

**COMMERCE DEPARTMENT
FISCAL YEAR 2019 BUDGET TESTIMONY
APRIL 4, 2018**

INTRODUCTION

Good Morning, President Clarke and Members of City Council. I am Harold T. Epps, Director of Commerce. Joining me today are Sylvie Gallier Howard, First Deputy Commerce Director and Iola Harper, Deputy Commerce Director for Economic Opportunity. Also present are other Deputy Directors and members of the Commerce team. I am pleased to provide testimony on Commerce's Fiscal Year 2019 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Department of Commerce helps businesses – large and small – thrive in Philadelphia. Because the city succeeds when business succeeds, Commerce has created a number of programs and special incentives to ensure that Philadelphia is a globally-competitive city where employers hire, entrepreneurs thrive, and innovation abounds. Commerce works to attract and keep a diverse set of businesses; revitalize neighborhoods by building vibrant commercial districts; create a strong talent pipeline for Philadelphians to attain good, living-wage jobs; increase contracting opportunities for minority and women-owned businesses; support small businesses and improve access to funding.

Plans for Fiscal Year 2019: As Philadelphia's Director of Commerce, one facet of my job is keeping abreast of the health of our local economy and sharing this information to provide perspective to stakeholders. If you have met with me lately, you will have heard me say that Philadelphia is at its economic apex:

- After fifty years of decline, our population has increased year over year for the last decade;
- Millennials and immigrants are fueling this growth, adding jobs and contributing to the local tax base;
- Since the height of the Great Recession, the number of Philadelphians who are employed has increased by 13%, while employment across the country has increased by 9.6%.
- Philadelphia has seen significant job growth over the past 2 years; at 3.6% we are surpassing the national average of 3.4% and New York City's average of 3.3%;
- In 2017, our average unemployment was 6.2% and we had 707,700 jobs; this is the highest number of jobs since 1991.

The Department of Commerce cannot claim responsibility for all this progress, but we do feel that our work makes an important contribution. Our FY17 performance data highlights some of these achievements:

- 4,831 businesses supported
- 1,376 new jobs and 2,786 retained through our business development initiatives
- 167 commercial corridor business improvement grants, such as Storefront Improvement Program, Cameras, and InStore, totaling \$2.1 million
- 48,400 individuals supported with college and career readiness programming
- 364 loans to small businesses, totaling \$19.7 million, through our community lending partners
- 33.8% M/W/DSBE participation on City contracts and 32.06% on City and quasi contracts

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- \$313.4 million awarded in M/W/DSBE contracts.¹

What does this all mean for us as Philadelphians? It means that we are likely in the best position possible to move the needle on our most intractable problem – poverty. Despite all the achievements I just listed, our poverty rate is stuck at 25.7% and too many Philadelphians lack jobs or are not able to make ends meet with the jobs that they have. While progress has been made, it is not enough. For example, over the last three years, the average rate of black unemployment (8.5%) has been twice that of white unemployment (4.2%). This is why Commerce is increasing its efforts to ensure equitable economic development. In addition to Commerce’s longstanding programs, which I believe all of you know quite well, in FY19, we have the following objectives in mind that are more targeted initiatives towards reducing our poverty rate:

- Develop a multi-year economic strategy for the city that emphasizes growth with equity;
- In March of 2018, we created the City’s first ever Office of Workforce Development, which will report to Commerce and MDO and will bring needed leadership to one of our city’s biggest challenges -- Philadelphians need jobs, yet employers all too often cannot find the talent they need;
- With a renewed commitment of an additional \$500,000, we will continue to add new jobs for returning citizens through the *Fair Chance Hiring Program*, an FY17 pilot that has proved to be very popular in its inception;
- And with an increase of \$500,000 in general funds for neighborhood corridors, we will be able to augment the number of grants we provide for InStore and Storefront Improvement and sustain commercial corridor cleaning that would otherwise have been cut from CDBG;
- Continue to grow programs such as Biz Coach to ensure that businesses who have the least access and the most need have hands on support to utilize Commerce programs;
- Develop neighborhood profiles to attract business and real estate development in commercial areas that have not benefitted from the city’s renaissance; and
- Develop an Emerging Vendors Program for minority- and women-owned contractors to gain access to public works opportunities and prepare for OEO certification.

