FY17 Operating Budget and FY17-FY21 Five Year Plan Testimony
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Good morning Council President Clarke and Members of City Council. I am Jane Slusser, Chief of Staff in the Office of Mayor Jim Kenney. On behalf of the Mayor, I am pleased to provide testimony on the Mayor's first Proposed Operating Budget for FY17 and our Proposed FY17-FY21 Five Year Financial and Strategic Plan (Five Year Plan). I am joined today by Rob Dubow, Finance Director, and Anna Adams, Budget Director. A number of the City's top officials are also in the audience, and can answer any questions that you may have.

The Mayor's focus on investing in opportunity for all children and families, in all neighborhoods across Philadelphia are made clear with the choices in this Budget and Five Year Plan. The Mayor's proposed Budget and Five Year Plan includes the expenses for four key initiatives that will help us tackle our largest and most crippling problems head-on. This Budget and Five Year Plan also contains a new revenue source, a tax on sugary drinks, that will cover all of the costs of these vital programs over the Five Year Plan, as well as allow additional contributions to the City's pension fund.

Despite recovering from the recession of 2007-2009, the City still operates with very narrow margins, and any moderate change in revenues or expenditures can create real challenges within the City's budget. Each fiscal year of the Plan ends with much lower fund balances than recommended by government experts. In FY18, the fund balance reaches a low of $37.7 million, less than 1% of revenues -- and peaks in FY21 at $127 million -- 2.8% of revenues – still less than half of the City's 6-8% goal. Having a healthy fund balance would allow the City to have greater flexibility, mitigate current and future financial risks, and to ensure predictability of services. With high fixed costs such as our contribution to the Pension Fund (projected at over 15% of the City's budget in FY17), as well as our contribution to the School District, debt service, and indemnities, all other important services and programs upon which residents depend are squeezed for resources.

Major taxes are projected to show moderate base growth throughout the Five Year Plan. For the Wage Tax, the base growth values are projected at between 3 and 4% annually. The Plan includes wage tax rate reductions costing $214.6 million over the five years, and rates are proposed to decline from the current resident rate of 3.9102% to 3.7276% in FY21, and current non-resident rate of 3.4828% to 3.3202% in FY21. The reform of the Business Income and Receipts Tax is also included in the Plan, with legislated reductions in the rate, exclusions, and single sales factor apportionment costing $270.6 million. Base growth fluctuates throughout the Plan, from 1.5% to 4% depending on the year, although there has been a rise in the number of credits taken by businesses in recent years, causing some concerns about the total revenue collected for this fiscal year. Largely because of those credits, BIRT collections are projected to be about $60 million lower than they were projected to be a year ago.

For the Real Property Tax, the City remains committed to ensuring that real estate assessments are fair and accurate. For FY17, the OPA reassessed all land values in the city, and the Budget Office assumes that will result in an additional 3% growth of residential taxable market values in our projections. For FY18, OPA will reassess all commercial properties (projected to produce 3% growth in commercial taxable market values), and then for FY19 and beyond, once a new Computer Assisted Mass Appraisal (CAMA) system is in place, OPA will complete a full reassessment annually.

The Sales Tax is also showing some moderate growth of between 3.3% and 3.7% annually. As a reminder, the first 1% of the local portion of the Sales Tax goes to the City's general fund, and is projected to bring $150 million in FY17. The second 1% is shared between the City and the School District, with $120 million going to the School District and the remainder to the City – first, through FY18, to pay off debt service for a school district borrowing, and then to the Pension Fund. In the last year of this Five Year Plan, an additional $52.6 million is projected to be available for the Pension Fund due to the Sales tax proceeds. The remaining taxes are also showing moderate growth. The City's Real estate transfer tax is now projected at pre-recession levels, showing Philadelphia's recovery from the downturn in 2009-2010.

In order to provide the ability to make important investments, the proposed Five Year Plan sought a number of efficiencies throughout City agencies, and looked at ways that we could improve our delinquent collections. Almost $70 million in additional collections are expected to be collected from the FY15 baseline by the end of the Plan, due to a variety of initiatives within the Revenue Department. These investments include doubling the number of billings to inform taxpayers on a more frequent basis, increasing the number of service representatives assisting taxpayers, and adding technical programming to their IT system. By more broadly publicizing the list of top business tax delinquents, Revenue also expects to boost collection activities, and another Tax Lien sale is planned for FY17, building off the prior two highly successful sales. City managers have also been tasked with carefully controlling spending, most notably through management of overtime in a variety of departments across the City.

