

**DEPARTMENT OF COMMERCE
FISCAL YEAR 2017 BUDGET TESTIMONY
APRIL 5, 2015**

Good morning. My name is Harold T. Epps and I am the Director of Commerce. I am pleased to be here today presenting testimony for the Fiscal Year 2017 operating budget.

Before I start, I would like to say that I am happy to have had the opportunity to meet with many of you individually in my first three months as Commerce Director and I look forward to working with members of City Council in order to accomplish the many goals that the Department has laid out. As you all know from our discussions, we at the Department of Commerce have an ambitious agenda and we must do it in partnership.

The total Commerce Department operating budget request is \$103.9 million, excluding Aviation (who will present their budget at a separate hearing). The General Fund portion of this request is 22.1% or \$22.97 million which includes \$15 million for the Pennsylvania Convention Center subsidy and \$500,000 for the Delaware River Waterfront Corporation. Net of these pass-throughs, the Commerce Department is requesting \$7.47 million for FY17 in the General Fund.

In the past few months, the Department of Commerce has laid out the following objectives for our work:

- The continuous and relentless pursuit of Philadelphia as a globally competitive city where businesses succeed;
- Recruit and retain a diverse set of businesses, ensuring that all Philadelphia neighborhoods are where employers flock, entrepreneurs thrive and innovation abounds;
- Foster economic opportunity for all Philadelphia businesses to ensure that contract recipients and their workforce are reflective of Philadelphia's diversity;
- Provide high quality and timely customer assistance to new and existing Philadelphia businesses;
- Partner with workforce development programs and local businesses on talent development in order to ensure that all Philadelphians can find and retain living wage jobs;
- Ensure that the department's financial resources are invested and distributed in a fiscally responsible manner and to provide optimal services through a diverse, effective and efficient team of employees.

Philadelphia's economy today is vibrant and robust; opportunities abound. There is probably no time like the present to capitalize on all the success that Philadelphia is experiencing. Philadelphia ended 2015 with an unemployment rate of 5.4% for December, reducing the annual unemployment rate to 7% for 2015. This marks a 36% decrease in unemployment since the peak of the recession and the lowest unemployment rate for the city since 2007. Additionally, the number of jobs in Philadelphia has grown by nearly 5% since 2009, during the longest-sustained period of job growth the city has seen since the 1980s. Our population is growing year after year. We are now a World Heritage City. The Democratic National Convention is coming, along with dozens of other major conventions. We must leverage this growth so that it is shared by all Philadelphians in all neighborhoods.

But if we are to be successful in continuing this growth and sustaining this success, we must do something about the poverty rate in Philadelphia. Philadelphia's official poverty rate hovers around 26%, the highest poverty rate of the 10 largest cities in the country. In order to combat poverty in this city, we must help create living wage jobs. Based on some quick math, economists have told me that it will take between 15,000 and 20,000 decent-paying jobs to reduce the poverty rate by 1%.

In order to create jobs, we must have strong businesses and more businesses. We also must ensure that the workforce is ready for those jobs. The majority of the work that the Department of Commerce will carry out in the next year, whether a continuation of past programs, or new initiatives, will be around improving the business environment in Philadelphia. That includes neighborhoods, startups, new businesses, international businesses, existing businesses and expanded businesses. We will focus on all of these areas.

The Office of Economic Opportunity will work to increase the M/W/DSBE income from City contracts from \$302 million in FY15 to \$320 million in FY17 and \$370 million in FY21. Increasing the capacity of M/W/D/SBEs will also lead to a more diverse workforce.

We have also made a decision to house a Talent Development Unit at the Department of Commerce. In the past, we have left most of the workforce development work to our partners such as Philadelphia Works and Philadelphia Community College, but we are now going to play a more proactive role in convening all of the partners and building bridges between employers and job-seekers. After hearing too many times from our employers that they have job openings to fill and cannot find qualified employees to fill them, we know that we need to do better.

The budget that you have before you includes many initiatives that I know you have much experience with, such as the Storefront Improvement Program, Office of Business Services, StartUp PHL, increasing the capacity and participation of women and minority owned businesses, and more.

I am joined today by my senior staff and we would be happy to provide further detail and answer any questions that you may have.

Thank you.