All the work that Commerce is involved in ultimately is about job creation and it is imperative that our efforts contribute towards reducing disparity and increasing access for the city’s low-income and minority populations. In keeping with that goal, I am very proud of the fact that our team at Commerce, including senior staff, is very diverse and reflective of Philadelphia’s demographics.

I will end by speaking to the importance of fostering a business-friendly environment in Philadelphia. Day in and day out, Commerce talks to businesses that are considering their options, either to open a new office or headquarters, or considering a relocation due to an expiring lease. The bid that Philadelphia submitted to Amazon was much more high profile than usual, but the competition that we are in is not unfamiliar. Philadelphia competes with surrounding counties, cities nationwide and even internationally, when we work to attract and retain companies. When businesses consider Philadelphia, they look at our talent, our tax structure, and our business-related regulations. We need to try to keep it as simple and streamlined as possible so that we can welcome new companies and new jobs. Through the Committee on Regulatory Reform, we are making important changes. Changes such as allowing new businesses to pay their second year of estimated taxes quarterly instead of all at once and the pilot that Commerce, Health, and L&I are involved in to improve the process for opening a restaurant. It takes numerous partners and significant

¹ City and Quasi Spending in Fiscal Year 2017

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collaboration to drive economic development forward, make an important dent in our poverty rate and ensure revitalization occurs throughout the city. I thank City Council for working with us closely to push forward important changes and improvements to further the momentum that we are experiencing and to ensure a better Philadelphia for all.

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BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2017)¹				
	Total	Minority	White	Female
Number of Full-Time Staff	66	44	22	26
Number of Exempt Staff	29	18	11	20
Number of Executive Staff (deputy level and above)	6	3	3	3
Average Salary, Full-Time Staff	\$70,269	\$69,799	\$71,230	\$67,011
Average Salary, Exempt Staff	\$81,973	\$81,643	\$82,528	\$76,620
Average Salary, Executive Staff	\$129,649	\$135,833	\$123,465	\$118,842
Median Salary, Full-Time Staff	\$62,846	\$56,925	\$65,581	\$62,500
Median Salary, Exempt Staff	\$68,000	\$62,015	\$65,581	\$62,750
Median Salary, Executive Staff	\$120,763	\$122,500	\$119,025	\$119,025

Employment Levels (as of December 2017)			
	Budgeted (City only)	Filled (City only)	Filled (PIDC only)
Number of Full-Time Positions	44	40	26
Number of Exempt Positions	30	29	0
Number of Executive Positions (deputy level and above)	6	6	0
Average Salary of All Full-Time Positions	\$74,770	\$75,389	\$65,609
Median Salary of All Full-Time Positions	\$62,846	\$62,846	\$63,000

¹ Includes Commerce employees through PIDC.

General Fund Financial Summary by Class						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$2,107,565	\$2,393,155	\$2,340,461	\$2,122,660	\$2,120,079	(\$2,581)
Class 200 - Purchase of Services	\$5,529,929	\$5,541,679	\$5,594,929	\$5,822,460	\$5,463,929	(\$358,531)
Class 300/400 - Materials, Supplies & Equipment	\$26,654	\$18,174	\$26,654	\$26,654	\$26,654	\$0
Class 500 - Contributions	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$0
	\$8,164,148	\$8,453,008	\$8,462,044	\$8,471,774	\$8,110,662	(\$361,112)

General Fund Financial Summary: Convention Center Subsidy						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 200 - Purchase of Services	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$0
	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$0

Contracts Summary (Professional Services only)						
	FY13	FY14	FY15	FY16	FY17	FY18 YTD (Q1 & Q2)
Total amount of contracts	\$75,000	\$75,000	\$84,399	\$378,000	\$200,000	\$200,000
Total amount to M/W/DSBE	\$31,875	\$31,875	\$41,274	\$325,250	\$147,950	\$148,250
Participation Rate	43%	43%	49%	86%	74%	74%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY17	FY18	FY19
M/W/DSBE Contract Participation Goal	35%	35%	35%

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PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2019 General Fund budget totals \$23,110,662, a decrease of \$361,112 over Fiscal Year 2018 estimated obligation levels. This decrease is primarily due to two staff persons that are transferring to the Managing Director's Office for the new Office of Workforce Development as well as three staff persons who are moving to the Department of Planning and Development.

