

**DEPARTMENT OF COMMERCE
FISCAL YEAR 2018 BUDGET TESTIMONY
MAY 8, 2017**

INTRODUCTION

Good Afternoon, President Clarke and Members of City Council. I am Harold T. Epps, Director of Commerce. Sitting with me today are my Chief of Staff, Sylvie Gallier Howard and Iola Harper, Deputy Commerce Director for Economic Opportunity. Also here today are other Deputy Directors and members of the Commerce team.

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.

Plans for Fiscal Year 2018: In our ongoing effort to make Philadelphia a more competitive and prosperous city, the Department of Commerce has identified a number of goals and initiatives in each of our core areas of work:

Revitalize Philadelphia’s Neighborhood Commercial Corridors and Businesses: Commerce continues its steadfast commitment to revitalizing Philadelphia’s neighborhood commercial corridors through initiatives such as InStore Forgivable Loans, the Storefront Improvement Program, Targeted Commercial Corridor Management, Security Cameras, and Corridor Cleaning. In FY18, Commerce will aim to increase access to capital for small, primarily minority-owned, neighborhood-based businesses through programs such as the Capital Consortium and Biz Coaching. We thank Councilman Green for his collaboration with Commerce to grow our Capital Consortium program. Initiatives such as the Capital Consortium, which provides a common application and review process for small business loans, help to provide more access and opportunity for the businesses that need it most. In fact, we have found that despite our best efforts, many businesses have not been able to access our programs due to a lack of capacity or other barriers, which is why we are now piloting one-on-one coaching to break down those walls and make our programs more accessible. Commerce also engages in a bevy of partnerships with economic development programs such as *Power Up Your Business* and *Goldman Sachs 10,000 Small Businesses* and we thank Councilwoman Parker for her leadership in advancing these programs through the Community College of Philadelphia.

Provides Resources and Assistance to Ensure Businesses Thrive: We will continue to support business technical assistance and small business lending programs through the Business Technical Assistance Program and the Office of Business Services. Recognizing that immigrants are a critical economic driver for our neighborhood commercial corridors, we will continue to increase our focus in the immigrant business community, launching an Immigrant Business Strategy and hosting two major annual immigrant business events. We have also started holding Global Business Hours, a new marketing effort and provision of bilingual one-on-one business assistance offered monthly.

Commerce will also continue its efforts to increase Philadelphia’s prominence as a hub for startups and tech. Startup PHL will soon be announcing its 6th Call-For-Ideas to support the city’s entrepreneurial

ecosystem and will leverage other resources to highlight the existing tech community on a national stage, such as recent participation in the South by South West (SXSW) event. Further, Commerce is working on a strategy to build capacity in minority-owned local startups to increase the diversity of this important sector.

Recruit and Retain Businesses to Philadelphia: Commerce, in partnership with organizations such as PIDC and Select Greater Philadelphia, plays a lead role in recruiting and retaining businesses to Philadelphia. In order to ensure a cohesive and unified approach, in 2017 Commerce has initiated regular convenings of all of our business attraction/retention partners to develop a branding and marketing strategy for pitching Philadelphia. Better coordination will not only maximize our efforts, but it will also better ensure the success of new initiatives, such as Gateway Philly, which Commerce launched in early 2017. Gateway Philly provides a rental rebate for businesses looking to bring an office – and at least 20 jobs – to a Philadelphia office space. Through this initiative, over the course of FY18, we hope to bring 20 new companies and a total of 500 new jobs to the city. Commerce will also prioritize its leadership role as part of City Council’s Special Committee on Regulatory Reform. Reducing bureaucracy and burdens for businesses helps to encourage economic growth and innovation, and ultimately leads to more jobs for our residents. I want to thank President Clarke and Councilman Green for their leadership and their urgency in accomplishing this important task.

While we continue to foster a more business-friendly environment in Philadelphia, Commerce will also continue its work on raising our global profile and international business presence. In the late spring, Commerce will participate in trade missions to China and Korea, in each case targeting business attraction, foreign investment and direct flights between Philadelphia and Asia. We will also continue to build upon our efforts in Europe in 2016, and we will play a key role in launching the Philadelphia Export Plan, expanding and promoting resources for Philadelphia businesses to increase their market share through export.

