suggestion. These perceptions also fuel

arguments that Philadelphia's support for schools would be higher if the city had an elected school board with taxing power, which of course implies the termination of the unelected School Reform Commission (SRC) and even of the Philadelphia Board of Education, which was appointed by the mayor and which would be automatically reactivated if the commission were terminated. Opponents argue that the state increased its aid for schools when the SRC was created, and it would be less likely to support Philadelphia schools if its control were ended. They also argue that creating another taxing body in an already high tax city would lead to competition between the city and school district for resources and to an uncoordinated tax policy that could discourage business investment and job creation or job maintenance.

The perceptions that Philadelphia's local school support is low persist despite the city's substantial increase in taxes on residents and businesses to support schools since FY 2011, increases that on a percentage basis far outpaced the average for all other Pennsylvania school districts and in fact outpaced all but two of the Commonwealth's 499 other districts, as will be discussed later in this report.

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Lacking in these previous assessments is an adequate analysis of the ways in which the city's unique responsibilities for county, municipal, and school services and its unique reliance on business and resident and nonresident wage taxes have affected its ability to support public education. To be sure, both the Kerkstra and Pew studies note the city's structural handicap as factors that complicate its ability to support schools but make no effort to measure the impact of that handicap or give it more than a passing mention.<sup>i</sup>

In the comparisons cited above, local support for education is largely measured in terms of spending per student or percentage of the school budget that comes from local sources rather than revenue burden per capita on the district's population or per \$1,000 of personal income. This report provides those perspectives compared to the 19 other largest urban school districts in the US and compared to the Pittsburgh school district, which is the second largest in Pennsylvania.

1. Patrick Kerkstra, "Philly lags other cities in public school funding," *The Notebook*, July 27, 2013.

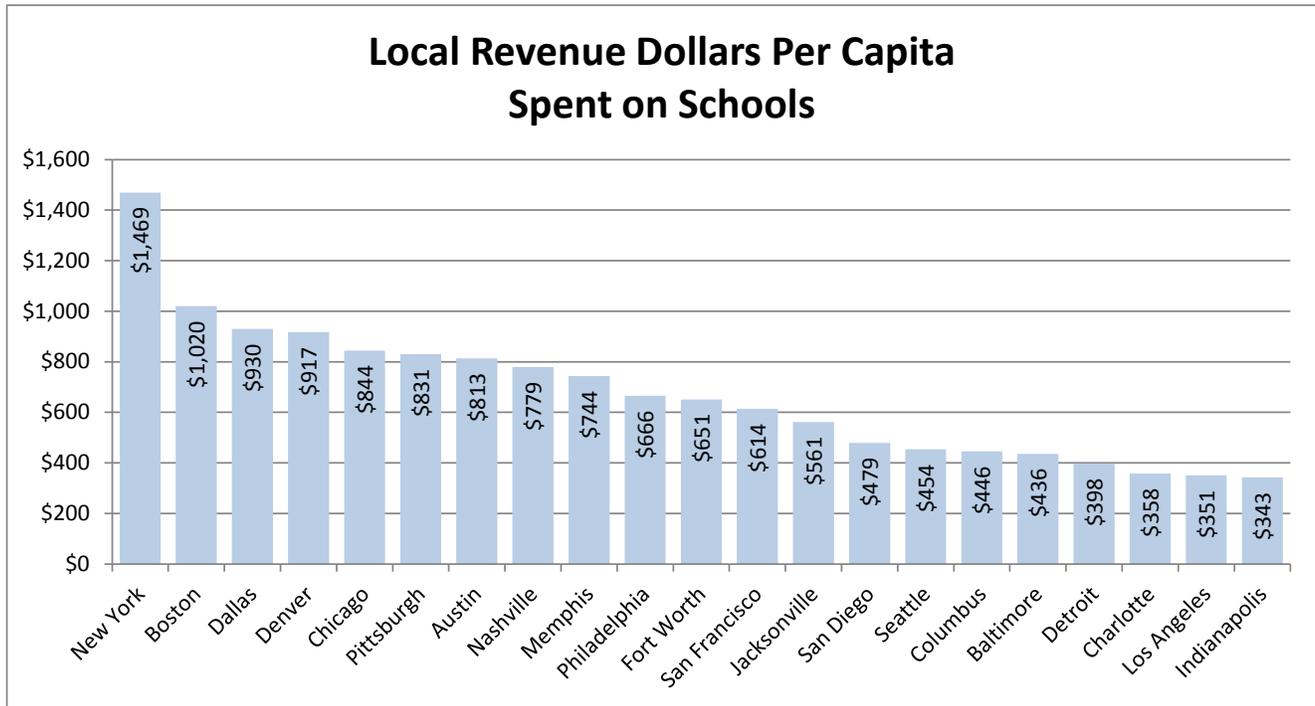
2. See *A School Funding Formula for Philadelphia, Lessons from Urban Districts across the United States*, Pew Charitable Trusts, January 2015.