The proposed budget includes:

- \$2,120,079 in Class 100, a \$2,581 decrease over FY18. This funding will cover Commerce staff costs in the Office of Business Development, the Office of Neighborhood and Economic Development, The Office of Business Services and the Office of Economic Opportunity and will also transfer two staff persons to the Managing Director's Office for the new Office of Workforce Development.
- \$20,463,929 in Class 200, a \$358,531 decrease over FY18. This funding will be used for the Convention Center subsidy payments, the work of neighborhood Corridor revitalization and Economic Business Development as well as the Disparity study for the Office of Economic Opportunity. The reduction follows one-time increases that occurred in FY18 as well as three economic stimulus-funded PIDC staff persons being transferred to Planning and Development's General fund budget.
- \$26,654 in Class 300/400, level with FY18. This funding will be used for office supplies and consumables as well as printing and office furniture.
- \$500,000 in Class 500, level with FY18. This funding will be sent as a contribution to maintain the Delaware River waterfront.

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STAFFING LEVELS

The department is requesting 42 budgeted positions for FY19, a decrease of 2 positions from FY18.

The decrease is attributed to the transfer of 2 positions to the Managing Director’s Office for the new Office of Workforce Development.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)		
	Total Number of New Hires	Yoruba
Black or African American	2	1
Total	2	1

Since December, Commerce hired three additional employees: two males who identify as African American, and one female who identifies as African American.

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PERFORMANCE, CHALLENGES, AND INITIATIVES

Economic Development:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Increase the number of jobs in Philadelphia by more than the national average. • Increase the number of businesses along the City’s Commercial Corridors. • Increase the participation of M/W/DSBEs in City and Quasi City contracts. • Increase the City’s profile in order to attract and retain more talent, businesses, and jobs. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Business Attraction and Retention: Number of businesses supported ¹	166	175	300	310
ONBS: Number of businesses supported ²	4,665	2,667	4,800	4,900
Number of commercial corridors supported ³	30	N/A	30	30
Business Attraction and Retention: Number of jobs created or retained ⁴	4,162	N/A	4,200	4,300
ONBS: Number of jobs created or retained ⁵	8,371	N/A	8,000	8,100
Individuals supported with college and career readiness ⁶	48,400	N/A	58,000	58,000

¹ This measure is reported on a one-quarter lag, so the FY18 year-to-date number is for FY18 Q1 only. “Support” encompasses grants, technical assistance, consultation with OBS (businesses calling with questions and needing help with a city process), workshops for businesses, access to capital referrals, etc.

² “Support” encompasses grants, technical assistance, consultation with OBS (often businesses calling with questions and needing help with a city process), workshops for businesses, access to capital referrals, etc.

³ This is an annual measure, representing the number of corridors where Commerce is funding corridor management and/or cleaning. Those are one-year contracts.

⁴ This is an annual measure, which represents the sum of full-time jobs created (through business attraction efforts) or retained (through business retention efforts) in Philadelphia.

⁵ This is an annual measure, which represents the current number of employees within a commercial corridor that is actively managed through ONBS funds, as well as new jobs created within a commercial corridor

⁶ This is an annual measure. Commerce supports students through seminars, college fairs, professional development sessions, mentoring, and awareness campaigns.

Office of Economic Opportunity:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Develop third-party DSBE certification process. • Launch OEO Compliance Hotline. • Expand the Emerging Vendors Program. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
M/W/DSBE participation rate on contracts ¹	33.8%	N/A	34.0%	35.0%

¹ This is an annual measure, and it is tabulated at year-end. Contracts are conformed throughout the year, and the rate may vary across quarters, depending on the value of contracts conformed to date. This is the percentage of dollars committed (contracted) to M/W/DSBE firms divided by the total available dollars. This is collected through the City’s various payments systems (SPEED, ACIS, etc.) and then confirmed with the OEO Officers from each department.

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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 (CDBG) that funds commercial corridor revitalization, loans to small businesses, small business technical assistance, employment training and vacant land management. In FY17, the Department of Commerce received \$6.65 million in CDBG funding, more than the total budget allocated to core Commerce programs from the General Fund. We continue to monitor the Federal budget process since the White House Budget proposals have differed greatly from the House Appropriations and final approved budget bills.

