

# EXECUTIVE SUMMARY

The Mayor's proposed FY17 Budget and FY17-21 Five Year Plan (FYP) focus on the key goal of ensuring that City services run better, more efficiently, and provide enduring results. The choices within the proposed budget and FYP show the Administration's clear priorities: this Administration will make investments that have long-term value to City residents, and will impact children, families, and neighborhoods across Philadelphia.

Despite recovering from the recession of 2009, the City still operates with very narrow margins, and any moderate change in revenues or expenditures creates real challenges within the City's budget. Each fiscal year of this FYP ends with much lower fund balances than recommended by government experts. The fund balance reaches a low of \$37.7 million - 0.9% of revenues in FY18 -- and peaks in FY21 at \$127 million -- 2.8% of revenues -- still millions of dollars below the City's 6-8% policy. Having a healthy fund balance would allow the City to have greater flexibility, mitigate current and future financial risks, and ensure predictability of services. With high fixed costs such as the City's contribution to the Pension Fund, the School District of Philadelphia, debt service, and indemnities, all other important services and programs upon which residents depend are squeezed for resources.

The proposed budget found efficiencies throughout the City, to provide the ability to make important investments, and to ensure that the City remains fiscally responsible. Each investment has a high impact both in the short- and long-term, and balances strong demand for services with taxpayers' ability to pay for them.

## **Finding efficiencies to stretch taxpayer funds:**

- The proposed FYP includes plans to reduce projected overtime across the City, through careful management and focused planning around employee deployment. The Police Department's overtime budget is proposed to be reduced by \$10 million across the FYP, and the Fire Department's, the Streets Department's, and the Prisons System's overtime costs by \$2.5 million each over the same five years. Other departments, such as Parks and Recreation, the Free Library, and Public Property, are also cutting overtime costs by a combined \$5.75 million over the FYP. Use of overtime is often a necessary tool to manage workload, but through concentrated efforts on hiring and retention, as well as modifications to current practices, the Administration plans to curtail unessential use of overtime across the City.
- Other efficiencies include reducing un-used vacant position slots within certain departments, and saving costs through lower fuel prices.
- The City will also invest \$100 million in energy projects on City-owned buildings for the Philadelphia Energy Campaign through two bond issues. The Campaign, proposed by Council President Clarke, will work to reduce the cost of utilities within municipal government. This includes a wide range of building types, from City Hall and the other larger municipal office buildings to the many small buildings including recreation centers, branch libraries, police stations, and firehouses.

## **Increasing Collection and Revenue Efforts:**

- The proposed budget emphasizes continued improvement in revenue collections as getting every dollar owed to the City is essential. In FY15, the Revenue Department brought in about \$43 million in delinquent taxes for the City's General Fund. Through some strategic investments, the Department will build on a \$5.6 million increase in real estate delinquent collections projected for FY16, with an additional \$8 million annually each year of the plan. These investments include doubling the number of billings to inform taxpayers on a more frequent basis, increasing the number of services representatives assisting taxpayers, and adding technical programming to their IT system. Revenue also plans to increase collection activities by more broadly publicizing the list of top business tax delinquents and not just hosting it on the City's website. Another tax lien sale is planned for FY17, which builds off the prior two highly successful sales.

- In total, the initiatives will help bring in \$69 million more in revenues from FY17 through FY21 than if collections had stayed at their FY15 base.
- The proposed budget also projects an additional \$600,000 in revenue from the Department of Records' accident reporting system, through an investment in additional features. The overall objective is to provide convenient online access to users, recover costs in the form of fees for service, and reduce the amount of manual handling of reports by staff, providing for greater efficiency. The programs and services that have received additional or new funding in this proposed budget are based around the following priorities.

### **Investments in Children and Families:**

Through a new revenue source, a Sugary Drinks Tax of 3 cents per ounce that is projected to generate approximately \$95 million annually, the Administration proposes to invest in families around the city through programs that will provide long-term value. These investments include:

- New funding for quality pre-Kindergarten, growing from \$26 million in FY17 to \$60 million annually beginning in FY19. This investment will have a significant long-term impact on educational outcomes across the city, and will leverage state, federal, and philanthropic funding to expand access to quality pre-K, stabilize the financial situation of providers, and help develop the workforce to support quality.
- The creation of 25 community schools, with a proposed cost of \$4 million in FY17 growing to \$10 million annually beginning in FY20. These schools will improve upon the social and economic factors that negatively impact a child's environment, while also serving the community as a resource. The community schools strategy will work to improve the way we reach children to meet their needs. Schools will act as centers of activity, improving the equitable accessibility of services in the neighborhoods and serving as a broader resource for families and neighbors. The Administration maintains a core belief that strengthening schools will help strengthen neighborhoods across the city.
- By leveraging private and philanthropic revenues, the City's proposed investment in Rebuilding Community Infrastructure will dramatically improve community assets across Philadelphia, providing safe havens for children, and wonderful amenities for residents throughout every neighborhood. Mayor Kenney believes that these facilities should be clean, safe, ready, and energy efficient. Over the next eight years, the City will undertake an ambitious campaign to renew civic assets of parks, playgrounds, recreation centers, and libraries, so that every resident and neighborhood has access to high quality amenities. Funding for the project will include almost \$350 million from the City and hundreds of millions in philanthropic, state and federal funding.

