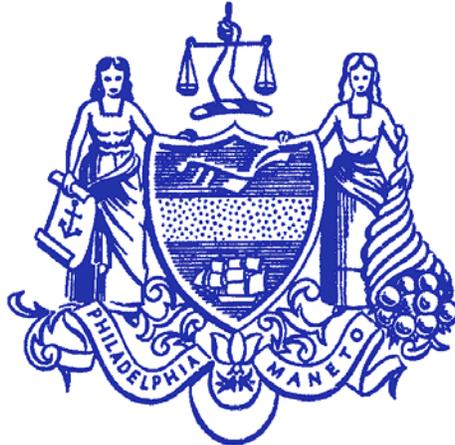


City of Philadelphia



Five-Year Financial and Strategic Plan For Fiscal Years 2010-2014

**Eighteenth Five-Year Plan for the City of Philadelphia Pursuant to
the Pennsylvania Intergovernmental Cooperation Authority Act**

Presented to City Council March 19, 2009

Michael A. Nutter, Mayor

This report is available online at www.phila.gov

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Letter from Mayor Michael A. Nutter



March 19, 2009

Dear Citizens of Philadelphia,

A year ago, I presented a budget and Five-Year Plan that promised a new day and a new way for the City of Philadelphia, pledging increased funding for public safety, education, public health and parks, all within a plan that proposed continued wage and business tax reductions.

But I also said the time for heavy lifting had arrived. None of us could have imagined how heavy the load would become. With increasing unease, we watched the housing crisis grow, the stock market decline and mighty financial institutions crumble.

Last November as a national recession deepened, I announced an emergency budget package to close a billion-dollar deficit over the next five years, including a \$108 million deficit in the current year.

To close the deficit, we scoured the budget looking for ways to do business less expensively. We redoubled our efforts to make tax deadbeats pay their taxes and fees. And we raised fees where warranted. In addition, I took a pay-cut and we cut salaries of my top staff. I also required furloughs for exempt employees and halted all bonuses to non-union employees. I asked all elected officials and independent agencies to cut their budgets as well. We also suspended scheduled wage and business tax reductions for five years, generating \$230 million and enabling us to preserve vital services to our vulnerable populations. Only then did we impact city services with careful reductions.

But the Great Recession has been relentless in its impact on our economy. With each passing day, we've seen our tax revenues decline sharply, pension costs soar as the stock market ate away our Pension Fund's value and return and employee health care costs continue to rise. In January, just two months after closing a billion-dollar problem, I announced that a second billion-dollar gap had opened up in the Fiscal Year 2010-2014 Plan.

In the last three months, I've talked with hundreds of Philadelphians about the hard times that have settled upon us. You are worried about your jobs. You have friends and relatives out of work. The future appears in doubt.

Your concerns are my concerns. Your worries are my worries. As mayor of the City of Philadelphia, I'm responsible for the proper management of city government. And it's my job to map out a course that will take us through these dark times to the sunshine of renewed prosperity. For that time is surely coming. And, I firmly believe that things will get better, but not as soon as we all want.

During an unprecedented effort to solicit the public's ideas and preferences, my administration and I heard very strong messages. In budget workshops, at neighborhood barbershops and at kitchen tables, Philadelphians related stories of their growing concerns. They also told me they want an efficiently run government that continuously drives down costs while improving the quality of service.

Philadelphians said they want to preserve as many critical services as possible, from public safety to services that protect our children, the elderly and other vulnerable populations.

To preserve these services, I am proposing a bold plan that combines a significant reduction in the city's cost of doing business, including long overdue structural changes to the economics of city government and other efficiencies, along with new revenue of short duration.

The decision to seek a substantial infusion of new tax revenue was not made lightly. Philadelphia alone among big cities has recorded 14 consecutive years of incremental tax reductions, saving Philadelphians well more than a billion dollars. But then, Philadelphia is also heavily burdened with taxes and still has a long way to attain tax competitiveness.

I believe our best course is to seek a temporary increase in the property tax and the sales tax and not to touch the city's most hurtful and burdensome wage and business taxes. My overriding principle is to do the least harm to the city's current competitive position and to its future. Study after study has pointed to the devastating negative impact of wage and business tax increases and we must do everything possible to avoid them as a solution for our short-term fiscal problems.

In the coming months, the City will formally sit down with representatives from the four municipal unions. The city will be pursuing contract agreements that are fair to both city employees and the taxpayers who must pay for them, but, are reflective of the challenging economic environment in which we currently find ourselves. It is important for all represented and non-represented employees to share the burden that these economic times have forced all of us to shoulder. Therefore, my proposed budget and Five-Year Plan include assumptions of reduced City costs for health care benefits, pensions and work rules. Without achieving at least this level of savings in these areas, we will not be able to balance our plan.

These revenue and spending changes, along with our plan to seek Commonwealth support for key rules changes in the administration of our Pension Fund, will provide us with the tools to build a better future.

But, if we are not able to secure the pension changes from Harrisburg, the spending reductions from our employee benefit costs and from streamlining our programs, along with new revenue authorizations from City Council, then the spending and service reductions will necessarily be far, far worse and with negative consequences for a wide range of city services.

Adoption of my proposed budget and Five-Year Plan will prepare us for economic renewal in the future and will preserve critical services to Philadelphians. The tax increases are temporary and designed to leave us ready to benefit from the next wave of economic growth.

Under my fiscal plan, the City will preserve critical public safety services and will not lay off any police officers or firefighters. We will not close facilities that serve our most vulnerable populations, such as libraries, health centers, or recreation centers. My plan also ensures that there will be 36 city pools ready for our children and families this summer. However, we will continue to engage in an extensive examination of our staffing patterns and the array of services and facilities we offer to the citizens of Philadelphia to ensure that we take advantage of the changes in demographics and usage, so that we provide the most efficient array of services and facilities to citizens at the least cost.

Meanwhile, my administration will work with President Obama, Governor Rendell, and their administrations to secure every Economic Recovery dollar that is available. These dollars will not close our deficit, but these new funds will provide employment for thousands of Philadelphians and hope for a better future.

In the coming weeks my administration will present more details and more explanation of the hard choices before us. In these pages, you will find our plan for moving Philadelphia from the depths of this economic recession to a bright and prosperous fiscally sound future.

I encourage you to read our plan, and I welcome your feedback.

A handwritten signature in blue ink, appearing to read "M. A. Nutter", with a stylized flourish at the end.

Michael A. Nutter
Mayor

Addressing the Budget Shortfall: A Snapshot

In the last fiscal year, the global financial crisis has caused a severe loss of revenues in the City of Philadelphia's budget. In November 2008, the Nutter Administration implemented a series of rebalancing actions to address a projected \$1.035 billion dollar shortfall over the FY09-FY13 Five Year Plan. In January 2009, the Nutter Administration announced that the City faced another estimated \$1.045 billion shortfall over the FY10-FY14 Five Year Plan. As of March 2009, FY10-FY14 revenue projections have been further reduced by over \$333 million.

This page highlights some of the major actions that were taken in FY09-FY13 and are proposed for FY10-FY14 to address the combined \$2.4 billion projected shortfall. It should be noted that most of the reductions taken and proposed were made to the discretionary portion of the City's General Fund expenditures – 42% of the FY10 budget. Over 58% of the City's budget consists of mandated services and costs that the City cannot reduce without cooperation from others – referred to as non-discretionary spending. In some instances the City proposes reductions to the General Fund's non-discretionary costs. As such, these items require the cooperation of other entities before they can be implemented.

FY09-FY13 Rebalancing Actions:

- Enhanced efforts to collect delinquent taxpayer collections: \$8.2 million annually
- Furloughs for exempt employees in FY09 and FY10: \$1.7 million in FY09 and FY10
- Salary reductions in the Mayor's Office and the Managing Director's Office: \$400,000 annually
- Reduced employee overtime city-wide: \$18.5 million annually
- Eliminated vacant and filled positions city-wide (approximately 800 full-time and 2,000 part-time and seasonal positions): \$33.6 million annually
- Increased fines and fees: \$4.8 million annually
- Consolidated information technology operations: \$850,000 annually
- Closure of approximately half of the City's 73 pools: \$1.4 million in FY10 and \$3 million annually in FY11-FY13
- Reductions in Free Library staffing, materials and supplies: \$4 million in FY09 and \$8 million in FY10-FY13
- Suspension of City-funded wage and business privilege tax (BPT) cuts until FY15: \$230 million over FY09-FY13
- Eliminated bulk and tire collections, and special collections for leaves: \$1.2 million annually
- Fleet reductions: \$7.9 million
- Reductions in Arts and Culture: \$3 million annually

FY10-FY14 Plan Proposal:

- Additional employee overtime reduction: \$2 million annually
- Waste minimization efforts in the Streets Department: \$2 million annually
- Fleet reductions: \$1.5 million annually
- Energy efficiencies city-wide: \$1.5 million in FY10 and \$3 million in FY11 and FY12
- Staff reductions city-wide (approximately 250 positions): \$11 million annually
- Anticipated savings from pensions, health benefits, and work rule changes: at least \$25 million annually
- Changes in pension amortization assumptions: over \$330 million from FY10-FY14
- Eliminating reserve for city-wide wage increases: \$180 million from FY12-FY14
- Increasing Fire Department EMS fees: \$5 million annually
- Enacting fees for commercial trash collection: \$7 million annually
- Instituting a utilization review process related to prescription medications: \$1.125 million annually
- Reducing demolitions by the Department of Licenses and Inspections: \$2.1 million annually
- Freezing civilian police hiring: over \$700,000 annually
- Temporary 1% sales taxes increase in FY10-FY12: over \$340 million from FY10-FY12
- Temporary property tax increase of 16 mills in FY10 and 12 mills in FY11: over \$270 million from FY10-FY11

Philadelphia Plan

MISSION

To improve the lives of people in Philadelphia: people who live, work, learn, invent and play here.

VALUES

Respect, Service, Integrity
Smarter, Faster, Better

GOALS

1. Economic Recovery and Jobs

Philadelphia grows as a green city.

- Create and retain jobs: more than 14,000 construction jobs, including 300 green jobs, and 4,000 permanent jobs
- Prepare the Delaware Waterfront and the Philadelphia International Airport to be the centers of the next wave of economic development
- Make Philadelphia a leading center of innovation in educational, medical, research institutions and sustainable technology
- Increase high school graduation rates by 50% in 5-7 years
- Double the number of residents with a 4 year Bachelor's degree in 5-10 years
- Add 75,000 people to Philadelphia's population in 5-10 years

2. Enhancing Public Safety

Philadelphia becomes the safest large city in the country.

- Increase the feeling of safety at home, in school, in the neighborhood, at work and at play
- Reduce homicide rate by 50% in 5 years

3. Investing in Youth and Protecting the Most Vulnerable

Philadelphia's youth and vulnerable populations have the opportunity to thrive.

- Assure that all children are ready to learn by the time of school entry
- Improve life expectancy and the health and safety of children and adults
- Provide housing opportunities for 25,000 households, including Foreclosure Prevention
- Provide housing and supportive services for all homeless people in Philadelphia

4. Reforming Government

Reforming city government to work better and cost less.

- Meet customer service standards for all city services, including redress for the customer when standards are not met
- Increase positive perceptions of city services and the trustworthiness of government
- Build a sound fiscal foundation for stable public services now and in the future
- Promote sustainable city services that save money today while avoiding costs tomorrow

Introduction



Balancing this Five Year Financial and Strategic Plan for Fiscal Years 2010-2014 (FYP) has presented Mayor Michael A. Nutter and his administration with a set of complex choices and challenges. As this plan describes in the following pages, Mayor Nutter and his administration have set forth a plan that preserves the city's critical core services to ensure that the city's economy is not further damaged by the economic downturn, while ensuring that our most vulnerable citizens are afforded an adequate safety net to weather the current economic storm.

