

City Council Committee of the Whole
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Five Year Plan Testimony
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Good morning, Council President Clarke and members of City Council. My name is James Engler, Chief of Staff to Mayor Kenney, and I am here to testify in support of the Mayor's Proposed Five-Year Plan, along with all the supporting budget and revenue bills that were proposed on March 7, 2019. I am joined at the table by Rob Dubow, the City's Finance Director, and Anna Adams, the City's Budget Director. Our colleagues representing the various departments of the Administration are also here and available to answer your questions.

This Five-Year Plan builds upon our previous investments in long-term strategies that will make Philadelphia a more prosperous, safer, and more equitable city. Thanks to our work during last year's budget process, we are making unprecedented local investments in our public schools, with a total of \$1.2 billion over the next five years going to the School District of Philadelphia in our General Fund contribution. This is \$700 million higher than the amount that would have been included had we continued our contribution levels included in the FY18-22 Plan. As the Mayor said in his budget address two weeks ago, a high performing public-school system is the foundation of what makes any small town or large city great. We are also pleased that the Governor's budget adds additional funds in his proposed FY20 budget, but as we have previously stated, all Commonwealth funds should flow through the Commonwealth's education funding formula, which would result in an increase of funding for Philadelphia and bring our students closer to receiving the critical resources they deserve. With your help, we will continue to work with the Philadelphia delegation to advocate for additional support for our children.

Thanks to funds from the Philadelphia Beverage Tax, PHLpreK, Community Schools and Rebuild initiatives are growing in our Plan. For Rebuild, the Administration was able to borrow \$86.5 million in the Fall, which when combined with the funds included in the capital program and funds received from philanthropic sources, means that recreation centers, playgrounds, libraries and parks across the city will be renovated and transformed.

For PHLpreK, 2,250 children have access to one of the free, high quality slots this year, and in FY23, the slots will have doubled, with 5,500 three and four-year old children able to participate annually. Slots are not the only item funded thanks to revenues received from the beverage tax. Providers have access to supports specifically targeted at improving the quality of facilities and in-class instruction. These supports include teacher coaching, common curriculum, facility improvements, and many other services that will help build a high-quality early childhood system in our city. Our focus on the system has paid off – through the first two and a half years of PHLpreK, 35 providers have significantly improved their quality according to the Keystone STARS rating system, resulting in not just improved quality for the over 800 PHLpreK students at those centers, but also the 1,000 other students enrolled in those centers. This improvement will be felt for decades to come as these students are more prepared to transition to Kindergarten and beyond.

And our community schools are having a significant impact on the communities that they serve. The data has shown that students attending a community school have better attendance than their peers, and we are excited to add five additional schools in FY20, and three more in FY21, for a total of 20 schools. These schools provide out-of-school-time programming, during the school year and summer break, ensuring that our kids are safe and learning twelve months of the year.

The FY20 budget grows by \$191.6 million over the current estimate for FY19. Much of this is for our fixed costs – increased cost for disposal within the Streets Department due to the global market conditions affecting recycling, \$30 million in increased costs for Pensions, increases due to labor agreements with our unionized workforce, an increased estimate of employee disability, and corresponding expenditures for Health Department revenues. Pension costs account for about \$3.9 billion of costs in the Five-Year Plan, and together with the reforms that have been made through collective bargaining and based on our actuary’s analysis, will allow us to reach 80% funded status by FY29 and 100% funded status by FY33. The increased contribution to the School District, as previously mentioned, also accounts for \$33 million of the increase, which is \$108.7 million higher when compared to the estimate included in the FY18-22 Five Year Plan. The expansion of PHLpreK and Community Schools also increases projected spending by \$16.1 million.