### Measuring Local School Support from the Perspective of Taxpayers Rather Than Students

Using Census of Governments data for 2011, the most recent year available, we isolated local revenues spent in Philadelphia and 20 other large cities, breaking down the spending into four categories: municipal services, county services, administration, and public schools.<sup>ii</sup> Next, we standardized the spending in terms of population and total

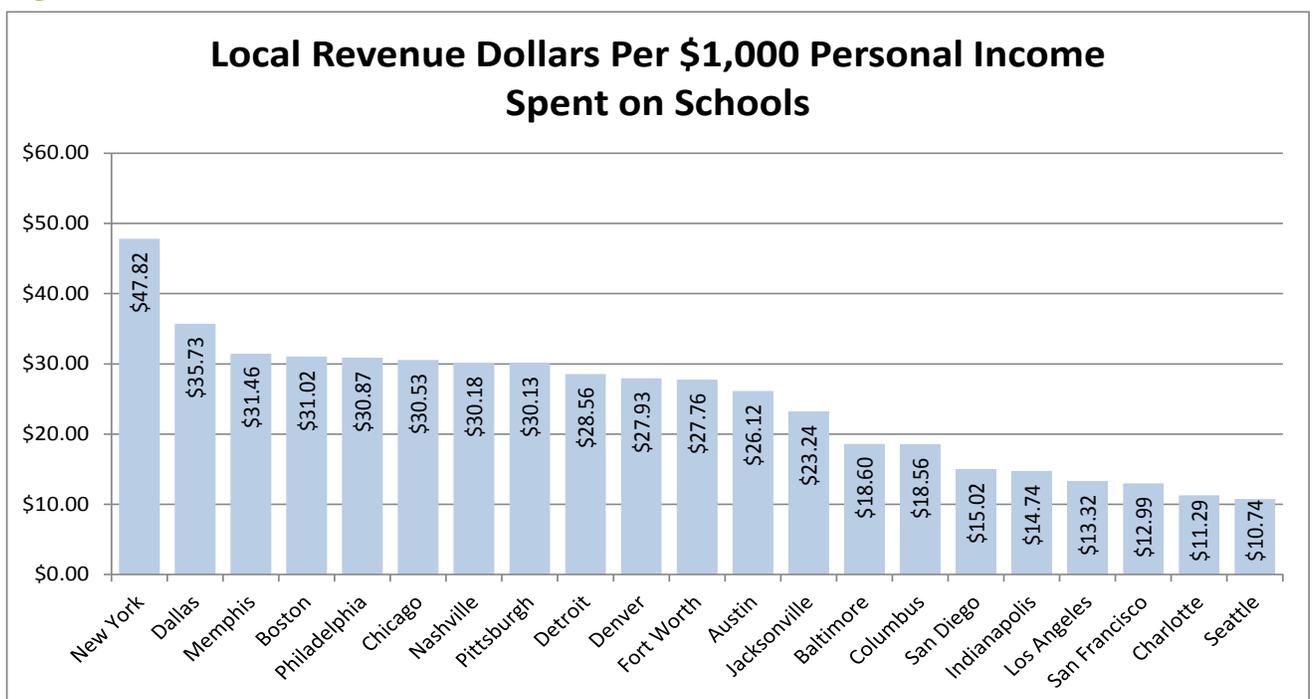
personal income to get a sense of the local revenue effort in each city in the various categories.<sup>iii</sup> We then compared the cities to one another on three key figures with respect to local spending on public education: the dollars per capita, dollars per \$1,000 personal income, and the proportion of local revenues that go toward schools. On all three of these measures, Philadelphia ranks above the median in the group of 21 cities.

Figure 1



Source: US Census of Governments

Figure 2



Source: US Census of Governments

On local education spending per capita, Philadelphia ranks 10th with a rate of \$666 per capita (Figure 1). Memphis, Nashville, Fort Worth, and San Francisco all had per capita rates close to Philadelphia's. Meanwhile, New York, Boston, Dallas, and Denver scored highest on this measure, all with rates higher than \$900 per capita. Detroit, Charlotte, Los Angeles, and Indianapolis were the laggards in this category. All had local school spending rates less than \$400 per capita.

