Five Year Plan (FY18-22) Testimony

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Good morning Council President Clarke and members of the Committee of the Whole. My name is Jane Slusser, Chief of Staff in the Office of Mayor Jim Kenney. I am here this morning to provide testimony on Resolution 170213 which considers approval of the City's Five Year Plan for Fiscal Years 2018-2022. I am joined at the table by Rob Dubow, the City's Finance Director, and Anna Adams, the City's Budget Director, and other Cabinet members, Commissioners and Department Heads are also here to answer any questions that you may have.

Thanks to your support in last year's budget and Five Year Plan, we have begun to make progress towards creating an education system that will give all our students the academic tools to succeed in the workforce through PHLpreK and community schools. However, our work is clearly not done.

Of the ten largest U.S. cities, Philadelphia ranks first in poverty and last in job creation: two statistics that this Administration aims to reverse. With a 26.4% poverty rate, we need to continue to push to raise our residents out of poverty, invest in programs that uplift our most vulnerable, encourage businesses and residents to locate and remain in the city, and look to improve our fiscal stability.

The key indicator of the City's fiscal health, the fund balance, is projected to account for only about 2% of revenues in FY18, at $87.5 million, dropping to a low of 1.5% in FY20 and FY21, before growing to $101.8 million, or 2.1%, in FY22. These numbers fall far short of the City's target of 6-8% of revenues, and significantly below the Government Finance Officers Association's recommendation of approximately 16% of revenues. Healthy fund balances provide a cushion against unexpected loss of revenues or increased expenses, and improve the city's ability to weather economic downturns. As with previous years, critical investments in programs that will significantly improve the lives of all Philadelphians, both in the short- and long-term, are weighed against the level of the City's reserves.

Therefore, each decision in the FY18 Budget and Five Year Plan was carefully made, thanks in part to the introduction of program-based budgeting. This year the Administration has rolled out program-based budgeting with 20 departments, and will expand to all departments over the next four years. This best practice budgeting tool allowed the Administration to focus on data to help inform the recommendations – such as, what will this investment do to "move the needle" on the goals that the program has set; will this program generate revenue that could partially or fully offset the cost; and how do the operating needs of this program fit with capital investments? With narrow fund balances, the proposed recommendations in this budget and plan are those that we believe are not only urgent and crucial, but are also wise investments that will improve the delivery of key City services. By and large, they are also relatively modest investments.

The key investments of the Administration's Five Year Plan are centered on protection of Philadelphia's most vulnerable populations. One of our largest proposed investments is in foster families, providing increased funding to enable foster parents to better support the children in their care. By investing approximately $17 million over five years, in partnership with the Commonwealth (which would contribute approximately 80% of the total amount requested), foster families would receive almost $36 daily for children in their care, up from the $21.25 per diem they receive today. As the current daily rate has failed to keep up with inflation, we are hopeful that increasing the rate will not only support existing foster families, but also encourage others that may have been previously unable to become foster parents because of their financial situation. Adding an additional 10 lawyers to the Child Welfare unit will also help reduce an overly high caseload in protecting abused and neglected children and youth.

The Plan also seeks to tackle one of the major crises affecting the city: the opioid epidemic. The approximately $7.5 million investment over the Five Year Plan will aim to reduce opioid prescribing through a campaign to the highest prescribing health care providers, improve the distribution and use of naloxone (the opioid overdose antidote), increase public awareness about the dangers of prescription opioids, and develop a real-time database to track openings in addiction treatment facilities. These investments are critical to tackle the huge challenge that led to approximately 900 deaths and thousands of hospital visits attributable to drug overdoses last year.

Homelessness continues to be an issue impacting multiple aspects of the City, from Commerce to Human Services. The Administration proposes adding over $1 million annually to the Office of Homeless Services to pay for additional funding for two best-practice programs – 50 additional families will be able to benefit from Rapid Re-housing, a proven model that provides short-term rental assistance and services for families that exit shelter each year, as well as an additional 33 units of supportive housing to assist individuals and families with chronic illnesses, disabilities, mental health issues, or substance abuse disorders who have experienced long-term or repeated homelessness.

The Plan also invests in prevention of childhood lead poisoning, with over $900,000 annually, for enhanced efforts on education and enforcement, on top of an additional $230,000 provided for the equipment and vehicles needed for the program's development in FY17. The major source of childhood lead poisoning in the city is the accidental swallowing of flakes of lead paint, causing serious harm to their developing brains and nervous systems. This investment will allow the Department of Public Health to remediate lead in 300 homes annually, above the 170 currently remediated. The City will also have increased resources to hold landlords accountable for exposing children to lead, as well as to increase outreach and education programs to prevent lead exposure.

Investments in the Office of Property Assessment are also proposed in this Plan. By ensuring that OPA has full staffing levels and consulting resources, the Administration will ensure that OPA will be able to continue to conduct annual reassessments with greater accuracy and help to defend the assessments during the appeals process.

Investing in public safety programs remains a priority in this Five Year Plan and six-year Capital Program. To combat the challenges of the significant rise in EMS incidents over the last 10 years, the FY18 budget proposes adding an additional five medic units, including a total of 42 paramedics, as well as an additional 30 firefighters. This will allow the Fire Department to better respond to emergencies and improve overall staffing levels to achieve better safety outcomes. The Department also proposes to add additional safety and training positions, with four additional safety officers requested for FY17, and an additional four training officers in FY18, for a total of $950,000. These will help the Fire Department have two safety officers available per shift, to increase training resources for emergency personnel.