**DEPARTMENT OF COMMERCE
BUDGET SUMMARY AND OTHER BUDGET DRIVERS**

Staff Demographics Summary (as of January 2016) for All Funds

	Total	Minority	White	Female
Full-Time Staff	70	47	23	50
Executive Staff	6	3	3	4
Average Salary - Full-Time Staff	\$69,191	\$67,038	\$73,156	\$65,008
Average Salary - Executive Staff	\$129,809	\$138,486	\$121,132	\$118,186
Median Salary - Full-Time Staff	\$61,766	\$62,000	\$60,000	\$60,766
Median Salary - Executive Staff	\$105,250	\$143,218	\$119,025	\$113,513

Employment Levels (as of January 2016) for General Fund

	Budgeted	Approved	Filled
Full-Time Positions	33	33	33
Part-Time Positions	0	0	0
Executive Positions	6	6	6
<i>Overall Average Salary</i>	73,206	73,206	73,206
<i>Overall Median Salary</i>	65,000	65,000	65,000

Financial Summary by Class - General Fund

	Fiscal 2015 Actual Obligations	Fiscal 2016 Original Appropriations	Fiscal 2016 Estimated Obligations	Fiscal 2017 Proposed Appropriations	Difference FY17-FY16
Class 100 - Employee Compensation	\$1,925,310	\$2,356,211	\$2,356,211	\$2,374,990	\$18,779
Class 200 - Purchase of Services	\$21,727,879	\$20,164,929	\$21,607,607	\$20,069,929	(\$1,537,678)
Class 300 - Materials and Supplies	\$11,381	\$36,654	\$36,654	\$26,654	(\$10,000)
Class 400 - Equipment	\$14,495	\$0	\$0	\$0	\$0
Class 500 - Contributions	\$500,500	\$500,000	\$500,000	\$500,000	\$0
Class 700 - Debt Service	\$0	\$0	\$0	\$0	\$0
Class 800 - Payment to Other Funds	\$0	\$0	\$0	\$0	\$0
Class 900 - Advances/Misc. Payments	\$0	\$0	\$0	\$0	\$0
TOTAL	\$24,179,565	\$23,057,794	\$24,500,472	\$22,971,573	(\$1,528,899)

Contracts Summary

	FY11	FY12	FY13	FY14	FY15	FY16*	FY16 Goal	FY17 Goal
Total amount of contracts	\$87,500	\$75,000	\$75,000	\$75,000	\$84,399	\$378,000		
Total amount to M/W/DBE	\$32,000	\$31,875	\$31,875	\$31,875	\$41,274	\$325,250	86%	86%
Participation Rate	37%	43%	43%	43%	49%	86%		

* as of December 2015

**DEPARTMENT OF COMMERCE
PROPOSED BUDGET OVERVIEW**

DEPARTMENT MISSION/PLANS

Mission: The mission of the Department of Commerce is to ensure that Philadelphia is a globally-competitive city where employers hire, entrepreneurs thrive, and innovation abounds; to recruit and retain a diverse set of businesses; to foster economic opportunities for all Philadelphians in all neighborhoods; and to partner with workforce development programs and local businesses on talent development with the goal of ensuring that all Philadelphians can find and retain living-wage jobs.

The Department of Commerce has three major divisions:

- Office of Neighborhood & Business Services
- Office of Business Development
- Office of Economic Opportunity

PLANS FOR FISCAL YEAR 2017:

Office of Neighborhood & Business Services: This office works with businesses as well as economic development partners, community-based organizations, and business technical assistance providers to retain, grow, and attract businesses to Philadelphia neighborhoods. Activities include corridor revitalization programs, one-on-one business consultation and assistance, and increasing capacity at the neighborhood level in the form of business associations, community development corporations and business improvement and special services districts. Specific goals for the next five years include:

- Increasing the number of businesses assisted from 2,336 in FY15 to 2,588 in FY17 and 2,800 in FY21.
- Increasing dollar amount of loans made to small businesses from \$2,386,250 in FY15 to \$3,000,000 in FY17 and \$6,000,000 in FY21.
- Reducing vacancy rates on targeted commercial corridors from 22% in FY15 to 19% in FY17 and 15% in FY21.

Office of Business Development: The Office of Business Development encompasses two primary areas of focus: business attraction and retention and talent development.

Business Attraction and Retention: This unit assists businesses seeking to locate, grow, and remain in Philadelphia by matching them with the right resources and incentives. Commerce works with other economic development partners to inform businesses about applicable resources such as tax credits, workforce training dollars, and low-interest financing for fit-out and equipment so that a business may apply these tools to grow employment in Philadelphia. Programmatic activities include communicating Philadelphia's business value proposition, meeting with companies, responding to site selection requests for proposals, issuing offer letters, and providing support as a company locates and grows in Philadelphia. The ultimate goal of the Business Attraction and Retention program is to increase the number of businesses locating or retaining their locations in the city, thereby increasing the number of jobs in Philadelphia and improving economic opportunities for Philadelphians. Although many factors can influence job growth, the environment should yield an increase in the number of jobs in the city from 680,000 in FY15 to 687,500 in FY17 and 730,000 in FY21.