In the category of local education spending per \$1,000 personal income, Philadelphia ranks 5th with a rate of \$30.87 in locally raised school spending per \$1,000 of income (Figure 2). New York and Dallas ranked highest with rates of \$48 and \$36, respectively. In the same range as Philadelphia are Boston, Memphis, and Chicago, with rates around

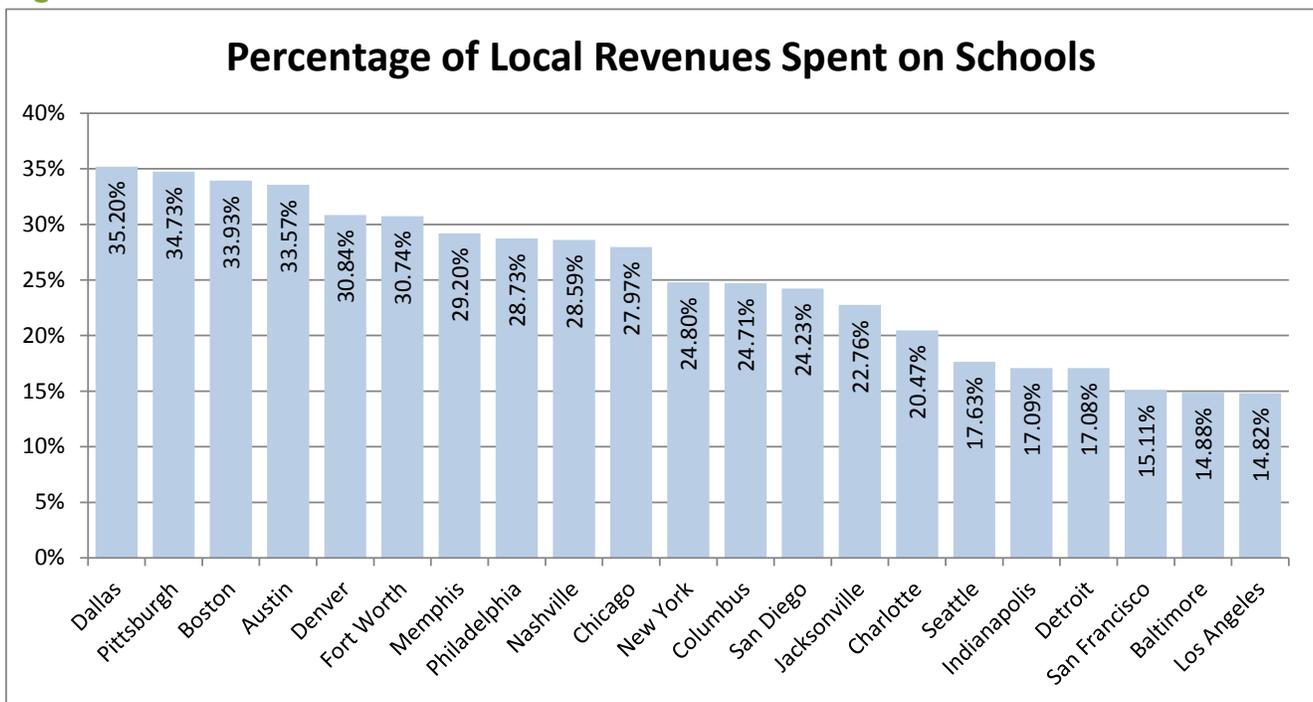
and Los Angeles scored lowest on this measure with rates around 15% or less.

### The Special Case of Pittsburgh

As noted above, we added Pittsburgh to the list of comparative urban districts because it is the second largest city in Pennsylvania. In any comparative analysis of local tax effort for schools, an important but often unrecognized factor is not just the state school aid formula but the way in which the state shares costs for municipal and county functions with local taxpayers.

Using an approach similar to ours, a 1998 report published by Greater Philadelphia First, an organization representing the leaders of the region's largest employers,

Figure 3



Source: US Census of Governments

\$31. Pittsburgh comes close with a rate of \$30.13 per \$1,000 income. Trailing the group of cities on this measure of schools revenue effort are San Francisco, Los Angeles, Charlotte, and Seattle, all of which have rates below \$14 per \$1,000 income.

On the share of local tax dollars dedicated to education, Philadelphia ranks 8th, with a rate of 28.73% (Figure 3). This indicates that roughly 29% of local revenues raised in Philadelphia are spent on public education. Memphis, Fort Worth, Nashville, and Chicago had rates very close to Philadelphia's. Dallas, Pittsburgh, and Boston topped the list with rates around 34% or more. San Francisco, Baltimore,

found that the overall per capita burden for local government functions was roughly equal when comparing Philadelphia and Pittsburgh. However, Philadelphia's greater per capita support for county services was almost identical to Pittsburgh's greater per capita support for its public schools. (The report found the per capita burden for municipal services was approximately equal.) The report attributed Philadelphia's higher burden for county services to two factors: Philadelphia's higher poverty rate, which is associated with a weaker tax base and greater needs for welfare, courts, and prisons, and Pittsburgh's lighter burden due to the fact that county costs were shared with relatively affluent suburban jurisdictions. Essentially, the

report concluded that Pittsburgh had more of what might be called “tax room” to support its public schools.<sup>3</sup>

Based on 2011 Census data, our analysis has strikingly similar findings to the earlier study. Philadelphia’s per capita burden for county services is higher than Pittsburgh’s by roughly the same amount that Pittsburgh’s per capita burden for schools is higher than Philadelphia’s (Table 1).