Accomplishing this will require shared sacrifices from our city workforce and our residents. The proposal to address the current anticipated shortfall has a number of critical components, as detailed on the pages that follow. This plan looks to capture efficiencies that make city services more productive and less costly for residents and commuters. The plan also anticipates that our employee unions will contribute in ways needed to preserve our core services and economy by foregoing wage increases, volunteering for unpaid work days, generating savings through changes in work rules and absorbing more of the cost for their pensions and health care.

These efforts alone are not sufficient to balance this FYP: the depth of the downturn will require the City to pare back services further,

although it will be done without closing any city facilities. Finally, balancing the plan will require residents and non-residents to pay more in taxes over the next three years to preserve services. However, this Administration remains committed to a continuous examination of services and use of facilities to ensure that the City is operating at the highest level of efficiency, so that taxes are not higher than necessary to provide the services that citizens deserve.

The City of Philadelphia will need significant legislative assistance from the Commonwealth of Pennsylvania to successfully implement the Mayor's FY10-14 Proposed Plan. The Mayor's proposal does not ask for direct financial assistance or support. Instead, the Mayor is asking the Commonwealth to provide the City with the authority to implement new funding assumptions for its pension plan, which would save \$331.6 million over the FYP, and enable the City to impose a temporary increase in the City's sales tax rate from 7% to 8% for the next three years, providing \$341.7 million in acutely needed revenue.

Without Commonwealth approval of these two initiatives, the City will have to implement dramatically deeper reductions in services, totaling \$405 million over the FYP, including, among others, cuts in the size of the police force, reductions in the number of fire fighters, less frequent trash

collections, and a permanent 6% increase in the City's property tax rate, to generate \$252.9 million in revenues to replace the loss in savings and revenues from the pension and sales tax proposals. This Contingency Plan is outlined in greater detail on page 34. Just as the Commonwealth of Pennsylvania needed the assistance of the Federal government to withstand the current downturn, the City of Philadelphia will need legislative support from the Commonwealth to help weather the economic downturn.

These are difficult times, actually unprecedented times, and they require tough choices and extraordinary approaches. One such extraordinary approach has been the Mayor's efforts to reach out to Philadelphians to hear their concerns and to solicit their ideas about how best to balance the budget, described in greater depth on page 27. Many of those ideas have been incorporated in this fiscal stability proposal.

There are hard choices incorporated in this budget, but they are choices that preserve important city services at a time when residents, particularly Philadelphia's poor population, will need them most. Philadelphia is home to one of the largest concentrations of urban poor in the United States and its population is among the least educated of urban populations in the United States, as the following page discusses. The Mayor's Proposed FYP protects City services for those who are most vulnerable in this economic storm.

These difficult times will require all of us to sacrifice a little so that we can emerge a stronger and better city after the economic storm has passed, a city that is poised to continue its march to becoming one of America's greatest cities.

Philadelphia Demographics and Governance

Demographic Snapshot

Philadelphia's Population Change 1950-2007 (millions)



Source: US Census, American Community Survey, 2007

The City of Philadelphia was founded by William Penn in 1682, and was the nation's first capital. The City has a land area of 135 square miles, with two main rivers—the Delaware River on its easterly border, and the Schuylkill River running through the center.

Philadelphia is a “majority minority” city, with approximately 44% African American, 43% White, 5% Asian, and 8% Other Races. In addition, 10% of Philadelphia’s population is of Hispanic origin. Just

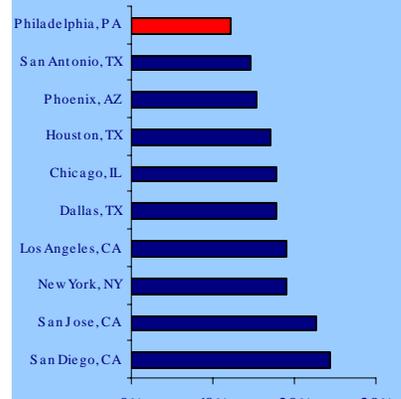
over 25% of residents are under the age of 18, slightly more than the U.S. average.

According to the latest American Community Survey estimates of 2007, Philadelphia’s population is 1,454,382. The city’s population has declined since its peak in the 1950s and Philadelphia is now the sixth most populous city in the United States.

A higher percentage of Philadelphians are living in single parent families as compared to the national average. According to 2007 American Community Survey data, over 46% of Philadelphians are estimated to live in single parent families, compared with 26% nationwide. Other large cities such as the District of Columbia (48%), Chicago (43%) and New York City (40%) have rates comparable to that of Philadelphia.

Educationally, Philadelphians lag behind the national average. Only 12% of Philadelphians over the age of 25 have a Bachelor’s degree, a rate lower than that of most large cities in the U.S. (see chart on the right).

Percentage of Population over 25 with a Bachelors Degree, 10 most populous U.S. Cities



Source: American Community Survey, 2007

City Government

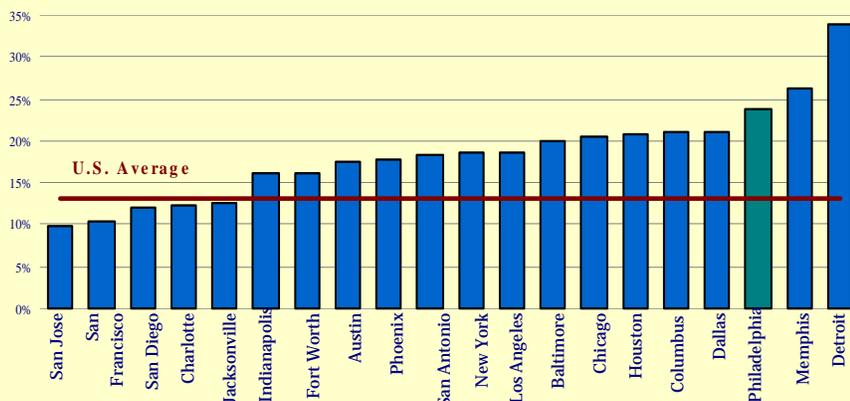
Philadelphia municipal government is divided into the executive and legislative branches. Mayor Michael Nutter is the Chief Executive and oversees the administration of the City. City Council is the legislative arm, and consists of 17 members (10 of whom are elected by district and 7 from the City-at-large). The Council President is Mrs. Anna C. Verna.

The City’s Administrative Organization Chart is shown on the following page.

High Poverty Rate

Poverty is a significant problem for many urban areas, and Philadelphia is no exception. In Philadelphia, 24% of individuals live below the poverty level, almost double the national average.

Poverty Rates Across 20 Largest U.S. Cities, %

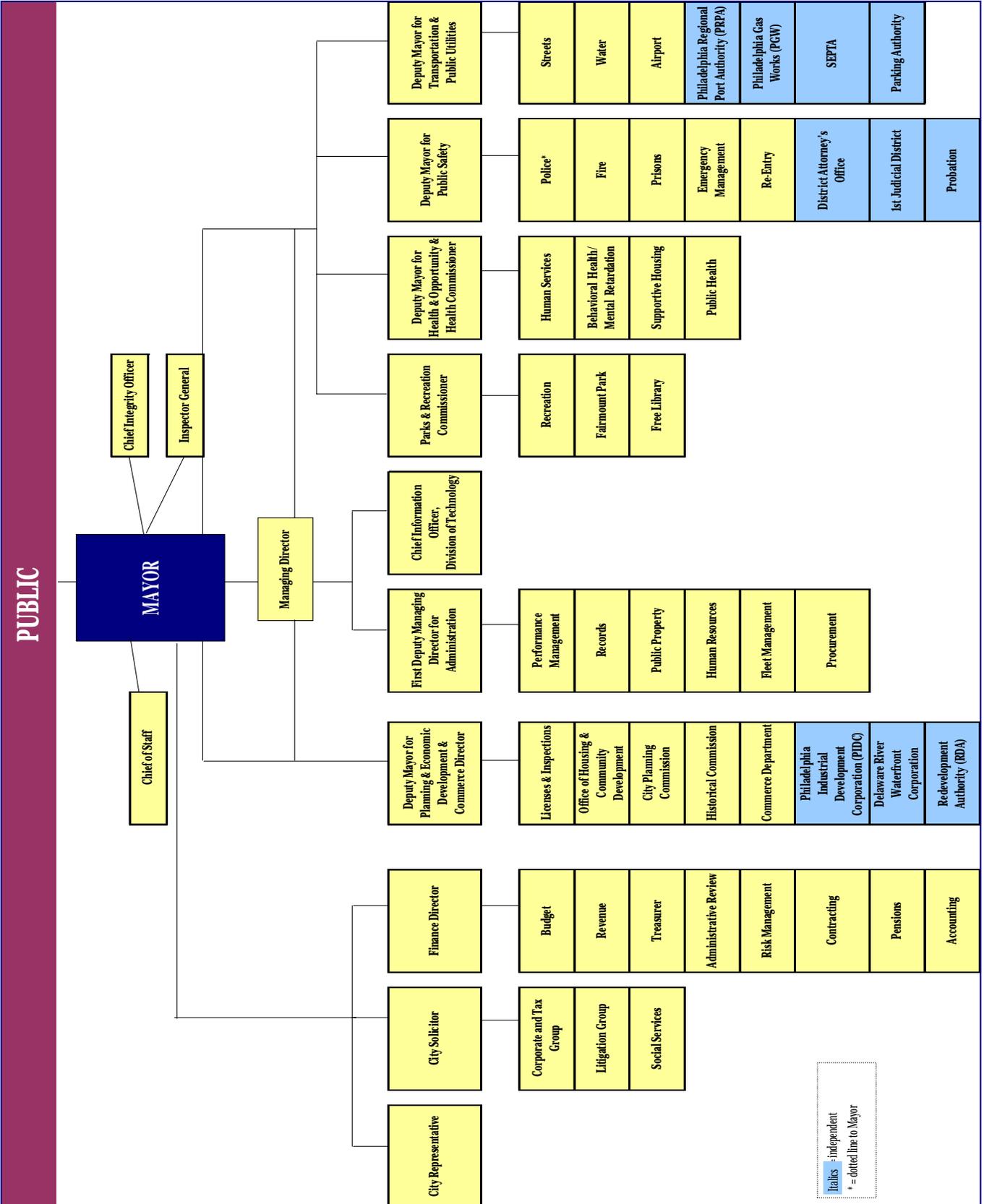


Source: American Community Survey, 2007

PICA & the Five Year Plan

In 1991, the Commonwealth established the Pennsylvania Intergovernmental Cooperation Authority (PICA), a State-appointed board tasked with overseeing the City’s budget. Since then, State law requires the City to annually balance its budget for 5 years. This Plan satisfies the legal requirement laid out by PICA, subject to the PICA board’s approval, and also serves as a report to the wider public.

Administrative Organization Chart



The City's Workforce

Over 23,000 employees draw wages from the City's General Fund (as of February 2009). Most are civil service employees, who passed an examination to establish their eligibility for a position. The table to the right shows the breakdown of employees by union affiliation.