As we all know, our needs are great and our resources are limited. We are making strides however, and for the first time, we can include funds for the Budget Stabilization Reserve Fund or Rainy-Day Fund within the Proposed Budget. In FY20, \$34.1 million will be included as a cushion against another severe recession. In FY24, our fund balance projection meets the 3% of obligation threshold, which would trigger another contribution of \$37.9 million. While these additions are important, we also must build a stronger fund balance and remain cautious about loss of State and Federal funds. Our fund balances, while improved from prior years, remain lower than government finance experts recommend, and lower than our internal goal of 6-8% of obligations. We have included approximately \$55 million in a Federal Funding Reserve fund, as the threats from the Federal and State governments remain.

Our Administration looks to balance the need to bring stability to the City’s finances, so that residents and taxpayers can continue to rely on the services that they utilize, with the critical need to make short- and long-term investments to improve our city. Our budget proposal therefore makes careful and crucial investments in three areas of focus – safety and justice, inclusive growth, and quality government services. I will address the main investments for each.

Safety and Justice

Ensuring the safety of all those who live, work, and spend time in Philadelphia has been a key priority of our Administration. Last year’s Five-Year Plan included \$100 million to allow our Police Department to increase the number of General Fund funded sworn officers to 6,525, and our Proposed Five Year Plan adds additional \$3 million in annual funding to grow the force to 6,575. To increase transparency and build public trust, we added funding to support the purchase of Body-Worn Cameras, and to accelerate the Police Department’s ability to outfit all police officers in operations by 2021, this budget proposes funding to purchase nearly 1,500 additional Body-Worn Cameras.

In the Fire Department we have hired more firefighters and paramedics, restored battalions, and added an alternate response unit. Our Proposed Five-Year Plan builds upon these investments, adding \$28.4 million in operating budget funding to support the reopening of seven engine and ladder companies over the next five years that were closed during the Great Recession, and adding five additional medic units in FY20 to support the increased demand faced by our Firefighter EMTs, Paramedics and EMTs within the EMS system.

The Six-Year Capital Program and Five-Year Plan also include significant investments in public safety infrastructure. The Capital Budget proposes funding of \$90 million in new general-obligation debt, alongside operating revenue capital funds, to support the construction and outfitting of new and renovated Police facilities.

In response to the Mayor’s urgent “call to action” to address violence in the city, the Managing Director’s Office released The Philadelphia Roadmap to Safer Communities, a comprehensive strategy that focuses on prevention, intervention, enforcement and reentry to reduce violence and gun-related crime. The FY20-

24 Plan includes \$31.5 million in additional funding to support the implementation of this strategy. Recognizing the importance of programs that connect and engage youth, young adults and families impacted by violence in their communities, the Plan supports the growth of three initiatives managed by the Office of Violence Prevention – expanding the Community Crisis Intervention Program (CCIP), expanding the Youth Violence Reduction Partnership (YVRP), and increasing support for grants for community groups on the front line of neighborhood violence. To enable the Police Department to better use data and analytics to target city neighborhoods experiencing the highest rates of gun violence, the Plan includes \$7.2 million over five years for Operation Pinpoint, a multifaceted crime-fighting and information-sharing strategy. To reduce blight and improve environmental factors in high-risk neighborhoods, the Plan provides \$6.3 million to the Department of Licenses and Inspections for cleaning and greening lots using proven models to reduce crime, demolishing unsafe structures, and stabilizing vacant buildings. Finally, the Plan adds \$11.8 million to pilot two full and two satellite Neighborhood Resource Centers (NRCs) over the next five years. These neighborhood-based hubs will provide people who are under county supervision with access to a broad range of services to support reintegration, restoration, and wellness and will support the goals and continued success of the Administration’s MacArthur Safety and Justice initiative.