It should be noted that we did not find a similar pattern for other city-counties in our comparison set, perhaps partly due to the different ways other states support school and county functions. The Philadelphia and Pitts-

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burgh comparison is of interest because the two cities are part of Pennsylvania’s state-local fiscal system. It should also be noted that when measured by local spending standardized by income, Philadelphia ranks higher than Pittsburgh on both county and school spending. Pittsburgh’s locally supported county services spending is the lowest in this group of cities. Of all these cities, Pittsburgh also is the smallest in terms of the share of county population that lives in the city (about 25%), whereas Philadelphia is one of six cities in the dataset where the city’s share of county population is 100%.<sup>4</sup> So, in Allegheny County, county service costs are shared broadly by higher-income suburbs, which account for most of the county population.

**Updating the Analysis for Philadelphia and All Other Pennsylvania School Districts**

As already noted, the data for the urban school districts in the analysis above are the latest available and thus don’t reflect changes in local school support that Philadelphia and the other urban districts may have made since FY 2011. For Philadelphia, those increases include hikes in the city’s property tax and use and occupancy tax, the extension of a 1% sales tax that was scheduled to expire, and enactment of a \$2 tax on a pack of cigarettes. Although city officials were reluctant to turn to these revenues for schools, they concluded that the state was unlikely to provide sufficient new revenues to mitigate the district’s severe fiscal problems.

Particularly at risk of higher local taxes if the new state funding formula fails to provide adequate support for Philadelphia schools will be the city’s businesses. A previously published Temple paper shows that more than 20% of Philadelphia’s local tax support for schools falls on business (not counting its share of property taxes), as compared to less than 2% on average for the rest of the state.<sup>5</sup> The Commonwealth’s Basic Education Funding Commission did incorporate to some degree the unique diversity of Philadelphia’s local school funding sources in its assessment of the school district’s tax capacity, which helps drive its recommended state distribution.

Data supplied by Philadelphia’s director of finance show that the city increased local school support by an impressive 49% between FY 2011 and FY 2016 (Table 2).

**Table 1 – Comparing the City and County Services Tax Burden in Pittsburgh and Philadelphia**

	Local Revenue Spending Per Capita					Local Revenue Spending Per \$1,000 Personal Income				
	County	Schools	Admin	Municipal	TOTAL	County	Schools	Admin	Municipal	TOTAL
<b>Pittsburgh</b>	\$204	\$831	\$646	\$758	\$2,438	\$6	\$30	\$23	\$27	\$86
<b>Philadelphia</b>	\$357	\$666	\$356	\$939	\$2,318	\$17	\$31	\$17	\$44	\$108

Source: US Census of Governments

**Table 2 – Local Revenues to Philadelphia School District by Fiscal Year**

	2011	2012	2013	2014	2015	2016 (adopted)
<b>Total Local Revenue (General Fund)</b>	\$833,698,544	\$927,012,019	\$970,897,086	\$1,064,526,520	\$1,174,946,000	\$1,245,385,000
<b>Annual Percent Increase</b>		11.19%	4.73%	9.64%	10.37%	6.00%
<b>5-Year Percent Increase</b>						49.38%

Source: City of Philadelphia, Department of Finance

3. Stephen K. Landis, *A Comparison of Tax Effort for Local Government Functions in Philadelphia and Pittsburgh*, Greater Philadelphia First, 1998.

4. The other five city-counties are Denver, Indianapolis, Jacksonville, and Nashville. New York, Baltimore, and Boston are excluded because they do not have overlapping counties.

5. See Eileen McNulty, *How Pennsylvania Funds Public Schools: The Story of the Local Share*, May 2014 at [www.cla.temple.edu/corp/files/2012/12/Local-Share-Issue-Memo.pdf](http://www.cla.temple.edu/corp/files/2012/12/Local-Share-Issue-Memo.pdf).

Based on data from the Pennsylvania Department of Public Education (PDE), Philadelphia far outstripped virtually all other Pennsylvania school districts in increasing local revenue between FY 2011 and FY 2014. Pennsylvania school district revenues from local sources grew by 7%, on average, over the 2011-2014 period. Philadelphia SD's local revenues grew by roughly 28% during this period (Table 3).