Manufacturing & Industry Program: This program consists of a taskforce within the Department of Commerce dedicated to supporting and preserving Philadelphia's manufacturing community. Made up of staff from across the department, this team coordinates the City's efforts to retain and stabilize the

20,000 manufacturing jobs in Philadelphia, prioritizing assistance with new advanced manufacturing opportunities. The measurable milestones for the next five years are:

- Increase training (through the Southeast Regional Workforce Development Advanced Manufacturing Partnership, managed by Philadelphia Works) from 252 individuals in FY15 to 300 in FY17 and 450 by FY21.

Talent Development: This unit works with public and private partners, academic institutions, employers, and workforce training agencies to develop a robust talent pipeline in the city. By coordinating all of the stakeholders involved in workforce development, the Talent Development unit aims to grow the number of jobs, while also decreasing unemployment and poverty rates in Philadelphia. Activities that will be bolstered include apprenticeship, internship, and co-op programs; returning citizen, veteran, immigrant, and special needs job initiatives; enhanced STEM (Science, Technology, Engineering, and Math) curriculum and more collaborative projects like the Center for Advanced Manufacturing and Engineering at Benjamin Franklin High School. The Office is newly-formed and will use the first six-month period to establish an implementation plan including the establishment of benchmark data. From that initial analysis, metrics will be developed to closely monitor progress and areas where improvement is needed. . The measurable milestones for the next five years are:

- Increase student participation in CTE (Career and Technical Education) programs from 6,000 in FY15 to 8,000 in FY17 and 12,500 by FY21.

Office of Economic Opportunity (OEO): The Office of Economic Opportunity aims to ensure that Minority, Women, and Disabled-Owned Business Enterprises (M/W/DSBEs) have every opportunity to receive an equitable share of contracting opportunities with the City of Philadelphia, quasi-City agencies, and stakeholders in the private and nonprofit sectors. OEO aligns with certifying agencies, organizations committed to building the capacity of small businesses, and institutions that pursue the economic inclusion of M/W/DSBEs to ensure the growth and development of disadvantaged businesses across the region. OEO maintains a registry of over 2,400 certified businesses as a critical resource for locating M/W/DSBEs ready, willing, and able to provide quality products and services. OEO sponsors a monthly "Doing Business in the City" workshop featuring City agencies, capacity building, and private sector opportunities. Goals include:

- Increasing contracts awarded to M/W/DSBEs from \$302 million in FY15 to \$320 million in FY17 and \$370 million in FY21.
- Increasing workforce diversity on City construction projects from 29% (minorities) and 2% (women) in FY15 to 31% and 3% in FY17 and 35% and 4% in FY21.

The Office of Economic Opportunity collaborates with operating departments in pursuit of the City's aspirational inclusion goals set for Minority, Women and Disabled Owned Business Enterprises. In FY15 the City departments achieved \$201 million in contracts awarded to M/W/DSBEs representing 32% participation on eligible contracts. The primary drivers for this success is attributable to the OEO Registry of certified businesses. These businesses respond to city contracting opportunities as primes and subcontractors. In recent years, the trend of M/W/DSBEs located in Philadelphia and winning contracts is up in addition to the increase in the size of contracts being awarded to M/W/DSBEs, from \$170,000 to \$220,000 from FY2014 to FY2015. The OEO Registry of certified firms has grown to 2,480 businesses and is conveniently located on the OEO website at www.phila.gov/oeo. This data base is comprised of businesses certified by the Eastern Minority Supplier Development Agency, Women's Business Development National Council, and the Pennsylvania Unified Certification Agency.

During Mayor Kenney's Administration the goal is to increase the level of M/W/DSBE participation on City contracts. OEO has already initiated a partnership with the Chief Diversity and Inclusion Officer and the Chief Administration Officer to standardize on the compliance protocol for tracking and

reporting spend data in addition to the contract data historically reported in the OEO Annual Participation Reports.

In addition, OEO currently manages 833 Economic Opportunity Plans. These plans, associated with the Public Works projects in excess of \$250,000, include goals for the inclusion of M/W/DSBE and a diverse workforce. OEO looks forward to working with the Office of Labor Standards and other members of this Administration to maximize diversity on City contracts.