Despite these efficiencies and revenue enhancements, in order to meaningfully tackle long-term challenges such as poverty, education, and neighborhood inequity, we have to look outside of the existing budgetary resources. With low fund balances, the Administration examined other revenues that could provide recurring funding for programs that are proven to make an impact in the lives of children and families. We believe that taxing sugary drinks will provide the City with the necessary funding to deliver critical services, without raising a broad-based tax that would be challenging for all residents and families across Philadelphia. The tax is proposed to be levied on the distributors of sugary drinks, at 3 cents per ounce, and is expected to generate approximately $96 million annually when fully implemented.

The largest investment funded by the sugary drinks tax is the expansion of quality Pre-Kindergarten to thousands of families across the city. Currently, 46% of Philadelphia's Kindergarteners show up to their first day of school unprepared to learn. At that point, they are already behind their peers, and they often stay behind for their entire academic careers. But studies show that children who complete quality pre-

K are more likely to stay on track in the early grades, graduate high school, complete college and become employed adults.

As a City continually seeking cost-effective ways to better support local schools, quality pre-K expansion is the solution. It presents a tremendous cost saving potential for the School District by dramatically reducing the need for special education services. The Commission on Universal Pre-K found the District could save as much as $72 million per cohort. Additionally, affordable, quality pre-K benefits families just as much as students. In a state where childcare costs rival college tuition rates, publicly-funded, quality pre-K enables parents to actively participate in the workforce with reduced absenteeism and higher productivity. By committing $256 million in this Five Year Plan, when combined with State and Federal funding, we can reach almost 25,000 quality, publicly-funded pre-K seats in Philadelphia in the next 3 years.

The tax on sugary drinks would also enable the City to pay debt service on the cost of borrowing for Rebuilding Community Infrastructure. With a $348 million investment from the City (of which $48 million is from the City's Capital Program), combined with State and private philanthropic donations, our parks, libraries, recreation centers and trails can improve significantly and become safe havens for children and families to enjoy. We know that students who participate in extracurricular activities have a 15% higher school attendance rate than non-participating students, and our students, seniors, and all residents for that matter, deserve quality spaces that they can enjoy.

The Five Year Plan also proposes an additional $39 million to create 25 Community Schools. Community Schools provide services such as healthcare, job training, and other programs, directly in the school where residents can access them most easily. These services are organized by a dedicated coordinator who works with the community to determine which services are most needed. As a result, the services in each community school vary, but the goal is the same: we allow educators to focus on teaching, and students to focus on learning, instead of concentrating on hunger, sickness, or even in some cases, shelter. The community schools approach is having a positive impact in cities all across the nation. Low performing schools in Los Angeles, Cincinnati, Austin and Baltimore are reducing the barriers to student success, thereby increasing academic achievement.

The sugary drinks tax also provides revenue to cover the costs of debt service related to borrowings for the Philadelphia Energy Campaign, a cause championed by the Council President. Through these investments, City buildings will become more sustainable and energy efficient, saving the City utility costs. These upfront investments have a high return on investment, and will pay for themselves after the projects have been completed through utility savings.

And finally, the sugary drinks tax will enable the City to add more funds to our biggest fiscal challenge: the City's Pension Fund. The contribution to the Pension fund is now projected to take up 15.4% of all City General Fund expenditures -- $641 million in FY17 -- squeezing out many other critical expenditures. However, the Fund is only 45% funded, meaning that we have more liabilities than assets. While the $26 million from the sugary drinks tax is small compared to the size of our pension challenge, improving the funding level of the Pension Fund is critical – and this contribution shows that any opportunity that we have to add additional resources, even when relatively small, the Administration plans to take. That is an important signal to send to both our creditors as well as to our citizens and our workforce.

Thank you for the opportunity to testify today. Members of the Administration are here, and we would be glad to answer any questions that you may have.