Additionally, Philadelphians continue to experience the devastating impact of the opioid epidemic. The FY20-24 Five Year Plan proposes continued investments to combat this epidemic by providing additional funding to the Philadelphia Resilience Project, the Citywide emergency response focused on Kensington and surrounding neighborhoods at the epicenter of the crisis. The Plan adds \$26.3 million over five years to the Office of Homeless Services’ budget to provide the emergency, temporary and long-term housing needed to reduce the number of people who are unsheltered. Since the beginning of the Kenney Administration, more than 200 new beds have been added through the City’s shelter system. Even more importantly, over 600 chronically homeless people who would otherwise be on the street are now in permanent housing and not shelters. Additional funding of \$600,000 over the next five years is provided to the Department of Public Health for a toxicologist at the Medical Examiner’s Office, and \$6.5 million over five years is provided to the Department of Behavioral Health and Intellectual disability for outreach, recovery housing, and supports for expanded syringe exchanges. Within the Managing Director’s Office, funding has been added to support neighborhood clean-ups and safe routes to schools.

Our Administration and its criminal justice partners have also made significant progress implementing reforms and decreasing the jail population by approximately 42% from 2015 levels. Grant funding provided through the MacArthur Safety and Justice Challenge has supported this work. In October 2018, Philadelphia was awarded a second two-year grant of \$4 million from the MacArthur Foundation. The FY20-24 Plan provides local match funding for this second phase of the grant, enabling the Administration and its criminal justice partners to continue safely reducing the jail population and reducing racial disparities in the criminal justice system. Due to the collaborative efforts of all the City’s criminal justice partners, the inmate census is projected to average 4,500 in this Five-Year Plan, resulting in an annual budgetary savings of \$10 million. The Plan includes funding to continue the expansion of a successful program originally piloted through the MacArthur Grant, the Police-Assisted Diversion Program (PAD), a pre-booking diversion program that connects individuals who come into contact with law enforcement for low-level offenses to harm reduction services in lieu of arrest. Increased funding is also proposed for Mural Arts’ Guild Re-entry Program so that more returning citizens can participate in a paid, four-month pre-apprenticeship program and receive job placement support after the program ends.

Inclusive Growth

For the past two years Philadelphia has outpaced the national average on job growth. However, for too many Philadelphians this improved economy has not resulted in access to family-sustaining jobs. While the average household income has increased by 22.2% over the last decade, 25.7% of Philadelphians remain

at or below the poverty line, with 14.0% living in deep poverty. Our Administration's vision for Philadelphia is that the city will have a strong and growing economy that benefits everyone.

To improve early literacy and provide more quality programming for children outside of school hours, the Plan includes an additional investment in Out-of-School Time programming, along with the infrastructure needed to manage and continually evaluate this work. With an additional \$1 million annually, the Administration will also support summer jobs for youth in the City, providing meaningful opportunities to serve more Philadelphia youth through WorkReady.

To support teenagers and young adults in their education and career-preparedness, the Plan supports an Office of Career Connected Education, a joint venture between the City and School District. The office will connect school-aged youth, in seventh grade and older, to work-based learning experiences of increasing depth and complexity to master skills employers are seeking..

The Plan also provides \$1.3 million in increased support annually to the Community College (CCP) for a total annual contribution of \$33.8 million. This funding increase will enable CCP to continue funding programs like Power Up Your Business, a neighborhood-based approach to support small business-owners in Philadelphia, as well as to expand the dual-enrollment program with the School District of Philadelphia, through which high school students can earn college credits.

To make Philadelphia's economy more competitive, the FY20-24 Five Year Plan continues incremental reductions in the Wage Tax rate. Additionally, to reduce the tax burden on businesses and encourage job creation, the Plan continues previously legislated cuts to the net income portion of the Business Income and Receipts Tax (BIRT). These cuts are on top of reforms that have already been implemented, such as exempting the first \$100,000 of BIRT receipts and implementing single-sales factor apportionment. A new change going into effect will enable new businesses to pay their first estimated tax payment quarterly rather than annually. Together, the Wage Tax and BIRT rate reductions represent a projected \$136 million of forgone revenue from FY20 through FY24. The Administration is also in the process of evaluating its portfolio of tax incentives to determine how to best structure these incentives to stimulate job growth and to meet other policy goals.