### **Investments in the City's Workforce:**

- The FYP sets aside \$200 million for costs related to labor contracts and employee raises. The Administration is committed to working with our labor partners for collective bargaining agreements that are fair to employees and other taxpayers.
- The City's Pension Fund remains one of the City's major financial challenges. Since FY01, the City's General Fund contribution has grown from \$194 million or 6.7% of expenditures to \$641 million or 15.4% of expenditures in FY17. This growth squeezes out resources that could be used for enhancing programs for residents. At the same time, the fund has seen its unfunded liability increase and its funded percent drop to 45%. The Administration is committed to working with unions, City Council, and the Controller to address the fund's issues. The Administration intends to allocate \$26 million in additional revenue from the Sugary Drinks Tax to the pension fund. In addition, the Pension Board's recent vote to lower the fund's assumed earnings rate will mean that the City will contribute \$5 million more each year to the fund. In total, the City's pension costs over the course of the FYP will be more than \$3.4 billion.

- Through the newly-created Office of the Chief Administrative Officer, the Administration intends to investment in training, retention, and recruitment Citywide. The FYP sets aside additional resources to ensure that City employees are better prepared for their work, have the ability to grow and thrive in the workplace, and to continue to attract bright and motivated individuals to public service.

### **Improving Public Safety:**

- The Mayor's proposed budget sets aside additional funds to develop a strategy around implementation of Vision Zero. Vision Zero takes the approach that traffic crashes are not accidents; they are preventable incidents. Cities around the world are starting to unify the resources and expertise of public health, law enforcement, and transportation officials towards a simple vision: eliminating all traffic fatalities and serious injuries. The Administration plans to focus efforts to prevent traffic fatalities in Philadelphia.
- The FYP proposes \$550,000 annually, which, when matched with philanthropic and private support, will allow the Police Department to purchase 4,000 body-worn cameras over five years for police officers and the necessary storage space that accompanies them. The body-worn camera program will enhance officer safety, enhance public trust by preserving factual representations of officer-citizen interactions through video and audio recordings, and will provide an impartial measurement for self-critique and field evaluations during officer training.
- The FYP ensures that firefighters have the necessary tools to combat fires and return safely to their families through annual investment in critical fire breathing apparatus. EMS paramedics will also have the pharmaceutical supplies and medications to ensure that patients are well-cared for.
- The Streets Department, through enhanced Right of Way activities, process efficiencies, technology improvements, and increased fees (with an estimated value of \$1.5 million annually), plans to ensure that traffic can safely and efficiently move through streets and sidewalks.

### **Improving Economic Opportunities:**

- This FYP proposes \$1 million more annually than was included in the FY16-FY20 FYP for the Commerce Department's Economic Stimulus program, a critical vehicle for the city's attraction and retention of businesses in Philadelphia.
- This FYP continues the reform of the Business Income and Receipts Tax, with the exemption of \$100,000 of receipts, single sales factor apportionment, and a reduction in the net income rate from the current rate of 6.39% to 6.15% by the end of the FYP. These changes are expected to eliminate disincentives to locate businesses within the city, and also to lower the overall tax burden of businesses, to allow them to grow and prosper, and to continue to add jobs as a result.
- This FYP also continues to reduce the Wage Tax rates, to help make the city more competitive and lead to job growth. Although modest for the first three years of the FYP, the rates decrease further in FY19 as the City's budget can afford them. By FY21, the resident wage tax rate will have dropped to 3.72%, its lowest rate in more than 40 years. Moreover, the FYP shows the impact of the proposed bipartisan plan to amend the Uniformity Clause of the Pennsylvania Constitution, to allow for a bifurcated property tax. The plan shows the change in wage tax rates due to an incremental increase in the commercial property tax rate, assuming a pay-as-you-go methodology for reducing the wage tax. This FYP shows the impact of that plan going into effect in FY20 as, under this plan, the residential wage tax rate would drop to 3.6% in FY21
- The proposed budget and FYP adds additional staff to the Mayor's Office of Labor to monitor wage tax theft and enforce the City's paid sick leave laws, ensuring that workers in Philadelphia receive the protections under the City's recently enacted legislation.

## **Improving our Neighborhoods:**

- This FYP proposes \$600,000 annually for the Storefront Improvement Program, one of the Commerce Department's most successful commercial corridor revitalization programs. The program provides an incentive and design assistance to businesses on targeted neighborhood commercial corridors to improve their storefronts. This funding will leverage \$700,000 of private investment with 70 projects completed around the city.
- The FYP also proposes to restore reductions that were previously included in last year's FYP, with an additional increase of \$450,000 to the Community Life Improvement Program (CLIP), which will increase vacant lot and exterior property abatements by 5,000 and add an additional \$100,000 through the collection activities of CLIP employees.
- This FYP proposes investing in additional paving resources, which will allow the Streets Department to pave 131 miles annually by FY21.
- The FYP proposes providing funding for two additional district offices for the Department of Licenses and Inspections (L+I), to be strategically located in areas of the city that are experiencing the most construction activity. By locating additional district offices in these areas, L+I will not only be able to house new inspections staff, but will also be able to increase oversight of construction projects and lessen the permit loads of inspectors that are currently overtaxed.