Connect Philadelphia’s Emerging and Existing Workforce to Career Readiness Opportunities and Living Wage Jobs: In 2016, Commerce launched the Talent Development Unit in order to build a bridge between employers seeking talent and the myriad high-quality workforce development programs that serve our residents. Commerce and the Managing Director’s Office will continue to spearhead the Workforce Steering Committee, working closely with Philadelphia Works, the School District of Philadelphia, the Community College of Philadelphia and others. Several pilot programs are planned for FY18 including the Fair Chance Hiring Program, a pilot program that will offer grants to businesses that employ individuals with a criminal background. The purpose of the Fair Chance program is to encourage employers to provide more opportunities for returning citizens. Fair Chance aims to create 100 jobs for formerly convicted Philadelphians during this one-year pilot period. If the pilot is successful, the Administration hopes to build on its strengths and make any necessary alterations based on learnings, in order to develop a more attractive alternative to the sorely underutilized PREP tax credit program. Another initiative that Commerce has planned for FY18 is the Bank Works program. I credit the Council President’s Office for bringing this program to our attention. Together with City Council, we will implement the Bank Works program offering bank-teller training to un- and under-employed Philadelphians, with a goal of 100 participants and 78 permanent jobs. We will also continue our efforts to increase the pool of talent by launching a “Make Manufacturing Cool” campaign to raise awareness about career pathways in manufacturing and industry. We thank Councilman Henon for his leadership in promoting and preserving Philadelphia’s manufacturing sector.

Invest in the Capacity of Minority-, Women- and Disabled-Owned Enterprises (M/W/DSBEs): OEO will continue to drive increased participation, working towards the 35% contracting goal that was set by the 2015 Disparity Study. OEO will aim to increase the registry of M/W/DSBEs by 10-15%, with the majority of the increase being focused in Philadelphia zip codes. While increasing the size of the registry continues to be a priority, OEO recognizes that certification and belonging to the registry are not enough to ensure access to opportunities. This is why the Office of Economic Opportunity has strengthened its focus on building capacity in minority-, women- and disabled-owned businesses. OEO is partnering with capacity-building organizations to connect M/W/DSBEs to resources such as technical assistance, financing, bonding, and assistance with certification. In order to increase participation, OEO plans to step up its monitoring activities, increasing the oversight of Economic Opportunity Plans (EOPs) and highlighting and sharing information about contractors that are not in compliance to encourage improved performance. OEO has begun facilitating regular convening of third-party certifying agencies and M/W/DSBE professionals across the country to foster communication, identify service gaps, and build cross-referrals mechanisms; all with the goal of improving the efficiency of certification options available to local businesses. We thank Councilman Jones, Councilwoman Reynolds Brown, and Councilman Oh for their partnership and push for more oversight and inclusion.

In addition to all the initiatives that I have mentioned today, Commerce is committed to increased tracking of outcomes and performance measures. We have just recently distributed *Commerce By The Numbers*, a document that encompasses the results of our work for calendar year 2016. Further, in partnership with Councilwoman Gym, we will track the outcomes of our business incentive programs, and through our partnership with Councilman Domb, we will commission a study of our economic development incentives and tax credits, research best practices in other cities, and consider recommendations for how to enhance Philadelphia's competitive edge.

Commerce is committed to driving economic development and revitalization, furthering job creation throughout the city, from our central business district to all of our neighborhoods. Commerce works in concert with numerous city and quasi-city agencies to achieve our mission, to explore options to reduce poverty, homelessness and unemployment, to contribute to conversations about increased innovation and efficiency, and to explore long-term capital and infrastructure improvements that will catalyze Philadelphia's future growth. Economic development is a long-term process with many parts, but the city has made tremendous progress in the last two decades and you can be certain that we will do all that we can to build upon and accelerate this growth.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of February 1, 2017)				
	Total	Minority	White	Female
Number of Full-Time Staff-City staff	42	26	16	29
Number of Civil Service-Exempt Staff	28	18	10	18
Number of Executive Staff (deputy level & above)	6	3	3	3
Number of employees through PIDC	22	16	6	17
Average Salary, Full-Time Staff	\$74,625	\$74,428	\$74,981	\$69,589
Average Salary, Civil Service-Exempt Staff	\$80,913	\$81,264	\$80,282	\$73,986
Average Salary, Executive Staff	\$126,399	\$131,667	\$121,132	\$116,508
Average Salary, PIDC Staff	\$58,796	\$57,814	\$65,083	\$60,470
Median Salary, Full-Time Staff	\$70,000	\$70,000	\$70,225	\$68,000
Median Salary, Civil Service-Exempt Staff	\$70,000	\$70,000	\$70,225	\$68,000
Median Salary, Executive Staff	\$120,762	\$122,500	\$119,025	\$119,025
Median Salary, PIDC Staff	\$55,000	\$57,814	\$61,500	\$52,000

Employment Levels (as of February 1, 2017) ¹		
	Budgeted	Filled
Number of Full-Time Positions ¹	65	64
Number of Part-Time Positions	0	0
Number of Civil-Service Exempt Positions	28	28
Number of Executive Positions	6	6
Number of employees through PIDC	23	22
Average Salary of All Full-Time Positions	\$70,474	\$70,772
Median Salary of All Full-Time Positions	\$63,000	\$63,000

¹These totals are inclusive of employees through PIDC.