Local Business Preference: In calendar year 2015 the City awarded 35% of all Procurement contracts to Local Business Entities. These transactions represented \$274 million or 68% of the contract dollars. For Public Works contracts, Local Business Entities were awarded 70% of the contracts or \$247 million (40% of contract dollars). In general, a 5% preference is granted to locally based businesses bidding on contracts greater than \$1 million and 10% preference on contracts valued at \$1 million or less. Companies seeking the Local Business Entities status must be certified by the Procurement Department. This certification process includes a confirmation of tax status, a commercial activity license, and must satisfy at least one of the following requirements:

- More than half of the company's full-time employees work in the City at least sixty percent (60%) of the time; or
- More than fifty (50) of the company's full-time employees work in the City at least sixty percent (60%) of the time; or
- The company's principal place of business is located in the City of Philadelphia.

PROPOSED FUNDING REQUEST

The proposed Fiscal Year 2017 General Fund budget totals \$22,971,573, a decrease of \$1,528,899 over Fiscal Year 2016 estimated obligation levels. This \$1,528,899 is primary due to the expiration of one time funding to create an indoor meal site for the vulnerable population.

The proposed General Fund budget includes:

- \$2,374,990 in Class 100, an \$18,779 increase over FY16 primarily due to DC47 and Non-Rep employee salary increases.
- \$20,069,929 in Class 200, a decrease of \$1,537,678 over FY16 primarily due to the expiration of one time funding to create an indoor meal site for the vulnerable population. This funding includes a \$600,000 for the Storefront Improvement program and \$15 million for the Convention Center Subsidy.
- \$26,654 in Class 300/400, a slight decrease over FY16.
- \$500,000 in Class 500, no change over FY16 funding levels. This funding is transferred to the Delaware River Waterfront Corporation for waterfront improvements.

STAFFING LEVELS

- The Commerce Department staff is funded through a combination of funds: General Fund (33 positions), Economic Stimulus Funds at PIDC (20 positions), Community Development Fund (10 positions), Community Development Fund at PIDC (3 positions), Water Fund (1 position), Empowerment Zone (1 position), Fund for Philadelphia (2 positions).
- The Commerce Department hired 9 new employees over the past year. Of the 9 employees, 8 are females, 5 are African American, 2 are Hispanic, 1 is Asian and 1 is White.
- See appendix for Bilingual Employees Chart.

**DEPARTMENT OF COMMERCE
PERFORMANCE, CHALLENGES AND INITIATIVES**

DEPARTMENT PERFORMANCE (OPERATIONS)

Performance Measures (Commerce)	FY15 Actual	FY16 YTD (as of 12/31/15)	FY17 Target
Number of businesses assisted	2,336	1,507	2,588
Amount invested in small businesses	\$2,386,250	\$1,709,675	\$3,000,000
Reduction of vacancy rates in targeted commercial corridors	22%	22%	19%

Performance Measures (OEO)	FY15 Actual	FY16 (as of 12/31/15)	FY17 Target
Number of M/W/DSBEs in the OEO Registry	2,440	2,478	3,650
M/W/DSBE income from City contracts	\$302 million	\$190 million	\$320 million
Increased workforce participation (%) of minorities on City projects	29%	31% ¹	35%
Increased workforce participation (%) of women on City projects	2%	3% ²	4%

- (1) The data in this measure is different than that in the Proposed FY17-FY21 Five Year and Financial and Strategic Plan due to original data reported including Private and Non-Profit Sector capital projects. Only City projects are reflected in the current data shown in this document.
- (2) The data in this measure is different than that in the Proposed FY17-FY21 Five Year Financial and Strategic Plan due to original data reported including Private and Non-Profit Sector capital projects. Only City projects are reflected in the current data shown in this document.

**DEPARTMENT OF COMMERCE
OTHER BUDGETARY IMPACTS**

FEDERAL AND STATE (WHERE APPLICABLE)

CDBG funding has been cut significantly over the past five years and was reduced again in FY17 by \$239,032. The continued decrease in CDBG funding has an impact on programs within Commerce. Additionally, CDBG regulations make it very difficult to use those funds to support economic development work that the City would like to undertake, particularly in areas of the City that are less than 51% low-income and moderate-income. Commerce seeks State and other funds to support and leverage those efforts, including Storefront Improvement Program, sidewalk cleaning, festivals, business improvement district planning, etc.