Contract Negotiations

Contracts covering the four major union bargaining units expired on June 30, 2008. Police and Fire union contract terms are decided by a neutral party, through an arbitration process, while the two unions representing non-uniformed employees negotiate their contracts with the City. Negotiations finished in October 2008, with a one-year contract settled by each bargaining unit. Highlights include:

- Creation of the Joint Labor-Management Healthcare Evaluation Committee (with representatives for all employees): exploring ways to maximize the quality and competitiveness of benefits at an affordable price, through examination of best practices
- Reduction (or maintenance) of the City's healthcare contribution, in line with actual costs
- \$1,100 bonuses for D.C. 33 & 47 employees
- Pay increases for police officers, firefighters and paramedics

In the months of fiscal crisis leading up to formal negotiations for the next union contracts, the City has provided information and regular updates to the unions. During negotiations, the Administration will continue to share information on the City's financial condition, and to engage in a data-driven exchange with the union to identify changes in wages, benefits and work rules that can help restore fiscal stability to the City, provide enhanced job security to the workforce, and create greater efficiency in continuing to provide high quality service to the public.



Fire Service Paramedic checking vital signs at Public Health Fair

Breakdown of General Fund Employees by Union Affiliation		
Type	Description	#
AFSCME District Council 33 (DC 33)	Labor, trades, and clerical employees, including first-line supervisors	7,258
AFSCME District Council 47 (DC 47)	Professional and technical employees such as engineers, accountants, and social workers, including first-line supervisors	3,097
International Association of Fire Fighters, Local 22	Uniformed fire fighters and paramedics, all ranks up to Deputy Commissioner	2,169
Fraternal Order of Police, Lodge 5 (FOP)	Sworn police officers including prosecution detectives, all ranks up to Deputy Commissioner	6,704
Fraternal Order of Police, Lodge 5 (Sheriffs)	Uniformed deputy sheriffs and clerical employees of the Register of Wills	272
Not Union Represented	Civil service managers, and higher-level civil service supervisors	866
Exempt Employees (includes Courts)	Employees that are exempt from certain Federal wage and hour laws such as overtime, and who are not allowed to join a union	2,831
Total General Fund		23,197

Note: Employee numbers as of February 22, 2009

The Major Cost “Drivers” of Philadelphia’s General Fund

Philadelphia City government, like many governments and private entities, has a number of key cost centers that impact current and future financial stability. These cost centers, or “drivers,” determine the City’s ability to achieve and maintain budgetary balance over the life of any Five Year Plan. In Philadelphia’s case, these drivers are obligations associated with the City’s workforce – such as wages, health and benefit costs, and pension costs – and service and funding obligations related to county functions such as human services and criminal justice services.

Wages/Benefits

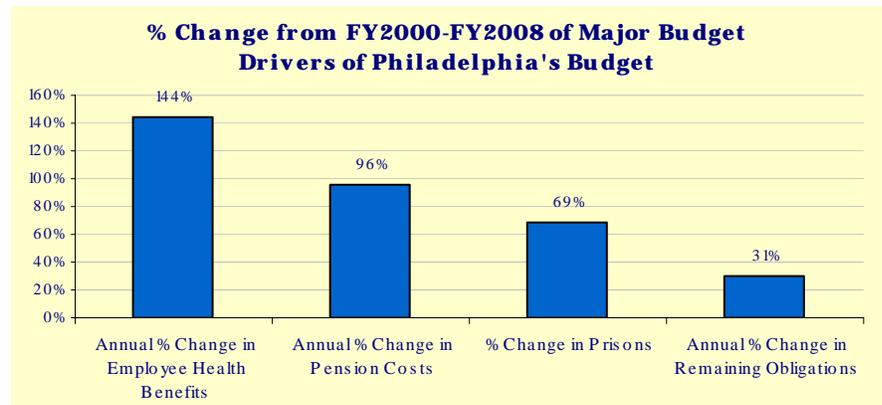
Salaries and health benefits account for nearly 48% of the FY10 General Fund budget. Employee health benefits, in particular, comprise a growing proportion of costs of the General Fund. From FY00 to FY08, employee health benefit costs rose by 144%, imposing a significant burden on the City. The outcome of current labor negotiations or arbitration decisions will help determine whether these costs continue to drain the General Fund’s resources.

Pensions

As of July 2008, 54% or 35,405 of the 65,883 individuals in the City of Philadelphia’s Municipal Retirement System, were receiving pension benefits. This number is expected to grow in future years as the number of retirees and beneficiaries is projected to increase at a faster rate than the number of active employees. Costs from yesterday’s personnel represent an ever-growing portion of today’s and tomorrow’s City budget.

The City’s annual contribution to the pension fund more than doubled from \$150 million in FY03 to \$352 million in FY08. When combined with the payments the City must make each year for its 1999 pension obligation bonds, that increase meant that the City’s total pension costs had jumped by \$225 million in five years.

These dramatic increases in



contributions have not led to an improvement in the pension fund’s health. In FY01, just before the dramatic run up in costs and the corresponding drop in the markets, the fund’s assets were sufficient to meet about 77% of the fund’s liabilities. By the end of FY08, those assets were only sufficient to support about 55% of the fund’s liabilities. That funding percentage will decline as a result of this year’s market losses and it is clear that the City needs to take a number of steps to ensure the long-term health of the pension fund. One immediate action the City is taking is applying to the Pennsylvania Employee Retirement Commission to have Philadelphia’s pension fund declared “severely distressed” – the highest level of distress. In order to reduce employee costs as required of a severely distressed pension fund, the Administration will be introducing legislation to implement a new pension plan for certain existing exempt employees and for all employees hired after July 1, 2009. (See page 30 for additional information).

In another step to address pension costs and preventing them from undermining the City’s long-term fiscal health, the Administration together with the City Controller, and with the support of the Philadelphia Pension Board, has proposed changes to the pension fund assumptions to help control costs in the near-term and increase the pension fund’s ability to fund existing liabilities over the long-term. Potential changes in

the City’s pensions will be another big component of the City’s later union negotiations. (See page 30 for additional information).

Prison System

The average daily prison population in FY09 (through March 2009) was 9,622. This represents a 5.5% increase over the FY08 daily average of 9,121 inmates. The growth is due to an increase in the number of arrests, admissions, and increases in incarceration. As of early 2009, over three-quarters of the prison population consisted of pre-trial detainees and the remaining one-quarter comprised sentenced inmates.

Prison System costs have increased almost 70% between 2000 and 2008, and are driven in large part by costly medical and rehabilitative services, housing and maintenance contracts and staff overtime.

The Administration is engaging in efforts to systematically reduce costs and find opportunities for revenue enhancements while keeping residents safe and addressing the root causes of recidivism. As an example, the Prison System is seeking to expand the use of video technology in the court system, when feasible, in order to reduce inmate processing and transportation costs associated with court appearances. In addition, the Prison System is working to transfer approximately 250 inmates from county to State prisons when appropriate, further reducing the expense of operating the Prison System.

Discretionary v. Non-discretionary spending

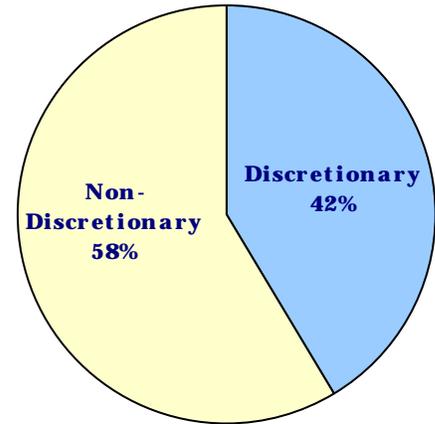
Some parts of the budget could not be reduced to close the budget shortfalls without cooperation of other entities. The majority of the expenses in the City's budget consists of mandated services and services that the City does not control—referred to as non-discretionary spending. Non-discretionary expenditures include fixed costs such as debt service, payments for the City's unfunded pension liability and its State

mandated annual payment to the School District.

The chart on the right represents the discretionary and non-discretionary portions of the expenses of the City's General Fund budget in FY10.

When the Administration looked to address the severe revenue shortfalls, in both November 2008 and January 2009, it was severely limited in its ability to examine savings and revenue enhancements in the discretionary portion of the budget, severely limiting many options.

**FY10 Expenditures
\$3.84 Billion**



The City-County Dilemma

Burden not shared

Philadelphia has additional service responsibilities tied to its status as a city and a county. Like many other urban areas, Philadelphia funds services that are related to its relatively high level of poverty. However, Philadelphia also must bear the burden of costs for services that most cities share with their surrounding county, such as courts and prisons. These costs are significant: the

Prison's annual budget is almost \$250 million, while the courts cost the City almost \$100 million. These two services alone account for over 9% of the City's total General Fund budget. Additionally, the City funds many county-level elected offices, such as the County Commissioners, the Register of Wills, the Clerk of Quarter Sessions, and the Sheriff. These costs, along with the Department of Human Services, account for approximately \$1.2 billion of the General Fund's \$3.84 billion budget, and costs taxpayers \$600 million, after dedicated revenues and State

reimbursements are taken into account (see chart below).

In 1985 the State Supreme Court ordered the Commonwealth to fund the court system. However, the Commonwealth of Pennsylvania has refused to comply with the Supreme Court's order, leaving counties across Pennsylvania to absorb this cost. A suit on this issue has been filed this fiscal year and is currently in litigation. Without this burden, the City would have more discretionary funds to allocate across City services and programs.

Breakdown of County Functions, Costs and Revenues

	FY2010 Proposed	Fringes	Revenue	Net Cost
Department of Human Services	\$590,878,063	\$40,053,066	-\$551,292,000	\$79,639,129
"Row Offices"	\$30,175,425	\$10,384,704	-\$20,769,000	\$19,791,129
Prisons	\$248,835,310	\$99,534,124	-\$2,083,000	\$346,286,434
First Judicial District	\$99,096,983	\$30,373,624	-\$41,365,000	\$88,105,607
District Attorney	\$24,943,050	\$9,118,103	\$0	\$34,061,153
Defenders Association	\$26,338,085	\$8,697,920	\$0	\$35,036,005
Office of Behavioral Health	\$14,271,572	\$863,486	\$0	\$15,135,058
Total	\$1,034,538,488	\$199,025,027	-\$615,509,000	\$618,054,515

Note: "Row Offices" includes the Sheriff, Clerk of Quarter Sessions, Register of Wills, and City Commissioners

The Current Economic Context

Economic Crises

City's Revenues in sharp decline

The world economy is in the grips of an economic downturn the likes of which few people alive today have experienced. According to the International Monetary Fund "world growth is projected to fall to ½ percent in 2009, its lowest rate since World War II".¹ This deep downturn in global economic activity is the result of severe dislocations in global credit markets, the collapse of critical banking firms, the bursting of housing bubbles in the United States and much of Western Europe, a seeming halt in consumer and corporate spending, and losses in equity markets that as of March 2009 approach 40%. The economic downturn as of this writing is now in its 15th month and shows no signs of abating quickly.

The policy responses from national governments, led by the United States, to implement sizable fiscal stimulus to prop up demand and restart private spending will be an important, perhaps the most important, ingredient in any recovery in global demand and a return to long-

term economic growth. That return to growth will not be immediate, though.

For US local governments like Philadelphia's, the loss in revenues caused by economic contraction and the rise in required pension contributions resulting from the severe losses in equity markets has led to budget shortfalls, unique in their massive size and the speed with which they have occurred. Many cities have resorted to deep service cuts to balance their budgets; some, like New York, have supplemented these cuts with new revenue and expected savings from their employee unions. And the early expectation by some observers that the American Recovery Act funding, the US plan for fiscal stimulus, would help fill budget gaps at the local level has not materialized; as President Barack Obama and his administration have made clear, stimulus funding was not created to close the large budget gaps experienced at the local level.

