November 2024

# Tariffs and the Philadelphia Budget

The tariffs proposed by President-elect Trump may affect the City's budget and wider economy, and are one of the many potential federal policy shifts that may have a variety of impacts on the City of Philadelphia's fiscal health. Preparing for potential fluctuations in costs and revenues will require careful budgeting, strategic planning, and engagement with local businesses and residents.

Tariffs, or taxes on imported goods, aim to protect domestic industries by making foreign goods more expensive. This can lead to a decrease in imports as consumers and businesses switch to locally produced alternatives. While the goal is to stimulate U.S. manufacturing and jobs, tariffs can also drive up prices on goods and services that rely on imported components, affecting both consumers and businesses.

For Philadelphia, an economy with a heavy emphasis on healthcare, education, financial services, and manufacturing, the effects of tariffs could vary significantly across sectors. Here's a closer look at the major areas of Philadelphia's economy that may be affected:

- **Healthcare:** If the cost of imported medical equipment or supplies rises, healthcare providers could see increased operational costs. For City-funded healthcare programs or collaborations with healthcare providers, budget allocations may need to adjust to cover these rising costs.

- **Manufacturing:** Philadelphia has a longstanding manufacturing sector, though smaller than in past decades. If tariffs make imported materials more expensive, local manufacturers may face higher production costs. Additionally, reciprocal tariffs by other countries may reduce the export market for existing Philadelphia production. On the other hand, if tariffs successfully encourage more U.S.-based production, Philadelphia's manufacturing sector could see renewed demand, potentially increasing job opportunities and local tax revenue.

## Direct Budget Impacts

The City's revenue and spending may both be impacted by new tariffs.  The level of impact will depend on multiple factors, like the level of tariffs, response by foreign governments, current reliance on imported goods, and options for domestically produced alternatives.

### *Revenues from Taxes + Trade-Related Activities*

The City's revenue streams may see negative and positive impacts, depending on how businesses and consumers respond.

**Business Tax Revenues**

If Philadelphia's manufacturing sector benefits from tariffs by seeing increased demand for locally made goods, this could bolster local business tax revenues. With an increase in business activity, the City could collect more in taxes, such as Business Income and Receipts (BIRT) and Net Profits taxes. Additionally, if tariffs lead to increased employment in certain sectors, Wage Tax revenue for Philadelphia could also rise as more individuals find jobs and contribute to the local economy.

However, if tariffs result in a substantial rise in costs for imported materials, businesses that rely on imports might face reduced profit margins or even struggle to stay afloat. In the event of business closures, the City could experience a reduction in business tax revenues and an increase in unemployment, ultimately affecting Wage Tax collections. Impacts at Philadelphia's port, where most cargo has a foreign origin, may be particularly concentrated. Port activities are not subject to the BIRT, but there would be impacts on Wage Tax collections if there were significant changes to the workforce needed at those facilities and those that do business with the Port.

**Property-related Revenues**

If tariffs disrupt supply chains or lead to significant price increases, local industries could experience slowdowns, for example trouble acquiring equipment needed to produce goods or materials needed for construction. If output dwindles or construction faces delays, commercial properties may have lower demand or sit vacant, that could lead to property value declines, impacting Real Estate Tax revenues. Declining values could negatively impact Realty Transfer Tax collections if there is no change in sales volumes compared to expectations, although a declining economy may also increase the volume of transactions which could offset the impact of lower values.

Moreover, if consumer prices rise due to tariffs, individuals may spend less on housing improvements or renovations, reducing revenues from permits and related fees.

## *Spending on Goods and Services*

How much the City of Philadelphia spends and on what may also be affected by proposed tariffs. When prices rise due to tariffs, City projects and equipment could become more expensive, requiring the City to evaluate what services to fund and what projects to proceed with. Changes in the local economy may change the demand for certain City-provided services.

### Infrastructure and Construction Costs

Many City infrastructure projects depend on imported materials, from steel to construction machinery. Tariffs on these materials could lead to rising costs for construction, making it more expensive for Philadelphia to maintain and improve public infrastructure. With a larger portion of the capital budget needed to complete planned projects, fewer funds might be available for other initiatives or future projects.