**Table 3 – 2011-2014 Growth in Local Revenue Contributions to School Districts**

<b>Philadelphia</b>	<b>27.9%</b>
<b>Pittsburgh</b>	<b>8.0%</b>
<b>Statewide Average</b>	<b>7.0%</b>
<b>Statewide Median</b>	<b>6.9%</b>
<b>Statewide Minimum</b>	<b>-20.4%</b>
<b>Statewide Maximum</b>	<b>33.0%</b>

Source: PA Department of Education

The annual average local revenue increase in this 3-year period then is about 2.3%, and Philadelphia's is 9.3%. Only two of the state's 499 other school districts increased local support at a greater rate than Philadelphia.<sup>6</sup>

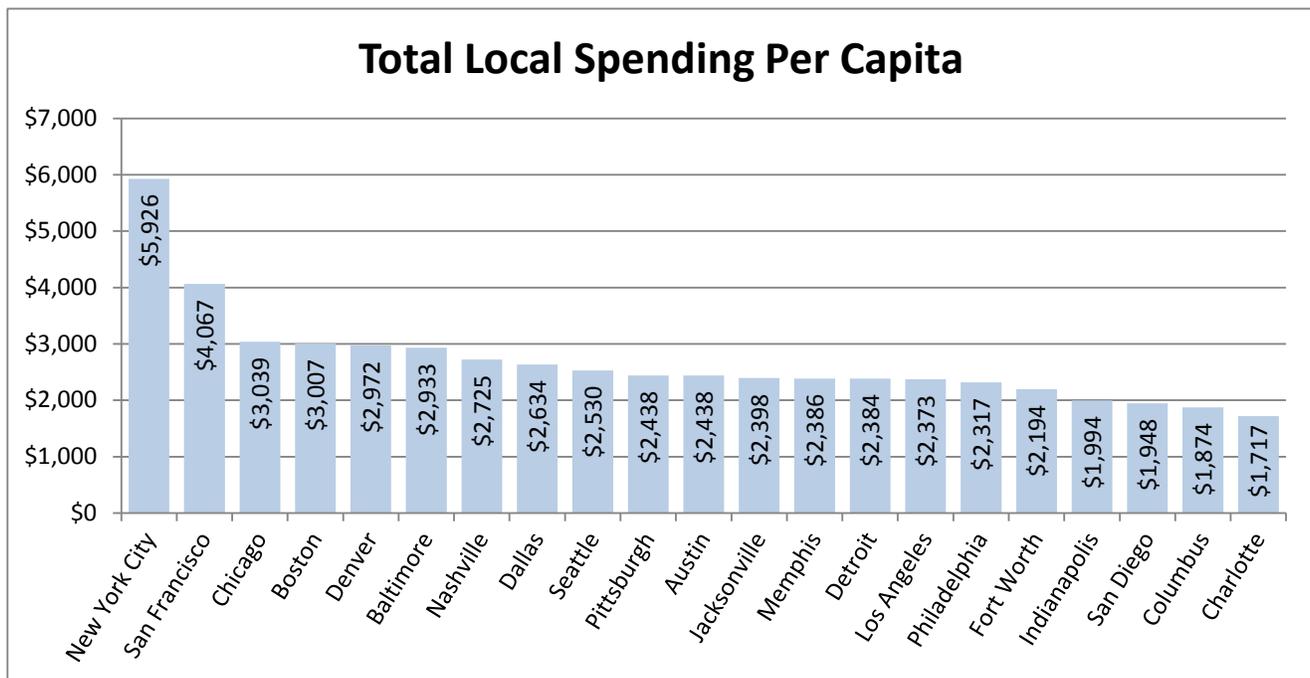
**Concluding Thoughts**

This analysis is intended to supplement but not displace other measures of Philadelphia's local school support, providing a data-based insight into relative overall tax burdens not available elsewhere. State policymakers and legislators understandably do not like to treat Philadelphia differently in funding schools or any other functions, given historical anxieties about big cities on the part of non-big city populations, as well as elected officials.

The fact is, however, that Philadelphia's school district is unique not only in its size but in its structure as contiguous with both a municipality and a county. This analysis is intended to focus attention on that factor in assessing local school support, not to argue that Philadelphia doesn't do enough or does more than it gets credit for doing. The data speak for themselves.

As an unintended byproduct, the analysis suggests a conclusion that might surprise some, although the conclusion should be accompanied by important caveats. This is a study of Philadelphia's local education funding effort, not of its tax policies, for which many competent studies are available. Nevertheless, it is worth noting that compared to the 20 other big cities in our data set, Philadelphia does not appear to be overtaxed in terms of its per capita

**Figure 4**



Source: US Census of Governments

6. The only two districts that increased local revenues for schools more than Philadelphia between FY 2011 and FY 2014 are South Fayette Township School District in Allegheny County (33%) and Brownsville Area School District in Fayette County (29%).