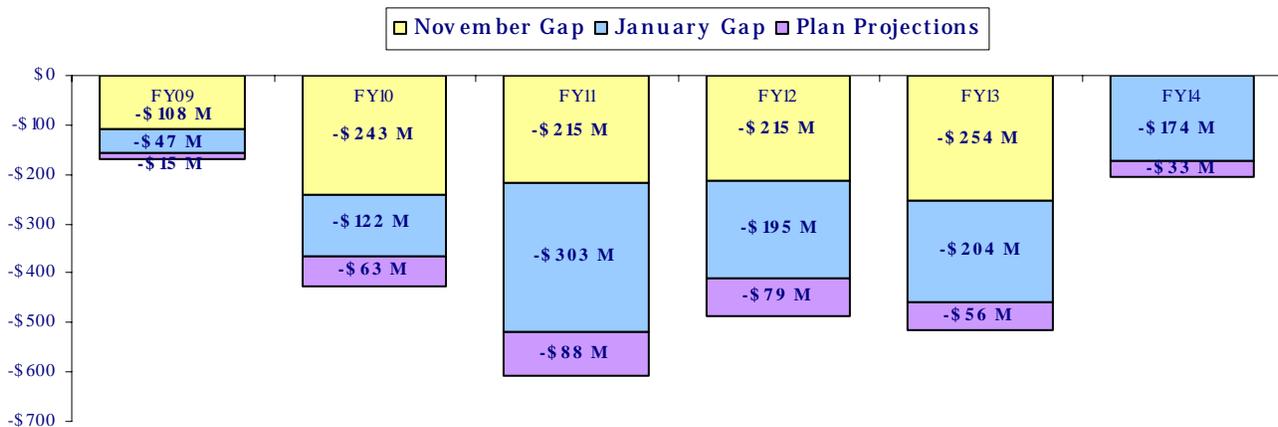
The speed and depth of the recession has prompted local government leaders to act quickly to close projected budget gaps. Philadelphia arguably was among the

first cities to address its fiscal challenges: in November 2008 Mayor Nutter implemented actions, some in partnership with City Council, to close a \$1 billion projected gap in the FY09-13 Five Year Plan, as described in greater detail on pages 19-22. At that time the Mayor and his administration warned that the nature of the unfolding recession made it likely that the Administration would have to close another deficit for the Five Year Plan beginning in FY2010. Unfortunately, those warnings proved to be accurate: in January 2009, Mayor Nutter announced that the City was facing a \$1.045 billion gap for the FY10-14 Five Year Plan; page 28 describes the decline in revenues and increase in pension related costs which created this second large deficit.

The chart below illustrates the projected losses to Philadelphia's revenues, as a result of the economic crisis. As of November 2008, losses for the FY09-13 plan totaled \$1.035 billion, and as of January 2009, losses for the FY10-14 plan totaled \$1.045 billion. Current plan projections show an additional loss of \$333 million.

Projected Losses to Philadelphia's Budget as a Result of the Economic Crisis, FY09-FY14 (\$ millions)

Total November Gap: \$1.035 Billion, Total January Gap: \$1.044 Billion,
Total Additional Gap (Plan Projections): \$333 Million



Recession

Impacts on Philadelphia's local economy

According to the National Bureau of Economic Research — a nonprofit organization that determines national business cycles — the U.S. economy is in a recession that began in December 2007.

A downward trend in the national economy bodes poorly for Philadelphia because the city's economy is directly linked to that of the nation. In order to better understand the effects of the economic and financial crisis on Philadelphia, the following pages provide a summary of recent changes to select economic indicators at the national and city level.



U.S. Economic Growth

A sharp downward decline

Real Gross Domestic Product (GDP) is one of the key indicators of economic activity: following Real GDP allows people to see whether a country's overall economic output increased or decreased, regardless of changes in price.

Preliminary estimates from the Bureau of Economic Analysis (BEA)

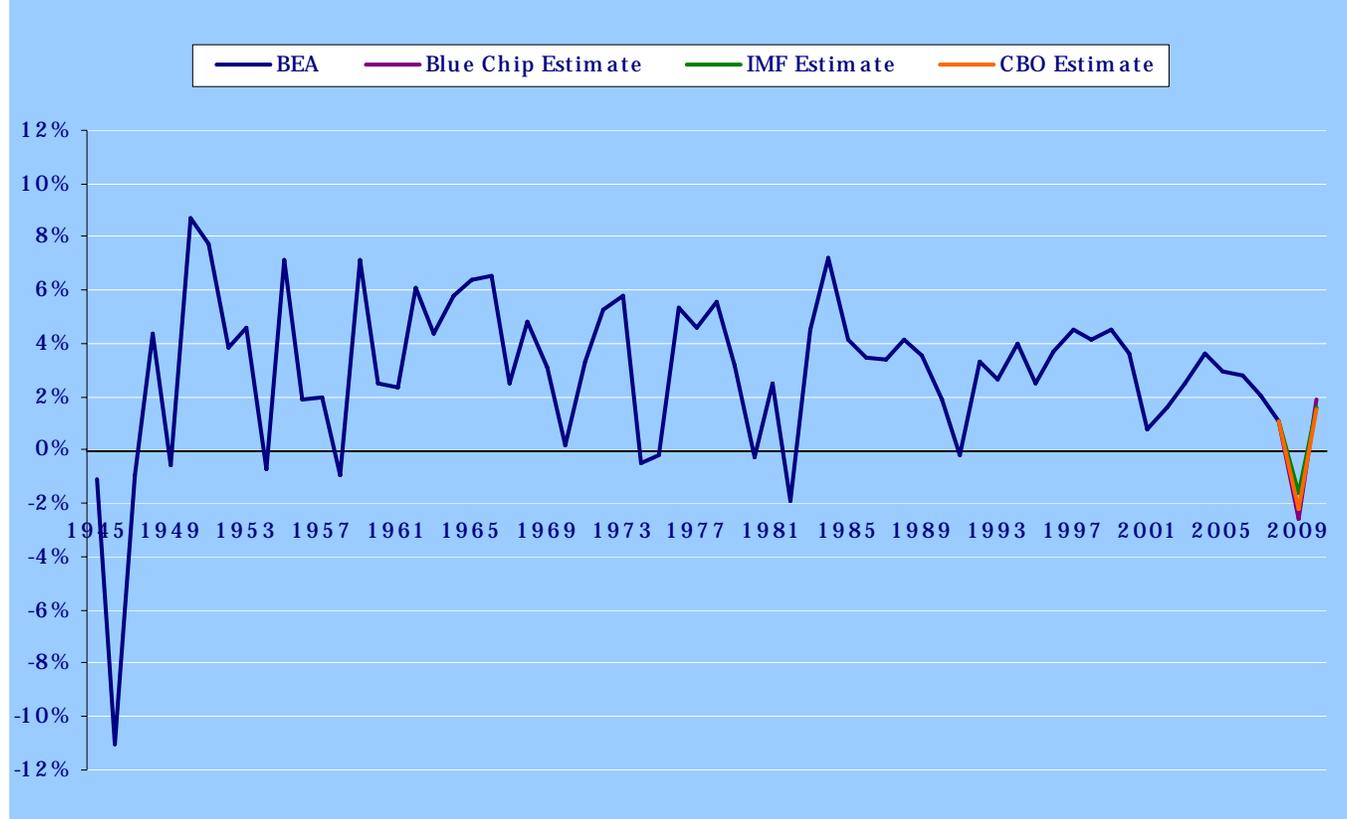
show that U.S. Real GDP took a sharp downward turn in the fourth quarter of 2008, contracting at an annual rate of 6.2% compared with a 2.8% increase in the second quarter of 2008. Blue Chip Economic Indicators, the International Monetary Fund (IMF) and the Congressional Budget Office (CBO) all project a continued contraction in GDP for 2009, with annual estimates of -2.6%, -1.6% and -2.2%, respectively.

From a historical perspective, the

current economy is fairing worse than the recession of 1982 where annual economic growth hit a low of -1.9%. The graph below shows the fluctuation in real GDP since 1945, and its decline during the last year.

"It looks to me like the economy has fallen off a cliff."
 - Alan Blinder, Princeton professor and former Fed vice-chairman, Oct 19, 2008 Financial Times

U.S. Annual Real GDP, %, 1945-2009



Notes: 2009 data are projections.

Source: Bureau of Economic Analysis, GSP: Fourth Quarter 2008 (Preliminary), February 2009; Blue Chip Economic Indicators, March 2009; International Monetary Fund, World Economic Outlook Update, January 2009; Congressional Budget Office, Economic Projections, January 2009.

Retail Sales & Consumer Confidence

Consumer spending accounts for 70% of the national economy, driven by consumer demand. Since the onset of the recession in December 2007, national retail sales have steadily declined.

In December 2008, total national sales contracted for the fifth consecutive month, with a year-to-year drop of over 10%. Meanwhile, Philadelphia sales have trended downward since July 2008. Nationally and locally, retailers have attempted to reduce inventories, while a significant number of retail firms are expected to downsize or close completely in 2009.

As of February 2009, the Conference Board – a non-profit organization that releases a monthly Consumer Confidence Index – continues to report record lows. The National Federation of Independent Businesses showed a dramatic dip in business confidence also, as greater constraints were made regarding payrolls and investment.

Unemployment

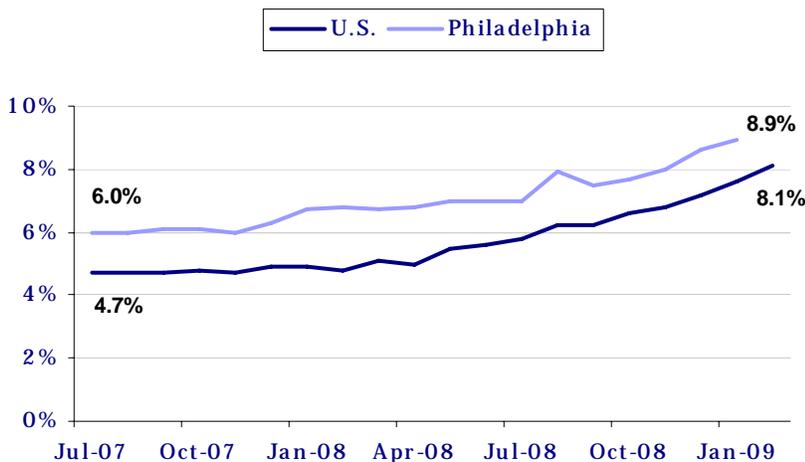
Unemployment rates continue to rise across the U.S. as a consequence of the deepening recession. According to the Bureau of Labor Statistics, since the start of the recession in December 2007, 4.4 million jobs have been lost nationwide while the average work week fell to a record low of 33.3 hours. In February 2009, national unemployment reached 8.1%, while Philadelphia reached 8.9% in January 2009 (the most recent available data). Some forecasters anticipate that the national economy will lose an additional 2.5 million jobs this year, with unemployment exceeding 10%.

Most major national industries are experiencing decline, with the

largest losses incurred in the manufacturing and construction industries. Locally, Philadelphia’s financial, leisure and hospitality industries have been performing worse than the nation in FY09. Meanwhile, Philadelphia has maintained positive but slow growth in the education, health, professional, and construction sectors.

Philadelphia continues to experience higher unemployment rates than the surrounding counties of Bucks, Chester, Delaware and Montgomery, as well as the nation. The graph below shows U.S. and Philadelphia unemployment rising since the start of 2008, in sync with the timing of the economic and financial crisis.

Monthly Unemployment Rates, U.S. vs Philadelphia, July 2007- February 2009



Source: Bureau of Labor Statistics, March 2009

Stock Market

Since the fall of 2008, global equity markets have incurred losses in value approaching 40%, causing a dismal ripple-effect worldwide. Banks saw asset values diminish, and many were forced to merge or collapse. The credit and equities markets plummeted to unprecedented levels soon afterwards.