Moreover, the City could face higher costs for maintaining its facilities, from office buildings to libraries and rec centers. This, in turn, could affect long-term budget planning and may necessitate either increased funding or prioritization of essential projects over others.

### Costs for City Services

Philadelphia provides a range of services, including sanitation, public safety, and public transportation support. Currently, spending on materials, supplies, and equipment is a relatively small share of the City's General Fund, $148 million or 2.3 percent budgeted in FY25. The Transportation Fund has a smaller overall budget, at $121 million, but allocates a larger share at 8 percent ($9.6 million) for materials, supplies, and equipment.

Fleet and Fire are the departments with the largest budgets in this category, each over $20 million. Fleet's costs are concentrated in fuel for City vehicles, and Fire's planned spending includes protective gear like self-contained breathing apparatus equipment and supplies for the City's ambulances.

Tariffs on fuel, firefighting gear, or other imported equipment could lead to higher costs for running these services. For instance, if medical supplies become more expensive, the City may need to allocate additional budget resources to Public Health for its Health Centers, Prisons for its provision of care to incarcerated individuals, and Fire for its EMS operations, or consider adjusting service levels.

### Demand for Safety Net Programs

For vulnerable populations that rely on City-supported social programs, the indirect effects of tariffs could also be significant. Rising costs due to tariffs may force low-income residents to depend more heavily on City services, such as housing assistance, healthcare, and emergency shelters. In a budget constrained by higher costs in other areas, Philadelphia could face difficult decisions in balancing support for social services with rising operational costs. Any shifts in federal support for these programs could exacerbate the stress on the City's budget. Conversely, if the tariffs invigorate local manufacturing activity and expand employment opportunities, particularly for lower-skilled positions, there may be decreased demand for these services.

## Potential Strategies for Mitigating Tariff Impacts

Philadelphia could take several proactive steps to mitigate potential negative budget impacts from tariffs:

- **Evaluating the Risk to City Spending:** The City should review its purchasing of operating and capital items that are sourced from foreign origins to assess what share of the City's spending on goods may be impacted.

- **Expanding Local Procurement:** By focusing on local suppliers, Philadelphia could avoid some of the cost increases associated with tariffs on imported goods. Prioritizing local procurement for City projects and services may help insulate Philadelphia's budget from some of the cost increases. The City's existing Local Business Procurement Initiative and its registry of certified vendors may be a useful tool in this effort.

- **Maintaining Adequate Reserves:** The City should continue to build up reserves to be able to absorb any unplanned costs. One option may be to allocate funds specifically for potential tariff-related costs. For example, as a result of COVID-related costs associated with inflation and supply chain issues, the City appropriated reserves separate from the General Fund balance and the Budget Stabilization Reserve. Alternatively, continuing to increase overall reserves is another path to ensuring a cushion against tariff-related revenue losses or cost increases.

- **Engaging with businesses and the workforce:** Understanding the specific needs of local businesses and workers affected by tariffs can help Philadelphia support its local economy more effectively. Programs that provide targeted support to adapt to new tariffs could help Philadelphia's economy remain resilient and, by extension, support stable City revenues. Ongoing communications with firms and employees in the sectors most likely to be impacted may also provide early warnings for upcoming declines in revenue collections and how demand for City services may change.

- **Exploring partnerships and grants:** Philadelphia could look for opportunities to offset increased costs by leveraging state or federal grants and forming partnerships. Engaging in cooperative efforts with other municipalities and levels of government can help Philadelphia access resources and share best practices for managing tariff impacts.

## Conclusion

While the tariffs proposed by President-elect Trump could have varied impacts on Philadelphia's budget, the City can take steps to prepare and adapt. Understanding the specific areas where tariffs may increase costs or influence revenue streams will be key to maintaining budget stability. By taking proactive measures to mitigate risks, Philadelphia can work to protect its fiscal health and ensure that essential services continue to be provided to residents.

### *About the Report*

This report was written by Marisa Waxman, with support from ChatGPT. All AI-generated content and images were reviewed by PICA Staff prior to publication.