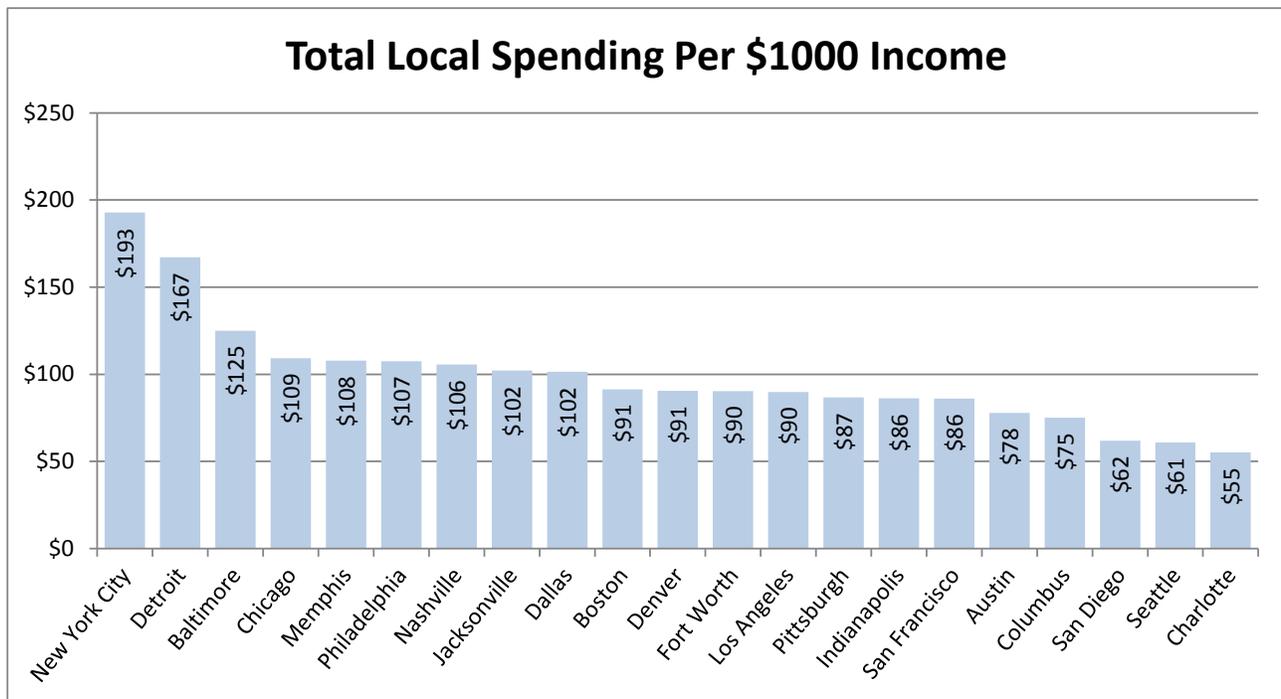
burden for municipal, county, and school functions, ranking 16th out of 21 (see Figure 4). On tax burden as a percent of personal income, it does rank high, 6th, which is driven by its unfortunate and widely-known status as the city with the highest poverty rate -- over 25% -- of the 10 largest cities and second only to Detroit in our dataset (see Figure 5). That factor explains why the city's businesses may be at risk if the new state school funding formula fails to provide adequate support for Philadelphia schools. City Council has been reluctant to burden a poor population already supporting high taxes for county and municipal services with higher school taxes, particularly during a period in which the state was cutting school aid or providing only minimal increases.

Our analysis of per capita tax burden seems to contradict an oft-repeated finding based on the District of Columbia's annual calculation of relative tax burdens in the largest city in all 50 states: Philadelphia is typically ranked first or second highest in terms of the percent of income paid in taxes on hypothetical families with annual incomes ranging from \$25,000 to \$150,000.<sup>7</sup> (According to Pew's Philadelphia Research Initiative, in previous years the District of Columbia study has systematically overestimated Philadelphia's real estate tax burden, however, and subsequent issues of

the report are likely to show Philadelphia with a still-high but not as high tax burden. Indeed, the 2014 report, issued in December 2015, shows Philadelphia ranking between first and tenth in terms of highest tax burden for families in the various income ranges, with burdens relatively higher for families with lower incomes and still the highest for families with an annual income of \$25,000.<sup>8</sup>) Similarly, two Philadelphia tax reform studies have found the city's wage and business tax burdens substantially higher than burdens in other cities and in surrounding suburbs and have recommended cutting those taxes and shifting more of the burden to real estate taxes, which economists generally regard as more efficient.<sup>9</sup>

An important difference between our analysis and those of the District of Columbia and the city's tax studies is that we are calculating average burden per city resident or \$1,000 of personal income, while they are calculating specific burdens for individual taxpayers based on standardized models. The hypothetical model approach is more relevant for focusing attention on the tax disincentives that influence businesses and residents in terms of locational and investment decisions. In short, our analysis suggests that the city's problem is not that it is collecting too much in taxes, particularly on the per capita measure, but that it

Figure 5



Source: US Census of Governments

7. *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison 2013*, issued in November 2014. This report includes state taxes in measuring overall tax burdens on city residents. A Philadelphia Research Initiative study in 2012 found that the residential tax burden gap between the city and its suburbs was narrowing, with the city falling from 3rd highest to 48th highest among 350 municipalities in the region between 2002 and 2012. See *Residential Taxes: A Narrowing of the Gap Between Philadelphia and Its Suburbs*.