The weakening stock market has been detrimental for Philadelphia, causing losses in the value of the pension system. As of July 2008, the actuarial liability of Philadelphia’s pension fund was \$8.4 billion, of which approximately 55% was funded. As a result of this year’s market losses, it is likely that that percent will decline substantially.

Within this difficult context, Philadelphia’s pension fund has fared relatively well thanks to the prudent investment strategy that the City has maintained. The fund has exceeded the benchmark return in each of the last 4 years, FY05-FY08. Performance for the fund FY09 to date (through January 31, 2008), has continued to exceed its benchmark, -22.92% versus -25.17%. The fund has also exceeded its earnings assumption rate of 8.75% in 4 of the last 5 fiscal years. Within a universe of public defined-benefit pension funds valued over \$1 billion, Philadelphia’s pension fund ranked in the top third in FY08 in earnings.

Despite that relatively strong performance, the collapse of the markets has led to substantial losses for the fund. Those losses must be compensated for through increased contributions from the City. The weakening markets and the collapse of lending have also made it increasingly difficult for Philadelphia to market new pension obligation bonds, which were a significant element in last year’s Plan. The City has therefore delayed the issuance of proposed pension obligation bonds indefinitely and does not assume any savings from these bonds in this Plan. If market conditions make it desirable and prudent, however, the City will move forward with a bond issue.

The City's Economic Forecast

In January 2009, Mayor Michael Nutter announced that the City continued to show severe deterioration in the City's finances. As the economy's decline accelerated, tax revenues fell much more sharply than anticipated in the November rebalancing plan, with FY09 showing a \$64.2 million loss in projected local taxes since November 2008. With higher losses than forecast in the pension fund as equity markets plummeted, the City also anticipated that pension contributions would need to be \$498 million higher than budgeted in November 2008. New estimates show that the City would face a \$1.04 billion shortfall over the next 5 years without intervention.

The global and national economies have weakened even further since Mayor Nutter's January warning: as pages 13 and 14 described, the US economy is showing severe weaknesses, unemployment has climbed quickly, and the stock market tumbled to new 52 week lows in the early part of March 2009. The speed of the economic collapse is best illustrated in the change in the Blue Chip Economic Indicators Consensus forecast for US economic growth in 2009 (see accompanying chart). In the

six months since September 2008, when the consensus forecast anticipated 1.5% growth for real GDP, the consensus forecast has been dramatically revised and now anticipates a 2.6% contraction in real GDP in 2009, as of the March 2009 forecast. The change over the last two months has been just as dramatic: In January the consensus forecast called for real US GDP growth to shrink 1.6% in 2009, not the sizable 2.6% drop anticipated in March 2009.

The severity of this contraction cannot be underestimated. As the Blue Chip editors state in their most recent report (as of this writing)

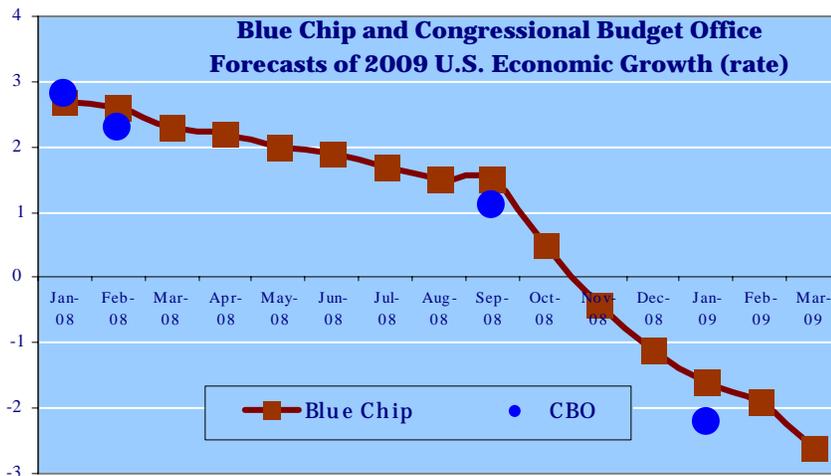
*"It is looking more and more likely that the current U.S. recession will not only be the longest in post World War II history but also the deepest. In April, the current downturn will have exceeded in length the 16-month recessions of 1974-1975 and 1981-1982. And based on our March 4th-5th survey, the consensus now predicts real GDP will contract by -2.6% on a year-to-year (y/y) basis in 2009, easily surpassing the 1982 decline of -1.9% that until now marked the largest y/y contraction in the post war era."*ⁱⁱ

An unsettling aspect of the

current economic downturn is the significant uncertainty surrounding any and all forecasts of economic growth and activity. A March 2009 gathering of Philadelphia regional economists hosted by the Federal Reserve Bank of Philadelphia and sponsored by the Pennsylvania Intergovernmental Cooperation Authority (PICA) underscored this point: all of those gathered to review economic forecasts made by the Administration cautioned that there was a great deal of uncertainty regarding the depth and length of the current recession, which will make forecasting very difficult. The Administration have revised downward their revenue projections as a result of changes to national and regional projections. Uncertainty in economic forecasting was emphasized in the most recent (January 2009) minutes of the Federal Open Market Committee meeting released by the US Federal Reserve Board of Governors:

*"Participants continued to view uncertainty about the outlook for economic activity as higher than normal. The risks to their projections for real GDP growth were judged as being skewed to the downside and the associated risks to their projections for the unemployment rate were tilted to the upside."*ⁱⁱⁱ

The Administration's economic and revenue forecasts for the FY10-14 Five Year Plan, displayed in the accompanying table, are also subject to the same uncertainty and downside risk surrounding national economic forecasts. The forecasts of economic activity for the City over the next five years, whether measured using total economic output (real gross county product), total personal income, or total wages will be subject to revision, especially if the current economic situation worsens over the next 3



months. If the US and global economies falter further, the accompanying estimates of economic and revenue growth for the City will have to be adjusted downward.

The Administration is anticipating that the Philadelphia economy will shrink by 2.2% in 2009 and 0.4% in 2010. We expect that Philadelphia will suffer a similar decline in economic activity anticipated for the US in 2009; however, we anticipate that the recession will continue to affect the City's economy in 2010 when most observers anticipate the US will emerge from the current recession with modest growth. These estimates are less pessimistic than similar forecasts graciously provided by

Moody's Economy.com, which anticipates a sharper recession for the City in 2009 and 2010. Similarly, the Administration anticipates less severe contractions in personal income than Moody's Economy.com in 2009 and 2010. Moody's Economy.com also anticipates that the City will experience unemployment approaching 12% by 2010, an 18% decline in single-family residential prices from the peak price in 2007, and significant erosion in the city's job base until 2012.

The contraction in Philadelphia's economic activity will have consequences for the City's revenue growth. As the accompanying table shows, growth rates for the City's

major forecasting indicators correspond with national and regional projections.

A Note of Caution

The historic financial and economic crisis currently underway is volatile, unprecedented and largely unanticipated. Economic forecasts cannot predict the depth nor the length of the crisis. If the economy continues to deteriorate, Philadelphia's revenues will be further depressed.

Selected Economic Growth Assumptions for the U.S. And Philadelphia

US Real GDP Growth (rate)

	CY2009	CY2010	CY2011	CY2012	CY2013
CBO	(2.2)	1.5	4.2	4.4	4.1
Blue Chip Consensus	(2.6)	1.9	3.4	3.4	3.0
Moody's Economy.com	(2.9)	1.8	4.6	5.5	3.5
Philadelphia Real Gross County Product					
Moody's Economy.com	(3.2)	(0.8)	1.8	2.7	1.1
City's Budget Office	(2.2)	(0.4)	1.2	3.1	3.6
Philadelphia Nominal County Personal Income					
Moody's Economy.com	0.5	1.6	2.2	3.7	4.6
City's Budget Office	(0.4)	0.5	1.9	4.2	4.7
Philadelphia Nominal Wages and Salary					
Moody's Economy.com	(0.1)	(0.1)	1.3	3.7	4.6
City's Budget Office	0.7	1.3	2.3	3.8	4.1



The City's Major Taxes

The City receives revenue to fund its services and programs from six major taxes (contributing to 63% of general fund revenue in FY10). These include the Wage and Earnings and Net Profit Tax (Wage), Business Privilege Tax (BPT), Real Estate Transfer Tax (RTT), Property Tax, Sales Tax and Parking Tax. Smaller taxes, such as the amusement tax, provide less than 1% of revenue. (See chart in Appendix I)

Philadelphia's reliance on the Wage tax (30% of the General Fund) and the BPT (9%) places the City at risk from economic trends and employment fluctuations of the wider economy. Other cities and states that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

In FY09, the City was expected to receive \$4.03 billion in revenue, mostly through modest growth in these 6 taxes.

However, with the economy in decline, tax revenues are estimated to be significantly lower than was originally forecast, and total revenue is now estimated at \$3.968 billion for FY10.

Wage Tax

The Wage, Earnings and Net Profits (Wage) tax is the largest source of revenue for the City, and its receipts remain at risk as local unemployment rises and wage growth across the local economy stagnates. The wage tax is collected from all employees working within the city's limits, and from all city residents, regardless of their employment location. Wage tax receipts are expected to reach \$1.158 billion (excluding PICA contribution) in FY10, with average annual growth of 2.6% from FY10-14.

In FY95, the City established a schedule to gradually reduce the wage tax rate each year. (See Appendix II for history of wage rate reductions.) As of July 1, 2008 the rate for residents was lowered below 4% for the first time in over thirty years. The decline in revenues from the Wage Tax between FY08 and FY09 is primarily due to this rate decrease. However, as a result of the recent downturn, the City has established a rate reduction moratorium on further City-financed reductions (the State will continue reductions from Gaming revenue) until 2014 or until economic pressures lift (see Tax Reductions Suspended section on page 21).

Currently, the resident wage tax rate is 3.93% and 3.5% for non-residents. The resident wage rate includes 1.5% that is reserved for the Pennsylvania Intergovernmental Cooperation Authority (PICA). PICA has overseen the City's finances since 1992, when the State oversight board was first established. The PICA Statute permits the Authority to a "first dollar" claim on its portion of wage tax proceeds.

Property Tax

Property tax revenues are projected to be the second largest source of tax revenue for the City. This tax is levied on the assessed value of residential and commercial property in the City, and is set at a rate of 82.64 mills. The City receives 40% of property tax revenues, with the other 60% allocated to the School District of Philadelphia. City property tax revenues are projected to reach \$574.2 million in FY10 (based on the temporary higher millage rate of 98.64 mills, which is discussed in detail on page 32), with average annual growth of 2.6% over the course of the FY10-14 Five Year Plan (excluding additional revenues projected from the temporary property tax increase shown on page 32).

Change in Major Tax Revenues FY08-FY10

Major Tax Revenues	FY08 (\$ Thousands)	FY09 (\$ Thousands)	FY10 (\$ Thousands)	% Change from FY08-10	FY10 General Fund %
Wage, Earnings and Net Profits	1,197,325	1,139,107	1,158,374	-3.3%	29.2%
Property Tax	402,789	412,780	574,176	42.6%	14.5%
Business Privilege Tax	398,828	365,724	348,688	-12.6%	8.8%
Real Estate Transfer Tax	184,048	110,600	84,745	-54.0%	2.1%
Sales Tax	137,275	128,000	234,660	70.9%	5.9%
Parking Tax	55,459	69,000	70,725	27.5%	1.8%

Note: Wage Tax does not include PICA contribution. The decline in the Wage tax between FY08 and FY09 is primarily due to the rate decrease.