$12.1 million is also included in the recommended FY18 Capital Budget for Fire Department vehicles, replacing some of the old outdated apparatus.

The Five Year Plan also proposes an increase in funding to support the activities of the Department of Licenses and Inspections, both directly in its budget, and in other departmental budgets. Adding additional funds for demolition of an additional 525 properties annually, as well as $450,000 for professional services contracts, a recommendation from the Special Independent Advisory Commission, for crane expertise to develop an inspection program for construction cranes, and purchasing on-call engineering services to assist with collapse investigations. The Administration also plans to continue the roll-out of eCLIPSE, with additional resources included in both the capital and operating budgets, in both the Office of Innovation and Technology (OIT) and L+I directly. The operating budget also proposes adding six service representatives and four building plans examination engineers to improve customer service, reducing average customer wait time below 30 minutes and reduce the current plan review time by 25%. OIT's budget also includes additional funding for Cyclomedia and LIDAR technology, to enable L+I and other departments to make use of these views across Philadelphia of potential unsafe properties that are difficult to view from the ground.

The Capital Program also includes two major transformative investments. The Program recommends $174 million for the reconstruction and resurfacing of streets, helping the city reach the crucial goal of resurfacing 131 miles of streets annually within seven years to ensure a state of good repair. The Program also recommends $90 million for the transformation of Penn's Landing, by connecting the waterfront to center city. This investment leverages significant state and private funding, and not only creates a beautiful new public park, but will generate tremendous economic investment with an addition of 2,420 jobs.

To further stimulate the economy, the Kenney Administration remains committed to continuing to reduce wage and business tax rates, to make Philadelphia a more attractive place for businesses to locate and remain, and increase the number of jobs. By FY22, the Wage Tax rate is projected to be under 3.7% for residents, and under 3.3% for non-residents, and the BIRT rate will be at 6.1%, with the first $100,000 of gross receipts exempted from the tax entirely. The BIRT rate cuts and changes are consistent with legislation previously adopted by City Council, and these wage tax rates are the lowest since the 1970s.

We are excited to propose a Five Year Plan and Capital Program with these investments. However, we still have our work cut out for us. As was announced last Thursday, the School District projects a deficit beginning in FY19 and reaching over $900 million by FY22. This significant deficit will require the efforts of all the funding partners and the various stakeholders to produce a solution. Although the District shows a positive fund balance in FY18, the large negative balances in FY19 onwards will force tough decisions. We are committed to working with the District and its stakeholders to examine all options available.

Additionally, as this body is aware, the City's pension fund is less than 45% funded, and the City's general fund payment accounts for 15.5% of our total projected spend in FY18. The need for reform could not be clearer, and working with you and our union partners, we have a plan to get the pension system to 80% funded by FY31. Through reforms that include increasing the contribution of current employees, with more modest increases for employees in lower salary brackets, and having new employees enter a stacked hybrid that combines a defined benefit plan and a 401-k type plan, along with continuing the practice of adding Sales Tax revenue over and above the MMO, and the Pension Board continually improving the investment strategy to increase returns as well as decreasing fees, the Pension Board's actuary projects an 80% funded level by FY31.

It is also important to talk about some of the challenges in the Plan. On April 5, the Commonwealth Heart will hear oral argument in the litigation challenging the Beverage Tax, and although we are confident that the Court will uphold the order dismissing the plaintiffs' complaint, we are being cautious in our approach. The Beverage Tax pays for the expansion of pre-K, the creation of community schools, and the ability to fund the $300 million in debt service needed for Rebuild. There is no back-up plan to support these programs without the tax. As the Administration, has consistently said, and as City Council is fully aware after your thoughtful and lengthy deliberations last year, we proposed the beverage tax because there was no other feasible revenue option. To mitigate the financial risk while litigation is pending , we are placing revenue dedicated to the programs in reserve, to be released as soon as the litigation is resolved. This means that we do not plan to begin to borrow for Rebuild, and the number of slots for pre-K cannot expand beyond the current 2,000 funded today, until after the City wins in court.

There are also risks from the Commonwealth and the Federal government. The Trump administration's proposed budget would be devastating to Philadelphia, with reductions in federal spending affecting a variety of areas including low-income housing, emergency management, law enforcement, fire protection, public safety, health programming, and numerous other critical services. As Council has already heard at previous hearings, the changes to the Affordable Care Act could have devastating consequences to those thousands of Philadelphians that have been able to finally have access to health insurance, and the critical negative impact on our health services across the city, including our hospital emergency rooms. The threat of a possible reduction in funding from the Commonwealth remains, through a variety of Senate and House bills that propose funding reductions based on our (and other counties) following of the Constitutional requirement that a warrant be provided in order for us to detain individuals on behalf of the Federal government. In putting together this Plan, the variety of scenarios that could negatively impact our budget were numerous, but until legislation is passed by either the State legislature or Congress, it is almost impossible to fully predict the impact. The Administration has created a rapid response working group that meets weekly to explore the issues, and we will continue to monitor legislation as it moves through Harrisburg and Washington, D.C.

Thank you for the opportunity to testify today. We are happy to answer any questions that you may have.