In addition, our Administration understands that a living wage is a direct way to increase income and reduce poverty and that the City must model the change it wants to see from employers. To that end, the FY20-24 Plan includes funding for City departments to comply with Philadelphia's 21st-Century Minimum Wage legislation approved by City Council last year. The wage will increase incrementally from the current rate of \$12.40 an hour to \$15.00 an hour by July 1, 2022. These wage increases represent an investment of \$14.2 million.

Finally, for Philadelphia to continue to grow, it must have housing that meets the needs of all its residents. In October 2018, we issued a Housing Action Plan that incorporates feedback from a variety of public, private, and non-profit stakeholders, and outlines innovative and effective strategies to address the City's housing needs, from strategies to reduce homelessness and eviction to strategies to increase the production and preservation of affordable, workforce and market-rate housing. To support the implementation of these strategies, the Plan includes a projected \$80.4 million in new funding for affordable housing from FY19-24, using revenue from expiring 10-year tax abatements.

Quality Government Services

One of the main pillars of our Administration is to provide high-quality government services to all our residents. To ensure our neighborhood libraries are available and accessible, particularly during the school year, the Plan includes funding to provide six-day service at all branches during the school-year. The Plan

also provides the Free Library with an annual increase of \$500,000 for building maintenance to reduce the number of emergency building closures, as well as \$1 million in annual funding within the Capital Program.

City streets and roadways must be resurfaced and maintained at optimal intervals to maintain a state of good repair for Philadelphia's street network. Operating and capital investments will enable the City to reach the goal of resurfacing and paving 131 miles annually by FY23. A third paving crew will be added, and with a capital program cost of more than \$200 million, this represents the single largest investment in the Capital Program.

In addition to improving the condition of City streets, we are proposing a \$2.3 million annual investment in street cleaning to reduce litter on the City's streets and sidewalks. In the spring of 2019, this program will be piloted in several neighborhoods that were identified through the Litter Index as being among the most in need of cleaning. The Administration also proposes additional funding of \$250,000 annually for the Commerce Department to increase cleaning on commercial corridors, along with a \$500,000 annual investment in grants for Community Development Corporations to revitalize neighborhood commercial areas, enhance community-based development projects and expand the city's employment base. These investments will help neighborhood commercial corridors thrive.

To make it easier to do business with the City, the Plan proposes funding for the City of Philadelphia's Vendor Pay Project, which focuses on faster payments to vendors. The Plan also proposes funding for Discover Benefits, a digital tool designed to help residents determine their eligibility for assistance programs through a single eligibility application.

Additional funding is also proposed for the Office of Property Assessment (OPA) to implement recommendations made from a recent audit conducted by a nationally-recognized consultant, and to support staffing. These investments, totaling about \$1.9 million annually, will enable OPA to add additional modelling capability, a sales validation unit, and data collection services.

Operating and capital funds are provided to support the City's upgrade of several major Information Technology systems. Over the next three to five years, taxpayers will benefit from a new Integrated Tax System to handle nearly \$5 billion in payments each year. The new system will offer an improved experience for taxpayers, as well as dramatically increase efficiency and functionality. The Administration will also move to the second phase of the modernization of the City's Enterprise Resource Platform. The City will replace the City's legacy financial and procurement systems in a phased approach.

The City's revenue outlook over the next five years projects growth in all our tax revenues, but at a slower pace than we have experienced over the last several years, following national trends. Building a stronger fund balance, protecting against federal and state cuts, adding funds into a rainy-day fund, as well as investing in all these short- and long-term strategies, will help Philadelphia grow, continue to support our most vulnerable, strengthen our families and communities, and provide stability across all our services.

Thank you for the opportunity to testify today, and we look forward to working with all members of Council throughout this Budget process. All of us here representing the Administration are available to answer the questions that you may have.