City Council Committee of the Whole
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Five Year Plan Testimony
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Good morning, Council President and members of City Council. My name is Jane Slusser, and I am Mayor Kenney's Chief of Staff. I am here to testify in support of the Mayor's Proposed Five Year Plan, all the supporting budget and revenue bills that were proposed on March 1, and the City's revised funding proposal for the Philadelphia School District. I am joined at the table by Rob Dubow, the City's Finance Director, and Anna Adams, the City's Budget Director. Other members of the Administration are here behind me and are available to answer any questions that you may have.

On July 1 of this year, the School District of Philadelphia will return to local control. The Mayor strongly believes that the return to local control brings accountability to the City, and with that accountability comes a responsibility to ensure financial stability for our students, parents and teachers. This includes ending the constant cycle of cutbacks to classrooms, reductions in the number of nurses and counsellors in schools, and the endless cloud of financial crises hanging over the school year. We also believe that the greatest investment that we can make as a City is to improve our public school system. As last week's census data showed, we continue to lose families in the city when their children become school-age. We need to reverse that trend, and make our school system attractive for current and future residents.

Over the past few years, under the guidance of Dr. Hite, our public schools have made progress, improving early literacy levels, achieving the highest graduation rate in over a decade, increasing attendance, and cultivating better school climates. This progress is the result of strategic planning and investments outlined in the School District's Action Plan 3.0, which the proposed budget would sustain. The District's hard-won gains are worth celebrating, but have not yet reached every student and every school. The proposed budget would expand the work and accelerate progress by reducing class sizes, and investing in classrooms and staffing.

To be clear, this proposed new revenue will provide critical stability to the District and will allow District leadership to make investments to continue the recent progress made under the Action Plan 3.0. By no means do we think that these additional resources are enough. These funds do not provide for an adequate educational system, something only the Commonwealth can, and is in fact required to provide. The Administration is eagerly awaiting the result of the school funding lawsuit and looking to our partners at the Commonwealth to fulfil the constitutional requirement to properly fund our school system. That funding will then help build on the investments we've already made as outlined in this plan to ensure all our kids have access to a quality education in their neighborhood.

With information from the Office of Property Assessment on the FY19 property assessments last week, the Administration is adjusting our proposal to meet the School District's immediate needs and will be proposing an amended legislative package. Our basic tenets are the same. We propose to provide sufficient resources to solve the projected deficit, and make important investments. The School District is projecting that without corrective action its deficit would climb to over $900 million by FY23. We propose to increase the City's direct contribution to the District by a total of $100 million over five years. An adjustment to slightly slow down our previously planned Wage Tax rate reductions will generate an additional $340 million. Finally, we propose an increase to the property tax rate of 4.1%, rather than the 6% that we had originally assumed would be needed to close the gap. In combination, the increased revenue from our growing property tax base and the revenue from the property tax increase will generate $530 million for District over five years. Overall, this package will provide $966 million in funding to the District over the course of this plan.

On average, assessments have grown by 11% and the impact on individuals will vary depending on what happens with the assessment on their specific property. Our original proposal included a commitment to protecting low- and middle-income homeowners, including through a proposed increase to the homestead exemption. Now that the certified property assessments are higher than we anticipated when we proposed the budget, we would like to increase the homestead exemption from the current $30,000 of assessed value to $45,000, to provide additional relief to homeowners. We propose to offset the cost of this increased homestead for the District through an increase in the Real Estate Transfer Tax to a local rate of 3.413% from the current 3.1%. All of this revenue will now be used to cover the cost of the homestead exemption, and therefore the proposed rate is slightly lower than our original proposal.

We understand that these increases and rate adjustments are tough decisions for City Council, as you balance the need to fund our schools with preventing financial hardship of our residents. However, we strongly believe that providing this funding for Philadelphia schools is the most significant investment we can make to provide for the long-term strength of our economy and lower our high poverty rate. This proposal means that no one group of taxpayer shoulders all the burden. In fact, for a median homeowner with a home assessed at $128,000, the property tax increase combined with the increased homestead exemption will result in savings on their property tax bill if their assessed value did not change.