General Fund Financial Summary by Class						
	FY16 Original Appropriations	FY16 Actual Obligations	FY17 Original Appropriations	FY17 Estimated Obligations	FY18 Proposed Appropriations	Difference: FY18-FY17
Class 100 - Employee Compensation	\$2,356,211	\$2,351,610	\$2,107,565	\$2,265,934	\$2,200,461	(\$65,473)
Class 200 - Purchase of Services	\$20,164,929	\$20,074,833	\$20,529,929	\$20,475,886	\$20,469,929	(\$5,957)
Class 300 - Materials and Supplies	\$36,654	\$17,760	\$26,654	\$25,159	\$25,159	\$0
Class 400 - Equipment	\$0	\$18,843	\$0	\$1,495	\$1,495	\$0
Class 500 - Contributions	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$0
Class 700 - Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Class 800 - Payment to Other Funds	\$0	\$0	\$0	\$0	\$0	\$0
Class 900 - Advances/Misc. Payments	\$0	\$0	\$0	\$0	\$0	\$0
	\$23,057,794	\$22,963,046	\$23,164,148	\$23,268,474	\$23,197,044	(\$71,430)

Professional Services Contracts Summary						
	FY12	FY13	FY14	FY15	FY16	FY17 YTD (Q1 & Q2)
Total amount of contracts	\$75,000	\$75,000	\$75,000	\$84,399	\$368,000 ²	\$75,000
Total amount to M/W/DSBE	\$31,875	\$31,875	\$31,875	\$41,274	\$331,250	\$38,250
Participation Rate	43%	43%	43%	49%	90%	51%

² In FY16 there was a one-time contract for monitoring of the 4601 Market Street project that went to a MBE prime vendor and subcontractor.

Department of Commerce

M/W/DSBE Contract Participation Goal			
	FY16	FY17	FY18
M/W/DSBE Contract Participation Goal	35%	35%	45%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2018 General Fund budget totals \$23,197,044, a decrease of \$71,430 over Fiscal Year 2017 estimated obligation levels. This decrease is primarily due to lump sum payments for retirements and back pay in class 100.

The proposed budget includes:

- \$2,200,461 in class 100, a \$65,473 decrease over FY17. This funding change is primarily due to lump sum payments due to retirements and back pay arrangements. These funds will support economic development and Office of Economic Opportunity staffing needs.
- \$20,469,929 in class 200, a \$5,957 decrease over FY17. This funding change is due to several factors in the budget including: a one-million-dollar decrease in funding for economic stimulus through the elimination of one-time funding., a new \$500K allocation for the Fair Chance Hiring Program Pilot, a \$60K decrease in the funding for the Capital Consortium and a restoration of \$54,043 that was cut in FY17. \$15 million of these dollars are pass through to the Convention Center. The remaining amount goes to various third-party vendors for economic development.
- \$26,654 in class 300/400 in FY18, the same as in FY17.
- \$500,000 in class 500, the same as in FY18 as in FY17.

STAFFING LEVELS

The department is requesting 43 budgeted positions for FY18, an increase of 1 over FY17. The increase of 1 position is attributed to an additional OEO staff person to assist with monitoring and compliance of City and non-city EOPs as requested by City Council.

NEW HIRES

New Hires*				
	Total Number	English	Spanish	Swedish
Black or African American	4	4	1	-
Hispanic or Latino	1	1	1	-
White	3	2	-	1
Total	8	6	2	1

* New Hires includes hires from July 1, 2016 to March 31, 2017 and includes two employees funded by PIDC.

PERFORMANCE, CHALLENGES, AND INITIATIVES

FY18 Performance Measures: Economic Development				
Measure	FY16 Actual	FY17 YTD (Q1 & Q2)	FY17 Estimate	FY18 Target
Number of businesses supported *	5,404	2,751	5,875	6,178
Number of commercial corridors supported **	26	30	30	30
Number of jobs created or retained (ONBS and OBD, combined) ***	11,493	3,024	14,148	14,700
Individuals supported with college and career readiness ****	44,000	48,400	50,000	58,000

* “Support” encompasses grants (such as camera or storefront), technical assistance, consultation through the Office of Business Services (often businesses calling with questions and needing help with a city process), workshops for businesses, access to capital referrals, etc.

** The number of corridors represents the number of corridors where Commerce is funding corridor management and/or cleaning, and those are one-year contracts.

*** FY17 appears low thus far, as the 3,024 figure does not include jobs data from ONBS (this data is collected annually and is not available at mid-year). Both units collect this data on different time periods. This metric will be available upon finalization of ONBS jobs data at the end of FY17. ONBS’s FY17 target for jobs is 8,100, which gives Commerce a year-end estimate of 14,148

**** Commerce supports students through seminars, college fairs, professional development sessions, mentoring, and awareness campaigns during the first half of the fiscal year. As a result, the number of additional individuals who are supported through these activities during the second half of the year is much lower.