Business Privilege Tax (BPT)

BPT declined considerably since FY08 and is expected to decline again in each of FY09 and FY10. Even after these sharp declines, BPT receipts are expected to grow by an average of 1.9% annually over the course of the Five Year Plan.

Businesses pay a percent of net income and gross receipts toward the BPT. The net income contribution for FY09 is 6.45%, and gross receipts is 0.1415%. There are modified rates for financial institutions, public utilities, some manufacturers, wholesalers and retailers. In response to current economic conditions, the City has kept the BPT rates at the FY08 level until 2014 or when there are indications of recovery (see Tax Reductions Suspended section on page 21).

Sales Tax

The sales tax is also significantly affected by the downturn in the economy, particularly as consumer spending weakens. The tax rate is 7% in Philadelphia, of which 1% is levied by the City and the remaining 6% is levied by the Commonwealth of Pennsylvania. As of January 2009, total national retail sales have declined over 9% from the same month in the previous year. As a result,

Philadelphia sales tax receipts are estimated to reach \$128 million in FY09 (a drop of almost 7% from FY08 receipts) and \$234.7 million in FY10 due to additional revenue projected from the temporary sales tax increase. Revenues are estimated to grow an average of 1.2% from FY10-14 (excluding additional revenues projected from the temporary sales tax increase shown on page 32).

Real Estate Transfer Tax

The City imposes a 3% tax on real property sales within the city under the Real Estate Transfer tax (RTT). An additional 1% is charged by the Commonwealth of Pennsylvania, for a 4% total tax.

In FY06 revenue from RTT peaked at \$236.4 million in collections. Since 2007, an unstable housing market coupled by the start of the recession has led to a significant reduction in the amount of revenue generated from the RTT. The current projection for RTT in FY10 totals \$84.7 million – a decrease of 64% since the peak in FY06.

The second quarter of FY09 marked the eighth consecutive quarter where RTT revenues came in lower than the prior year, falling short in both receipts and records. By the fourth quarter of FY08, total RTT receipts were down by 21.7% while

records fell by 22.7%, compared to the same quarter in the previous year.

In keeping with nationwide trends, median home sale prices have begun to decline in Philadelphia, prompting a rising number of homeowners to delay selling. Decreasing sales for residential properties, the largest component of the transfer tax, has largely contributed to the decline in transfer tax revenues.

Residential properties (single-family homes, apartment buildings and condominiums) comprised 86.6% of total RTT receipts in FY07, and 73.9% in FY08. In recent years, average home sale prices for condos have shown the greatest potential for growth. However, considerable volatility was seen in the past fiscal year. In the first and second quarters of FY09, average condo sale prices fell by 19.7% and 11%, respectively, as compared with the same quarter in the previous fiscal year.

Parking Tax

The parking tax is levied on the gross receipts from all parking transactions. In 2008, the Administration raised the tax to 20%, which brings expected revenue up to \$70.7 million in FY10. Parking tax receipts are expected to grow at the regional inflation rate of 2.5% each year from FY10-14.

Major Taxes (\$ in Millions)

	History				Forecast					
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Wage	1,087.3	1,125.8	1,182.7	1,197.3	1,139.1	1,158.4	1,178.4	1,200.2	1,245.9	1,285.8
Property	392.7	395.8	397.5	402.8	412.8	574.2	547.0	442.8	454.5	466.7
BPT	379.5	415.5	436.4	398.8	365.7	348.7	356.2	362.8	369.5	376.4
Sales	119.9	127.8	132.6	137.3	128.0	234.7	244.7	247.1	132.0	134.4
RTT	192.3	236.4	217.3	184.0	110.6	84.7	93.2	102.5	112.8	124.1
Parking	45.0	48.4	50.3	55.5	69.0	70.7	72.5	74.3	76.2	78.1
Other Taxes	13.6	19.2	19.0	20.8	21.3	21.9	22.4	23.0	23.6	24.2
Total Taxes	2,230.3	2,368.9	2,435.9	2,396.5	2,246.5	2,493.3	2,514.4	2,452.7	2,414.5	2,489.6

Note: Other Taxes include Amusement and miscellaneous tax revenue. Wage tax revenues do not include PICA tax. Revenue forecasts include temporary sales and property rate increases.

Addressing the FY09-13 shortfall

Solving the Deficit

The graph below shows the significant losses to the City's projected tax revenue from FY07 to FY09 as of November 2008. The scale of the budgetary challenge at that point required that all options for rebalancing the budget in mid-year be considered. The Administration could

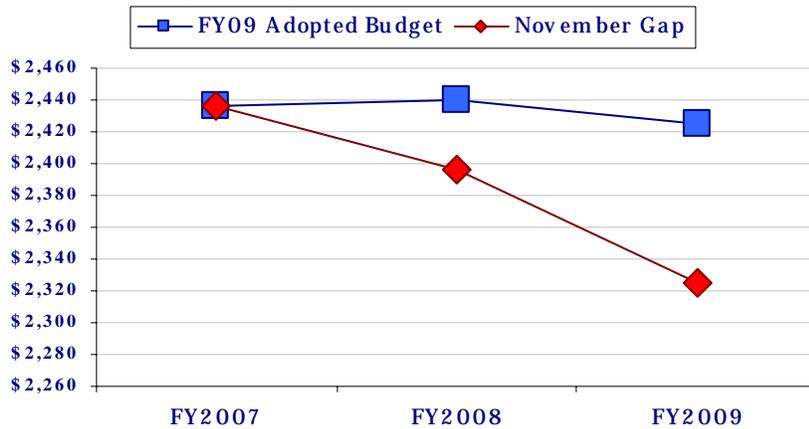
not afford to look for quick, one-time changes given the magnitude and speed of the downturn. Across the board reductions were rejected as well, as they are often inefficient, random and result in cutting resources where they are needed the most.

Despite these challenging financial circumstances, the Nutter Administration remains committed to

providing high-quality programs and services to Philadelphians. A wide range of efficiency savings across government have already been identified. Mayor Nutter has asked a Private Sector Task Force made up of business and management executives from across the region to work with the City's municipal unions and City employees to continue identifying further cost-savings measures and more efficient ways to run government.

The Nutter Administration made every effort to minimize the impact of city budget cuts on Philadelphians by generating efficiencies wherever possible. Nonetheless, it would have been impossible to close the \$108.1 million FY09 shortfall and \$1.035 billion FY09-13 shortfall without rethinking and reducing certain city services and programs, as well as the City workforce.

Change in Projected Tax Revenue (\$ millions)



Rebalancing Decisions for FY09

Guiding principles

Mayor Nutter made a commitment that all options would be on the table when deciding how to close the budget shortfall. The Administration followed three guiding principles as adjustments were made to the FY09 Budget and FY09-13 Five Year Plan:

1. Preserve Core Services
2. Minimize the impact of any adjustments on Philadelphia's most vulnerable populations
3. Be mindful of the long-term financial and economic implications of any action taken

Summary

These principles were used in making the decisions below:

- There were no police or fire layoffs, no reduction in emergency medical services and all fire stations remained open
- All health centers, after school and summer programming for children, and all emergency, transitional and permanent supportive housing were preserved
- All 172 recreation centers remained open
- Weekly residential trash collection and single-stream recycling continued
- Measures to improve government performance and save money continued, including PhillyStat and 311

However, in order for the Administration to fully address the

situation, major adjustments were necessary. The Administration undertook a full and comprehensive review of all departments and City operations. The result was an adjusted budget in which the burden of sacrifice was shared, exemplified by the following actions:

Find efficiencies:

The Administration identified ways to produce quality services at a lower cost. A conservative estimate of efficiencies identified total \$39 million annually. Below are few examples of programs and government services that could maintain or increase their activities with fewer resources:

- Streets Department—electricity efficiencies and reductions \$1M
- Decommissioning of fire companies to reduce overtime by \$10.5 M

- Division of Technology—IT Consolidation \$850,000
- Reduction in overtime citywide \$18.5 M

Increase revenues:

The Administration has looked to improve collection of the money owed as well as additional revenue generation. Some examples include:

- Enhanced delinquent taxpayer collections \$8.2M (see page 22 for more details)
- Increased Fines and Fees \$4.8 M

Delay tax cuts:

- All tax cuts for FY09 were maintained
- Wage tax reductions funded by state gaming revenues will continue, reducing wage tax rates to 3.7974% for residents and 3.3546% for nonresidents by FY15.
- City-funded tax cuts suspended until FY15, increasing projected revenues by \$230 M

New Investments and Initiatives:

Mayor Nutter’s first budget address and Five Year Plan included a series of increased investments and new initiatives focused in six strategic areas: public safety; education; economic development; healthy and sustainable communities; customer service; and ethics. In light of the economic crisis and its impact on the

City’s finances, the Administration’s signature initiatives were also vigorously reviewed and scrutinized, resulting in difficult – but unavoidable – reductions and delays.

- Cultural Fund was only allocated an increase of \$1 million rather than \$2 million in FY09.
- A \$15 million increase to the Housing Trust Fund over the Five Year Plan has been reduced by half.
- Planned \$4 million increase to the Community College of Philadelphia in FY09 was reduced to \$2 million
- Funding increase for Fairmount Park was delayed, with plans to fully reinstate that increase beginning in FY11
- Small reduction to the funding increase for YVRP

Reduce and eliminate programs:

Despite the savings and additional revenue described above, a significant budget shortfall still remained for FY09. As a result, the Administration was forced to make difficult decisions to reduce programs and services provided by city government.

- Elimination of the Adolescent Violence Reduction Partnership (AVRP)
- Elimination of limited residential street cleaning, snow removal on smaller streets, and dedicated leaf, bulk and tire collections
- Reduced funding for libraries and pools

Personnel Changes

Program and service reductions had a significant impact on city staffing needs. Therefore, as a result of the budgetary crisis, the City reduced its number of General Fund city employees by:

- 800 full time positions
- 2,000 seasonal, part-time and contractual positions

Other workforce impacts included:

- Imposition of salary cuts for Cabinet-level officials, Deputy Mayors, the Managing Director’s Office and Mayor’s Office staff, including Mayor Nutter;
- Requirement of five furlough days for exempt employees earning more than \$50,000 annually in both FY09 and FY10
- Non-union employees did not receive their \$1,100 bonus in FY09

However, working with union leaders, the Human Resources department managed to find hundreds of openings for potentially laid off individuals, thanks in part to the increased scrutiny of all hiring decisions that was instituted in September 2008.

Annualized Values of Budget Balancing Actions for FY09 (in \$ Millions)

Personnel Changes	\$	Efficiencies and	\$	Revenue	\$	Other	\$
Reduction in Overtime	18.5	Facility closures and program eliminations	58.4	Collections from delinquent taxpayers	8.2	Delays or reductions in new initiatives	17.3
Staff reductions	33.6	IT Consolidation	0.9	Selling underused City properties	5.0	Convention Center Payment	17.0
Furloughs	1.7	Contract and Lease Reductions	6.0	Reimbursements for Special Events	3.1		
Salary cuts	0.4	Energy efficiencies and cost reductions	1.0	Increased fines and fees	4.8		
				Other Reimbursements	31.3		
Total Personnel Changes	54.2	Total Efficiencies and Reductions	66.3	Total New Revenue	52.4	Total Other	34.3

Tax Reductions Suspended

Since FY96, the City has committed to annual reductions in the wage tax rate to make Philadelphia more competitive for businesses and jobs. However, to compensate for the recent dramatic decline in revenues, the Administration chose to postpone the City-funded FY10 and future portion of the reduction in the wage tax until FY15, unless economic conditions improve. The overall wage tax will continue to decline due to funds received from State gaming revenue.