Although our proposal for the District is the most significant proposal in the Five Year Plan, the Administration does include other key investments that will be used to strengthen the city. In partnership with City Council, over the last two years we have been able to provide 2,700 pre-Kindergarten slots to 3 and 4-year-olds all across the city, and our Five Year Plan shows our intention to grow the number of slots to 5,500 by FY23. With the Beverage Tax lawsuit still pending, our ramp up is slower than we had originally hoped, but we are fully confident in our case. As you all know, additional Beverage Tax receipts for pre-K have been placed in reserve while the lawsuit is pending. When the lawsuit is finally resolved in our favor, we will spend the funds that we had placed in reserve, focusing on improving the capacity and capability of our early childhood providers to expand the number of slots in high quality pre-K classrooms. Likewise, thousands of Philadelphia students and families have benefited from our 12 community schools, and by the end of the Plan, we'll have grown these to 20. Finally, we are happy to provide additional resources for the Community College of Philadelphia in this Plan. We believe this shows the administration's commitment in education from our youngest Philadelphians in pre-K, all the way through adults attending college.

The Five Year Plan also addresses Philadelphians' safety. Resources have been proposed for the Police and Fire Departments to expand personnel – allowing the Police Department to reach and maintain a sworn strength of 6,525 and the Fire Department to add additional firefighters and paramedics, as well as dedicated training and safety positions, and restore field technicians. The Plan invests in violence prevention programming, to support efforts to keep our young adults safe, and in criminal justice reforms in partnership with the DA, the Courts, the Defender Association, and the MacArthur Foundation. The Plan also adds funding for DHS to keep our most vulnerable children safer, with investments in foster care providers and additional case workers to keep families intact. An additional $2 million annual investment in demolitions for L+I will also make a huge dent in removing imminently dangerous properties from our neighborhoods.

In response to one of the other major crises that our city is grappling with, the Plan includes additional investments to combat opioids, with funding for homeless respite and housing first programs, additional naloxone, working with physicians on medication-assisted treatment, and police diversion programming. To address the city's homeless population, $1 million annually is proposed for the Hub of Hope, which, as many of you have witnessed first-hand, is providing high quality services which are already having a positive impact.

The Five Year Plan and Capital Program also provides resources to improve our streets, and further the goal of Vision Zero to end traffic fatalities. By repaving 131 miles annually by the end of the capital program, residents and visitors will notice a significant improvement in the streets. By redesigning streets and sidewalks, and incorporating traffic calming measures, all of the users of our streets (pedestrians, bicyclists and drivers) will have safer journeys along Philadelphia's roads.

We have set aside $225 million for future labor agreements, and have also maintained a reserve for potential federal and state funding cuts that was included in last year's budget. There are many other investments that the Mayor would have liked to include in this budget, but with all of these crucial investments in our Plan, our fund balances are hundreds of millions of dollars below where we should be. Our fund balance dips to a low of $37.8 million in FY22, and we have assumed moderate economic growth throughout our revenue projections. If there is a recession, we have limited reserves from which to pull to preserve our budget's funding for crucial services. We will continue to focus on maintaining and reducing spending levels during the fiscal year, to control costs more tightly, and will carefully monitor revenues and make adjustments as necessary.

Perhaps as large a financial challenge as our low fund balances is the funded status of our pension fund. The latest actuarial report shows that the funding percent is about 45. That low funding percent is coupled with increasing costs to the general fund – pension costs will eat up over 15% of the FY19 budget. As you know, the Administration has developed a multi-part plan to address the pension challenge. First, we are increasing the resources we are putting into the fund. Over the life of the Plan, we're projecting that the sales tax will generate $290 million for the pension fund. In addition, the pension board has substantially lowered the costs of its investments, while increasing returns. We have also made important changes with our union partners that will help get the funding percent over 80% in 13 years. So far, those changes have been applied to members of D.C. 33, the FOP, correctional officers and deputy sheriffs. That means that the reforms apply to over 17,000 employees and we are hoping to apply those changes to all City employees in the near future.

We look forward to working with Councilmembers as we discuss our budget proposal. Thank you for the opportunity to testify, and we and other members of the Administration who are in the audience are available to answer questions that you may have.