**DEPARTMENT OF COMMERCE
CONTRACTING EXPERIENCE**

**M/W/DSBE Participation on Large Contracts
FY16 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % and \$ Value Participation - All DSBEs	Local Business	Living Wage Compliant?
Econsult	Disparity Study	\$75,000	11/1/15	7/1/16	MBE: 25-30%	43%	\$32,250	43% \$32,250	Yes	Yes
					WBE: 25-30%	0%	\$0			
					DSBE:	0%	\$0			
Talsen Solutions, LLC	Monitoring EOP activities for 4601 Market Street project	\$293,000	8/25/14	7/1/15	MBE: 20-27%	88%	\$257,840	100% \$293,000	Yes	Yes
					WBE: 12-15%	12%	\$35,160			
					DSBE:	0%	\$0			
Withum Smith + Brown	Audit	\$10,000	5/28/15	8/1/15	MBE: 0-15%	0%	\$0	0% \$0	Yes	Yes
					WBE: 0-15%	0%	\$0			
					DSBE:	0%	\$0			

**DEPARTMENT OF COMMERCE
EMPLOYEE DATA**

<i>Full-Time Staff</i>				<i>Executive Staff</i>			
		Male	Female			Male	Female
		African-American	African-American			African-American	African-American
<i>Total</i>		4	23	<i>Total</i>		1	1
<i>% of Total</i>		5.7%	32.9%	<i>% of Total</i>		16.7%	16.7%
<i>Average Salary</i>		\$95,188	\$61,300	<i>Average Salary</i>		\$169,740	\$143,218
<i>Median Salary</i>		\$81,507	\$62,378	<i>Median Salary</i>		\$169,740	\$143,218
		White	White			White	White
<i>Total</i>		11	12	<i>Total</i>		1	2
<i>% of Total</i>		15.7%	17.1%	<i>% of Total</i>		16.7%	33.3%
<i>Average Salary</i>		\$74,374	\$66,979	<i>Average Salary</i>		\$136,370	\$113,513
<i>Median Salary</i>		\$72,450	\$55,233	<i>Median Salary</i>		\$136,370	\$113,513
		Hispanic	Hispanic			Hispanic	Hispanic
<i>Total</i>		2	5	<i>Total</i>		0	1
<i>% of Total</i>		2.9%	7.1%	<i>% of Total</i>		0.0%	16.7%
<i>Average Salary</i>		\$61,095	\$59,998	<i>Average Salary</i>		N/A	\$102,500
<i>Median Salary</i>		\$61,095	\$46,575	<i>Median Salary</i>		N/A	\$102,500
		Asian	Asian			Asian	Asian
<i>Total</i>		2	3	<i>Total</i>		0	0
<i>% of Total</i>		2.9%	4.3%	<i>% of Total</i>		0.0%	0.0%
<i>Average Salary</i>		\$56,588	\$61,559	<i>Average Salary</i>		N/A	N/A
<i>Median Salary</i>		\$56,588	\$70,000	<i>Median Salary</i>		N/A	N/A
		Other	Other			Other	Other
<i>Total</i>		1	7	<i>Total</i>		0	0
<i>% of Total</i>		1.4%	10.0%	<i>% of Total</i>		0.0%	0.0%
<i>Average Salary</i>		\$70,000	\$69,943	<i>Average Salary</i>		N/A	N/A
<i>Median Salary</i>		\$70,000	\$67,275	<i>Median Salary</i>		N/A	N/A
		Bi-lingual	Bi-lingual			Bi-lingual	Bi-lingual
<i>Total</i>		5	10	<i>Total</i>		0	2
<i>% of Total</i>		7.1%	14.3%	<i>% of Total</i>		0.0%	33.3%
<i>Average Salary</i>		\$54,541	\$72,097	<i>Average Salary</i>		N/A	\$105,250
<i>Median Salary</i>		\$55,000	\$70,339	<i>Median Salary</i>		N/A	\$105,250
		Male	Female			Male	Female
<i>Total</i>		20	50	<i>Total</i>		2	4
<i>% of Total</i>		28.6%	71.4%	<i>% of Total</i>		33.3%	66.7%
<i>Average Salary</i>		\$75,211	\$63,758	<i>Average Salary</i>		\$153,055	\$118,186
<i>Median Salary</i>		\$61,095	\$60,766	<i>Median Salary</i>		\$153,055	\$113,513

DEPARTMENT OF COMMERCE
APPENDIX (Other Relevant Data and Charts)

The Commerce Department conducted a voluntary survey during March 2016 to collect information on languages spoken. Of the total Commerce employees for all funds, 57 out of 70 employees submitted the survey. The results of the survey are shown below.

Number of Bilingual Employees (as of March 2016)

	Spanish	Cambodian	French	Igbo	Chinese	Taiwanese	Japanese	Russian	Ukrainian	Hindi	Ga	Akan Ewe	Korean
Economic Development	8	1	3	2	1	1	1	2	1	1	1	1	1
Total - All Divisions	8	1	3	2	1	1	1	2	1	1	1	1	1
Total - # of Bilingual Employees	15												
Total - # of Languages Spoken	13												

Additionally, please see attached PIDC Small Business Lending Report.