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. In addition, cuts in recent years to the international development offices have impacted the ability to pursue international business development. Lastly, the Keystone Communities programs are grants used for neighborhood economic development that we are eligible to receive but were not granted in FY18.

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CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Largest Contracts, FY18											
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) [yes / no]	Waiver for Living Wage Compliance? [yes / no]
Econsult Solutions	Disparity Study	\$75,000	10/16/2015	12/15/2015	MBE: 20-25%	31%	\$22,950	31%	\$22,950	Yes	No
					WBE: 20-25%		\$0				
					DSBE: Best Efforts		\$0				
JT Goldstein	Business Coaching Consulting	\$125,000	5/13/2016	10/1/2016	MBE: 15-20%	100%	\$125,000	100%	\$125,000	Yes	No
					WBE: 15-20%		\$0				
					DSBE: Best Efforts		\$0				

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EMPLOYEE DATA

Staff Demographics (as of December 2017) ¹				
Full-Time Staff			Executive Staff	
	Male	Female		
	African-American	African-American		
<i>Total</i>	6	20	<i>Total</i>	1
<i>% of Total</i>	13%	30%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$82,407	\$71,061	<i>Average Salary</i>	\$170,000
<i>Median Salary</i>	\$58,431	\$63,000	<i>Median Salary</i>	\$170,000
	White	White		
<i>Total</i>	9	13	<i>Total</i>	1
<i>% of Total</i>	19%	20%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$73,256	\$69,827	<i>Average Salary</i>	\$136,370
<i>Median Salary</i>	\$68,000	\$58,000	<i>Median Salary</i>	\$136,370
	Hispanic	Hispanic		
<i>Total</i>	4	3	<i>Total</i>	1
<i>% of Total</i>	9%	5%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$79,133	\$44,306	<i>Average Salary</i>	\$115,000
<i>Median Salary</i>	\$70,000	\$47,500	<i>Median Salary</i>	\$115,000
	Asian	Asian		
<i>Total</i>	1	3	<i>Total</i>	0
<i>% of Total</i>	2%	5%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$55,000	\$52,333	<i>Average Salary</i>	N/A
<i>Median Salary</i>	\$55,000	\$52,000	<i>Median Salary</i>	N/A
	Other	Other		
<i>Total</i>	1	6	<i>Total</i>	0
<i>% of Total</i>	3%	9%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$70,000	\$69,831	<i>Average Salary</i>	N/A
<i>Median Salary</i>	\$70,000	\$55,102	<i>Median Salary</i>	N/A
	Bilingual	Bilingual		
<i>Total</i>	7	5	<i>Total</i>	1
<i>% of Total</i>	15%	13%	<i>% of Total</i>	17%
<i>Average Salary</i>	\$68,280	\$86,600	<i>Average Salary</i>	\$115,000
<i>Median Salary</i>	\$55,000	\$97,500	<i>Median Salary</i>	\$115,000
	Male	Female		
<i>Total</i>	21	45	<i>Total</i>	3
<i>% of Total</i>	33%	68%	<i>% of Total</i>	50%
<i>Average Salary</i>	\$76,249	\$67,408	<i>Average Salary</i>	\$140,457
<i>Median Salary</i>	\$68,000	\$62,846	<i>Median Salary</i>	\$136,370

¹Numbers include General Fund, Community Development fund, Water fund, and PIDC employees.

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LANGUAGE ACCESS

1) Has your leadership received language access training?

Leadership has received language access training in FY17.

2) Do you currently have a language access coordinator?

Yes, we have a language access coordinator: Edward Garcia, Deputy Commerce Director for Finance and Administration.

3) Has your department written a language access plan and is it posted online?

Yes, the Commerce Department has a written language access plan that is available online: <https://beta.phila.gov/documents/language-access-plans>.

4) Explain what your department has done to improve language access services over the past year.

Over the past year, the Commerce Department has translated several public-facing documents in multiple languages to better serve non-English-speaking business owners. We have also continued to support non-English-speaking communities with Spanish-, Korean- and Mandarin-speaking business service managers on staff.