8. *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison 2014*, issued in December 2015.

9. *The Mayor's Task Force on Tax Policy and Economic Competitiveness (2009)* and *The Philadelphia Tax Reform Commission (2003)*.

faces structural constraints in how it taxes.<sup>10</sup> The District of Columbia and city tax reform analyses focus attention on the economic inefficiencies in a tax structure that contains disincentives for job maintenance and job growth. These inefficiencies are partly due to state laws and policies, such as those limiting what the city can tax and how county functions are funded. (Arguably, the rates of the city's wage and business taxes are also higher than necessary due to city policy failures, principally the growth of its unfunded pension liability.)

**State law...does not allow for a regional sales tax and the uniformity clause in the state Constitution has been interpreted to prohibit taxing commercial property at higher rates than residential property**

Although state law allows Philadelphia greater local tax flexibility than any other Pennsylvania jurisdiction, it does not allow for a regional sales tax and the uniformity clause in the state Constitution has been interpreted to prohibit taxing commercial property at higher rates than residential property. According to the Philadelphia Growth Coalition, at least some other cities in other states can levy differential property tax rates. As already noted, Pennsylvania ranks among the lowest in state support for schools, and it also provides less support for county functions than many states, requiring local tax payers to bear a higher share of these burdens.

Because more than 15% of the city's general fund budget is consumed by appropriations for pensions, most of which are to pay city workers and retirees for services delivered in the past, it is plausible that the tax price of city services is perceived by residents to be higher than the budgetary price measured in our analysis, contributing to resistance to higher city taxes for any purpose. In other words, residents may intuitively perceive that they are receiving little or no current value from roughly 15% of the city's general fund.

10. As an example, Southeastern Pennsylvania lacks a regional (multi-county) sales tax but the city does have the power to tax some regional income (the wages of suburban commuters) to support city and county functions. Unlike a multi-county sales tax, this form of regional taxation creates incentives for residents and jobs to leave the city. The city cannot tax suburban wages for schools, but it can and does tax the unearned income of Philadelphia residents for schools, creating additional incentives for those with such taxable income to leave the city.

11. Asset sales were another option cited in the CORP *Working Group Report*, although the report cautioned that public asset sales have proven difficult to consummate in Pennsylvania and that those with social missions and strong public employee unions have proven difficult to consummate anywhere. PGW's work force is unionized, and its rate structure includes discounts for senior citizens and low income residents. Find the report at [www.cla.temple.edu/corp/files/2012/12/Pension-Working-Group-Report-June-2013.pdf](http://www.cla.temple.edu/corp/files/2012/12/Pension-Working-Group-Report-June-2013.pdf). On the difficulty of monetizing public assets for reducing pension liabilities in Pennsylvania, see also McLaughlin, Joseph P. Jr., 2011, "Monetizing Public Assets & P3 Transactions: The Pennsylvania Perspective," available upon request from the center.

12. This estimate is based on an analysis by the Pennsylvania Public School Employees' Retirement System that 71% of the system's unfunded liability was due to legislative actions increasing benefits and delaying or skipping annual required contributions.

In June 2013, a CORP *Working Group Report* on pensions highlighted as an option the use of the city's about to expire 1% sales tax to pay down the unfunded liability of the pension system, contingent on changes to make the system more sustainable. The legislature's preemption of most of the revenues from that tax for schools raised Philadelphia's local support for schools but represented a huge opportunity cost to deal with a structural problem that will continue to complicate further efforts to increase funding for schools or other city services. City Council also rejected the sale of the Philadelphia Gas Works with the proceeds dedicated to reducing the city's unfunded pension liability.<sup>11</sup>

If the city did not have an almost \$6 billion unfunded pension liability, it would have hundreds of millions of dollars annually to improve schools, city services, or to reduce its non-competitive wage and business taxes. Very possibly, it would do all three.

**More than 15% of the city's general fund budget is consumed by appropriations for pensions, most of which are to pay city workers and retirees for services delivered in the past**

It should be noted that the Commonwealth itself and hundreds of other municipalities in Pennsylvania and across the nation face similar problems. If the legislature had adequately funded pension benefits for school employees, we estimate it would have almost \$860 million a year to spend on schools or other services or to cut taxes.<sup>12</sup> In addition, the legislature's Basic Education Funding Commission has estimated that hold harmless funding practices have resulted in inefficient allocations of school funds, although ending the practice abruptly would be both unrealistic and unfair to districts that have come to rely on them. The legislature's role in allowing a large unfunded liability to accumulate is inflicting higher pension costs on state and school district taxpayers (largely in the form of higher property taxes) and arguably on the state's school children in the form of budget cuts.