As part of the November 2008 rebalancing plan, the Administration proposed and City Council approved legislation suspending planned City-funded rate reductions for Business Privilege and Wage taxes in order to generate needed revenues during this period of economic turmoil. This action was taken in November 2008 and equates to almost \$230 million in projected increased revenues to the General Fund over FY09-FY13.

The BPT cuts scheduled for the FY10 to FY14 Plan will be kept at FY09 rates (see Appendix II) as the City adjusts to the current economic crisis. The planned schedule to phase out the Gross Receipts portion and reduce the

Net Income portion of the Business Privilege Tax is slated to resume in FY15.

The chart below shows the wage tax reductions for both residents and non-residents, as well as the changes to the scheduled tax rates.

Public Participation

One of Mayor Nutter's key priorities is a commitment to public participation. In 2008 and 2009, the City participated in three sets of workshops and meetings, to engage residents in the Administration's priorities and seek public feedback on decisions. For information about 2009 public meetings, see page 27.

April-July 2008

From April to July 2008, the Nutter Administration participated in twelve workshops through the Great Expectations project, a joint venture between the Philadelphia Inquirer and the Penn Project for Civic Engagement. These community workshops, entitled "A City That Works," provided a dialogue between the Administration and the citizens of Philadelphia on the priorities set by Mayor Nutter.

Following a brief presentation on the budget and new performance

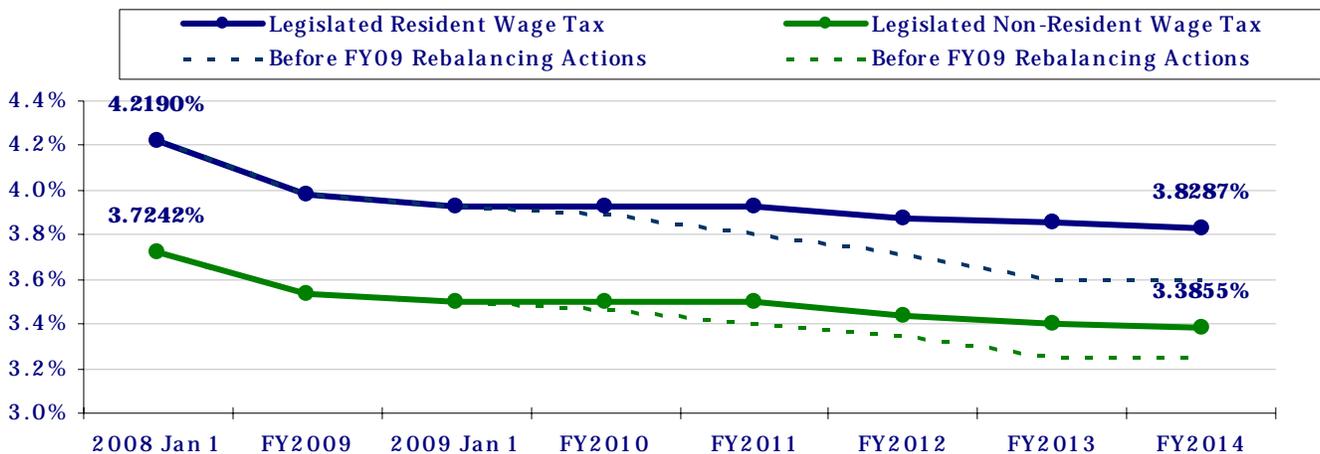
management and customer service initiatives, participants broke into small-group discussions. Each group focused on one of five results: Education, Public Safety, Jobs & Economic Development, Healthy and Sustainable Communities, and Ethics. The final result, Customer Service, was integrated into every discussion.

The Administration used the information and priorities communicated during the forum for future development and refinement of its priorities, performance measures, and customer service standards. For more information, please see www.greatexpectationsnow.com.

November–December 2008

Following the announcement of the FY09 Rebalancing Plan, the Nutter Administration held eight town hall meetings in different neighborhoods throughout the city. These meetings allowed City leadership to explain the financial crisis, its impact on the city, and the changes that were made, as well as the choices that were faced and the process for making these decisions. Citizens were then given the opportunity to ask questions about the decisions and voice any concerns, and an opportunity to be heard by government leadership.

Wage Tax Rate Reductions, 2008-2014



Note: Philadelphia's fiscal year is from July through June of the following year. The resident rate includes 1.5% that is reserved for the Pennsylvania Intergovernmental Cooperation Authority to service debt that is issued on behalf of Philadelphia.

Enhancing Efforts to Collect Delinquent Taxes

The City's Revenue and Law departments are working together on an aggressive campaign to pursue tax delinquents by expanding existing efforts, starting new initiatives, and seeking new collection tools. The most visible part of this effort was launched in November 2008, when Mayor Nutter released the names of the top 50 business tax delinquents. Those delinquents owe the City in excess of \$27 million.

Prior to posting this information, the Law Department sent letters to those against whom it has large judgments, notifying them of the intent to post their names and judgments if they do not pay or enter into agreements to pay the judgments against them. To date, the list has generated \$1.4 million in payments and commitments to pay another \$1.4 million from this initiative. The list, which appears on both the Law and Revenue Departments' websites, was updated in mid-March 2009 and has garnered significant media attention.

In the past few months, an emphasis has been placed on identifying non-filers of the parking tax. Investigators have been active in the area around the stadiums during games and events, and non-compliant operators have been contacted. Thus far new investigations have yielded \$382,000 in assessments, and further enforcement efforts are ongoing.

In addition to publishing lists of business tax delinquents and expanding parking tax enforcement, the Departments have begun or enhanced several other initiatives to improve delinquent tax collections. The list includes:

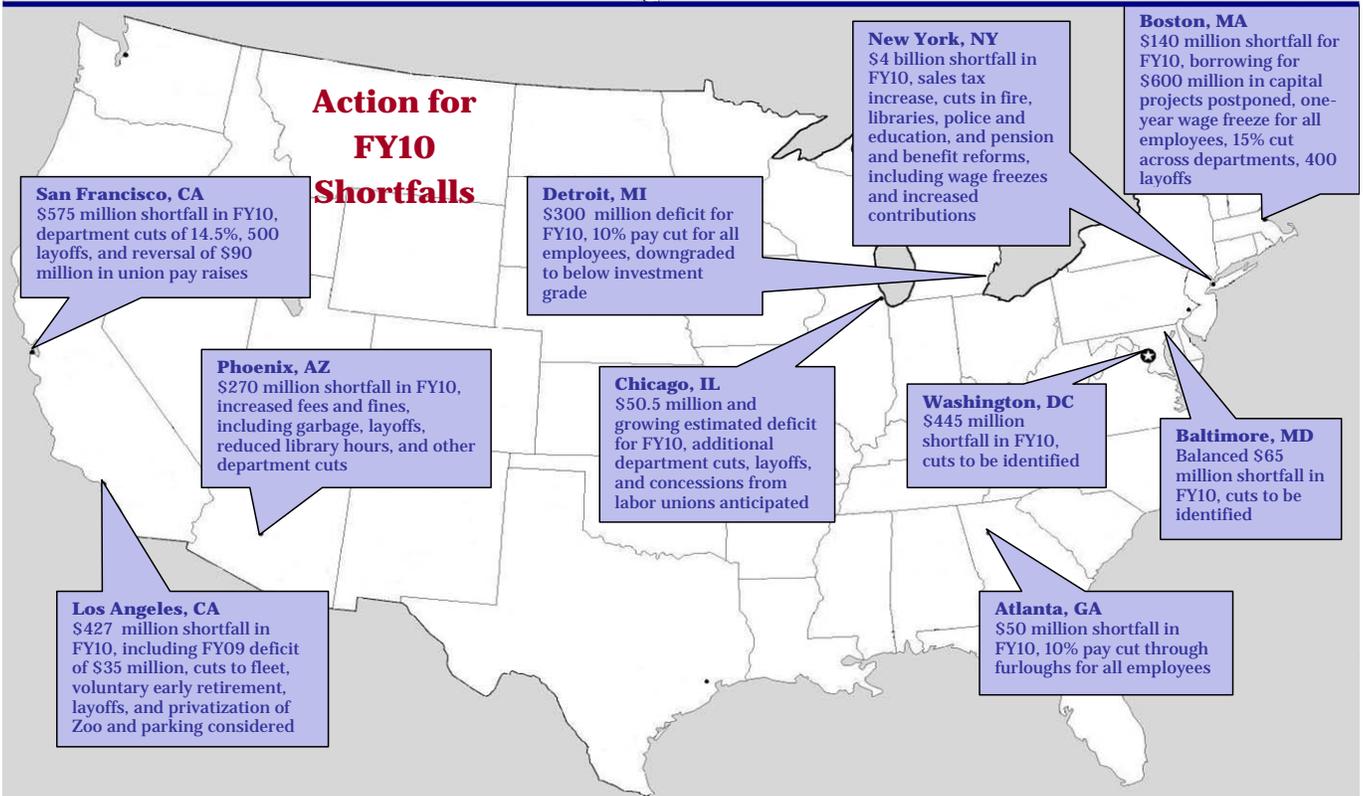
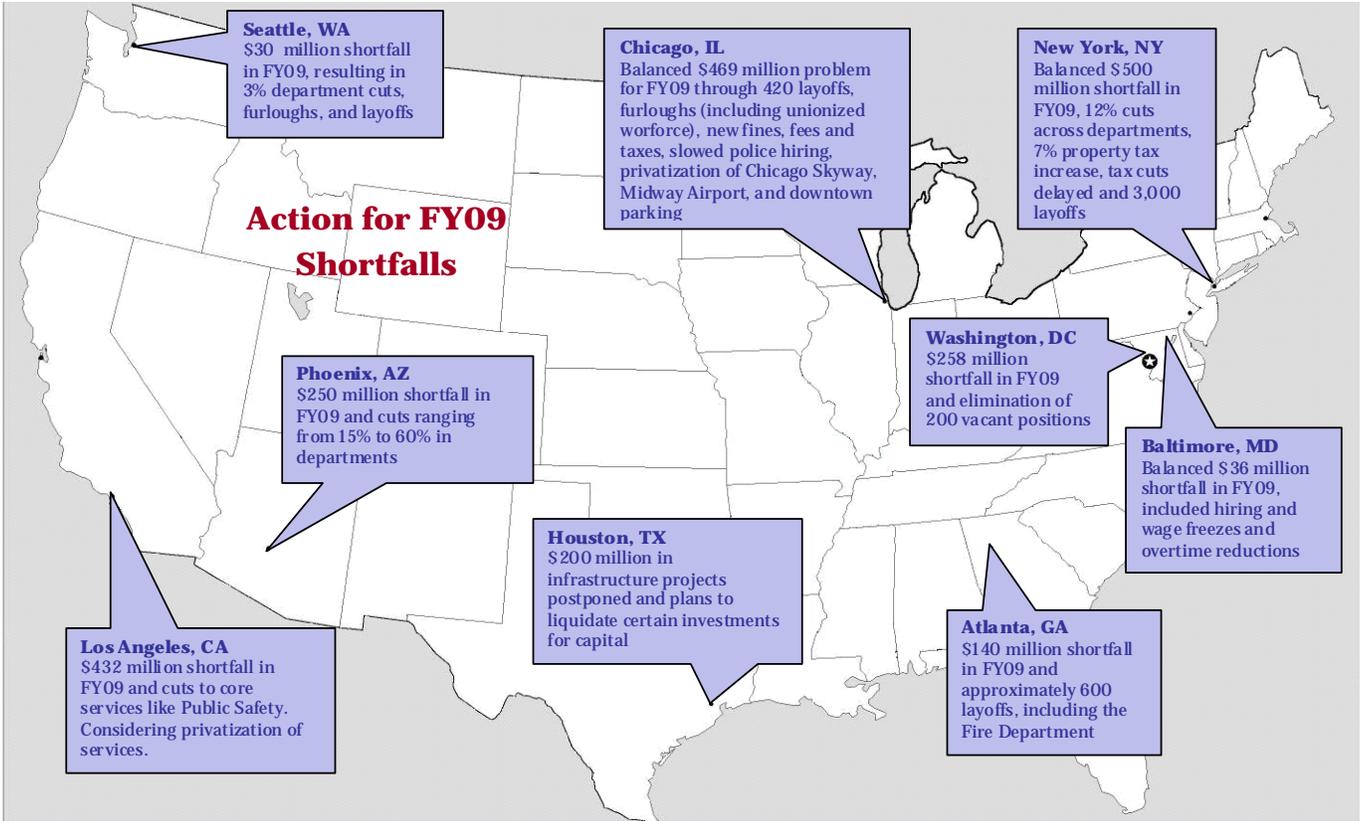
- Continue to post real estate tax delinquents' information on-line
- Enhance audit functions by increasing audit staff, introducing correspondence audits and returning to travel audits
- Match firms' wage tax and business location information against business privilege filings
- Increase matching of City returns with federal tax returns, including expanding outreach to school income tax filers based on IRS dividend data
- Expand the use of collection agencies for real estate and other taxes, water and sewer charges, certain Licenses & Inspections charges, nuisance violations, security alarm charges and, possibly, bail judgments
- Support legislation to transfer payment of outside collection agencies' charges and fees from the City to delinquent taxpayers
- Change City tax regulations to remove an exclusion from the business privilege tax for certain real estate entities (deemed REITs) and to clarify that business activities undertaken by non-profits are taxable
- Expand the existing program to revoke existing business privilege licenses for non-payment of taxes
- Improve public education and outreach to taxpayers through newsletters, website improvements, public service announcements and attendance at community events
- Introduce a tax fraud hotline for individuals to report suspected fraud