FY18 Performance Measures: OEO				
Measure	FY16 Actual	FY17 YTD (Q1 & Q2)	FY17 Estimate	FY18 Target
M/W/DSBE participation rate on contracts *	30.7%	24.6%	32.0%	35.0%
Total dollar amount of awarded M/W/DSBE contracts City-, Quasi-, and Federally-funded contracts) *	\$318,256,613	\$178,251,231	\$330,000,000	\$335,000,000

*FY17 YTD is as of December 30, 2016.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

The current Trump administration budget proposal would be devastating to Commerce and the City of Philadelphia. It would eliminate the Community Development Block Grant that funds commercial corridor revitalization, loans to small businesses, small business technical assistance, employment training and vacant land management. In FY16, the Department of Commerce received \$7.47 million in CDBG funding, more than the total budget allocated to core Commerce programs from the General Fund.

Budget cuts at the State level related to business attraction incentive programs, such as the Keystone Opportunity Zone program and the PA First program, for example, severely impact the ability of the City to package incentive offers when recruiting new companies and attempting to retain companies considering leaving the city.

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY17											
Vendor Name	Service Provided	Dollar 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 % Participation - All DSBES	Total \$ Value Participation - All DSBES	Local Business (principal place of business located within City limits)	Waiver for Living Wage Compliance?
Econsult *	Disparity Study	\$75,000	10/16/15	12/15/16	MBE: 25-30%	51%	\$38,250	0%	\$0	Yes	no
					WBE: 25-30%	0%	\$0				
					DSBE: 0%	0%	\$0				

* The contract for FY17 was a contract extension.

EMPLOYEE DATA

Staff Demographics (as of February 1, 2017)				
Full-Time Staff*			Executive Staff	
	Male	Female	Male	Female
	African-American	African-American	African-American	African-American
<i>Total</i>	3	14	<i>Total</i>	1
<i>% of Total</i>	7%	33%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$111,004	\$71,261	<i>Average Salary</i>	\$170,000
<i>Median Salary</i>	\$106,088	\$70,000	<i>Median Salary</i>	\$170,000
	White	White	White	White
<i>Total</i>	6	9	<i>Total</i>	1
<i>% of Total</i>	14%	21%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$81,328	\$70,750	<i>Average Salary</i>	\$136,370
<i>Median Salary</i>	\$77,266	\$58,000	<i>Median Salary</i>	\$136,370
	Hispanic	Hispanic	Hispanic	Hispanic
<i>Total</i>	2	2	<i>Total</i>	1
<i>% of Total</i>	5%	5%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$82,596	\$39,209	<i>Average Salary</i>	\$102,500
<i>Median Salary</i>	\$82,596	\$39,209	<i>Median Salary</i>	\$102,500
	Asian	Asian	Asian	Asian
<i>Total</i>	1	0	<i>Total</i>	0
<i>% of Total</i>	2%	0%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$59,901	-	<i>Average Salary</i>	-
<i>Median Salary</i>	\$59,901	-	<i>Median Salary</i>	-
	Other	Other	Other	Other
<i>Total</i>	1	4	<i>Total</i>	0
<i>% of Total</i>	2%	10%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$70,000	\$76,317	<i>Average Salary</i>	-
<i>Median Salary</i>	\$70,000	\$74,641	<i>Median Salary</i>	-
	Bilingual	Bilingual	Bilingual	Bilingual
<i>Total</i>	2	6	<i>Total</i>	1
<i>% of Total</i>	5%	14%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$102,500	\$82,094	<i>Average Salary</i>	\$102,500
<i>Median Salary</i>	\$102,500	\$89,391	<i>Median Salary</i>	\$102,500
	Male	Female	Male	Female
<i>Total</i>	13	29	<i>Total</i>	3
<i>% of Total</i>	31%	69%	<i>% of Total</i>	50%
<i>Average Salary</i>	\$88,014	\$69,589	<i>Average Salary</i>	\$136,290
<i>Median Salary</i>	\$77,266	\$68,000	<i>Median Salary</i>	\$136,370

* Includes only City-funded positions, not positions through PIDC.

NUMBER OF BILINGUAL EMPLOYEES

Number of Bilingual Employees														
	Spanish	French	Korean	Russian	Igbo	Ga	Hindi	Khmer	Japanese	Mandarin	Ukrainian	Akan Ewe	Danish	Swedish
Economic Development	3	3	-	1	-	1	-	-	-	-	1	1	1	1
OEO	-	-	1	-	1	-	-	-	-	-	-	-	-	-
Employees through PIDC	4	1	1	1	-	-	1	1	1	1	-	-	-	-
Total - All Programs	3	3	1	1	1	1	1	1	1	1	1	1	1	1
Total - # of Bilingual Employees			15											
Total - # of Languages Spoken			14											