## TECHNICAL APPENDIX

The Census report on Local Government Finances is the only comprehensive survey that provides data for all counties, municipalities, and school districts to support the analysis undertaken here, but it has a number of drawbacks. The most important is that the survey is produced only once every five years. As noted above, the data underlying our analysis are for FY 2011, the latest available. We have updated the financial information for the Philadelphia school district but not for the other large urban districts in our comparative set. We also adjusted the Census data for local spending by adding contributions to internally managed public pension systems because those contributions represent significant burdens on local taxpayers but are not counted by the Census, which defines expenditures as funds that exit the government. We obtained data for these contributions from two sources: The Pew Center on the States and the Comprehensive Annual Financial Reports of the relevant jurisdictions.

Estimating locally supported expenditures for various functions by subtracting intergovernmental revenues from total spending for those functions is an unorthodox approach that is vulnerable to timing errors, although we believe they are relatively small for the level of analysis undertaken here. For example, some spending in a given fiscal year might be supported by reserves accumulated in previous years, and some intergovernmental revenues might be carried over into future years.

Finally, we have used the common metric of revenues per capita as a comparative measure of tax burden, although Philadelphia, like many other cities, collects revenues from non-residents and visitors. Some economists, and more than a few Philadelphia business leaders, would argue that the non-resident wage tax is paid by employers and that the sales tax also takes its toll on local retailers, costing them revenues due to higher prices and lost sales. Sorting out the precise incidence, and therefore economic impacts, of taxes and fees paid by non-residents to Philadelphia and the other cities in this analysis is difficult under any conditions and certainly beyond the scope of this paper.

## ENDNOTES

<sup>i</sup> Both Kerkstra's report and the Pew study contain a single paragraph noting that Philadelphia differs from many other large districts in having responsibility for county as well as municipal and school functions. They also note that the city is home to large universities, museums, hospitals, and other nonprofit organizations that are exempt from property taxes.

<sup>ii</sup> The Census does not include expenditures on pension contributions for internally operated pension funds, since these payments do not exit the local government. However, this expense represents a real and substantial draw on local tax revenue in Philadelphia and many other local governments. For cities, counties, and school districts with independent pension funds, we researched pension contributions for 2011 and added these to the local expenditures in the appropriate category.

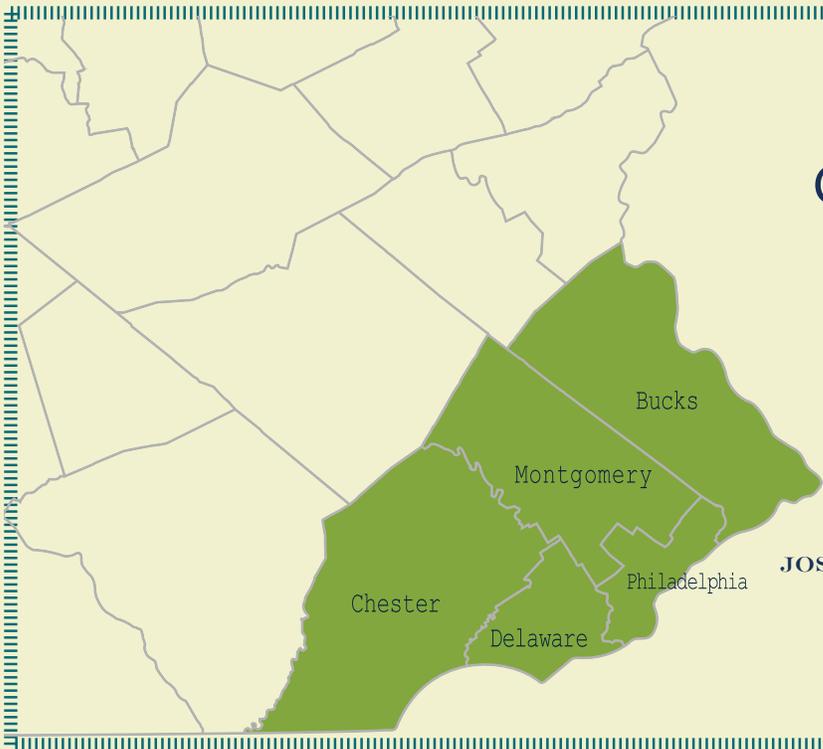
<sup>iii</sup> For the eight combined city-county governments, such as Philadelphia, the same population and total income numbers were used to standardize across all functions. This is also true for Baltimore, which is completely separate from Baltimore County. That is, Baltimore City is not part of Baltimore County. However, for the other 12 cities situated inside a county government, we standardized each expenditure category by the figure at the appropriate level. An example: for Pittsburgh, we standardized school and municipal spending by the city population and income figures, but for county function spending, we standardized by the county population and income figures. In cities that are layered within counties, the county typically handles specific functions and spreads those costs out across the larger population (and income) of the county.



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