Furthermore, the Departments plan to implement the following initiatives in FY10:

- Increase tax payments by commercial vendors on nominally tax-exempt properties (properties leased from authorities or non-profits that are tax exempt)
- Create an acceptable and defensible allocation formula to require visiting sports teams to pay media income for games played in Philadelphia

Other Municipalities

The effect of the weak economy on Philadelphia’s budget cannot be overemphasized. Unfortunately, Philadelphia is not alone. The gap between state and local revenues and expenditures grew to record proportions - over \$100 billion - in the third quarter of 2008, according to the Bureau of Economic Analysis. As a result, State and City governments across the United States have been required to take significant action to address large projected budget shortfalls. The maps below show how other cities have dealt with the crisis—both in FY09 and for FY10.



The Impact of the Federal Stimulus Package on Philadelphia's Budget

The American Recovery and Reinvestment Act of 2009 ("the Recovery Act") was signed into law by President Obama on February 17, 2009. The City has and will continue to aggressively pursue all resources available under Recovery Act, but despite its potential to stimulate the economy through job creation, it appears that it will not provide substantial assistance in closing the City's five-year gap.

The Recovery Act is a mix of appropriations (almost \$500 billion) and tax provisions (almost \$300 billion). The largest category of appropriations is for State Fiscal Stabilization Fund and State Fiscal Relief for a total of \$144 billion in health and education funding, including \$54 billion for K-12 and higher education funding. The states were the clear winners in the allocation of Recovery Act dollars and Pennsylvania in particular was able to fill gaps in the state budget with these Federal funds.

There are real opportunities in the Recovery Act for Philadelphia; however, most funding will not be able to be used to balance the City's budget. Many of the titles through which the money will flow contain provisions that prevent Federal funding from being substituted for existing local funds such as the Community Development Block Grant (CDBG). Others have conditions that make them difficult for the City to use under the requirements of the balanced Five Year Plan, such as COPS. And still other titles will flow through competitive or discretionary grant-making, either directly from the Federal government or through the Commonwealth. All of these factors make the Recovery Act an uncertain and complex foundation for budgeting.

The appropriations section of the Recovery Act contains 198 funding opportunities managed by 29 federal

Total Funding Opportunities by Federal Department	
Department	Funding Opportunity
HHS (including State Fiscal and ONCHIT)	\$123,313 M
Education (including State Stab Fund)	\$ 95,932 M
Transportation	\$ 48,710 M
Energy	\$ 40,310 M
COBRA Premiums	\$ 24,700 M
Agriculture	\$ 12,017 M
Housing and Urban Development	\$ 11,610 M
EPA	\$ 7,620 M
Defense	\$ 7,265 M
GSA	\$ 5,850 M
Army Corps	\$ 5,155 M
Labor	\$ 4,720 M
NTIA (Broadband)	\$ 4,000 M
Justice	\$ 3,980 M
NSF	\$ 3,002 M
Homeland Security	\$ 2,750 M
Interior	\$ 2,030 M
Commerce	\$ 1,800 M
Veterans Affairs	\$ 1,400 M
NASA	\$ 1,002 M
Reclamation	\$ 1,000 M
NOAA	\$ 836 M
SBA	\$ 651 M
NIST	\$ 580 M
Treasury	\$ 180 M
Indian Health Service	\$ 88 M
NEA	\$ 50 M

departments and agencies. The totals by Federal department are listed on the left.

The funding details of the Recovery Act remain a work in progress. Some formula allocations are being adjusted through waivers (e.g., Department of Justice programs) or new interagency agreements (e.g., Housing and Urban Development and Department of Education). The City expects guidance from Federal agencies throughout March and April on eligibility and allocations, and application deadlines will begin in May. The most defined areas to date relate to funding realms (e.g., education and transportation) that affect our local partners more than the City of Philadelphia (e.g., The School District and SEPTA.)

However, the Administration has made some estimates of local funds that the City may expect through formula allocations and that it may seek as competitive or discretionary grants. This filter allows the City to focus for present purposes exclusively on those funding opportunities for which the City government is an eligible applicant. So far, \$82.5 million in five formula allocations have been identified. However, many of these contain provisions that prevent Federal funding being used as a substitute for existing funding.

Potential Funding through Formula Allocations for Philadelphia

Dept.	Funding	Amount
Justice	Byrne Grants	\$13.5 M in
Energy	EECBG	\$27 M in
HHS	CSBG	\$6.5 M in
HUD	CDBG	\$14 M in
HUD	Homeless Prevention	\$21.5 M in formula grant

In addition to these formula grants, the Administration has identified 17 competitive or discretionary funding opportunities for which the City is an eligible applicant. These funds cannot be counted on in the budget process because there is no guarantee that the City may win the funding.

Potential Competitive Funding Opportunities for Philadelphia

Department	Funding Opportunity	Amount
Agriculture	Watershed Rehab	\$50 M US pool in competitive loans
Commerce	Economic Dev Assistance	\$150 M US pool in competitive grants
Justice	Byrne Competitive Grants	\$225 M US pool in competitive grants
Justice	COPS	\$1000 M US pool in competitive grants
Justice	Housing for Victims	\$50 M US pool for competitive grants
Energy	EECBG	\$400 M US pool in competitive grants
Energy	Weatherization	\$259 M PA pool in discretionary grants
Energy	State Energy Program	\$ 130 M PA pool in discretionary grants
Reclamation	Water Resources	\$1000 M US pool in competitive grants
Homeland Security	Firefighter Grants	\$210 M US pool in competitive grants
EPA	Brownfields Projects	\$100 M US pool in competitive grants
EPA	Diesel Emission Reduction	\$300 M US pool in competitive grants
HHS	Prevention and Wellness	\$1000 M US pool in competitive grants
NEA	Job Creation in the Arts	\$50 M US pool in competitive grants
HUD	NSP	\$2000 M US pool in competitive grants
HUD	Lead Hazard Reduction	\$100 M US pool in competitive grants
NTIA	Broadband expansion	\$4700 M US pool in competitive grants

In addition to these funding opportunities for General Fund operating departments, there are opportunities estimated to yield up to \$120 million in Capital funding for the Water department. The exact allocation will be determined over the next few months. And finally, there are funding opportunities available to non-City entities that will create value for the City, including:

Potential Funding Opportunities for Non-City Entities

Non-City Agency	Funding
Workforce Investment Board	\$13.8M in formula grants
Workforce Investment Board	\$500 M US pool for competitive grants
School District	\$255 M in formula grants
SEPTA	\$90 M in formula grant
DVRPC	\$81.6 M in formula grants

All Recovery Act funding opportunities will become clearer over the coming weeks and months.

Proposed State Budget Changes

Impact of State Funding on Health and Human Services

While much attention has been focused on the potential devastating service cuts the City has had to consider in order to balance the budget in its Five Year Plan, funding for Department of Human Services (DHS) programs is imperiled by a potentially significant cut in state funding on two primary fronts.

Each year DHS submits a plan and budget for the care of abused, neglected, and at-risk children and for children who are part of the juvenile justice system to the state Department of Public Welfare, Office of Children, Youth, and Families (OCYF), called the Needs-Based Plan and Budget (NBPB). This is an estimated budget, as the state is mandated to pay for reasonable and relevant costs that counties incur for the care of these children. At the end of each year's NBPB, the state and city reconcile the difference between the NBPB amount that is certified and the actual expenditures. The difference is called "overmatched" dollars and represents City general funds that are used to pay for services not certified by the state. The state responds to the proposed NBPB plan in the winter of the year preceding the plan's adoption. The City and state negotiate in the spring, with a final, certified plan funded for the upcoming fiscal year.

The most recent plan and budget were submitted in August 2008. The state has responded to this proposed NBPB with a tentative allocation for the City for FY10 that is \$40 million less than the State's revised certified FY09 allocation and \$69.2 million less than the City's projected expenditures for FY09 (and less than the amount actually spent in FY08). In its response to the City's proposed FY10 NBPB, OCYF removed key programs from the NBPB process and allocation and placed them into separate special

grants programs. These funds, taken from the *child welfare* line in the State budget, lower the amount available for the NBPB, and leave these grants to the discretion of the Deputy Secretary of Public Welfare. This action reduces the base funding level in Philadelphia's budget and eliminates the due process built into the NBPB law and regulations.

The dollars that the state and City use to support needed services for children who are part of the DHS child welfare system, for programs such as Out of School Time/After School programs, come from a number of sources. One of the largest is Act 148, the State's primary source of funding for the needs-based budget. The State's FY10 tentative state Act 148 allocation is \$381.1 million, which is \$20.4 million less than the FY10 projected need in Act 148 funding. Because the City pays approximately 20% of the cost of child welfare, the City would have to cut approximately \$25.5 million in services to children and families to make up for the shortfall.

The Department of Behavioral Health and Mental Retardation Services receives 99% of its funding through the Commonwealth. The Department provides services ranging from hospitalization or residential placement for treatment of behavioral health issues to case management and other community supports, with a focus on prevention, wellness and self-determination.

Due to the large proportion of State dollars supporting these services, any decrease in the Commonwealth's budget has a direct impact on services in Philadelphia. For FY10, the Department anticipates a decrease in State dollars, based on the Governor's proposed budget. The decrease may affect community services to people with mental illness and substance abuse issues.

Of more concern, is a proposal by the Department of Public Welfare to reduce the amount of risk and contingency reserves allowed to be held by counties for Medical Assistance behavioral health services. If the State reduces the amount of the counties' reserves, this may affect the City's ability to fund programs for people without health insurance.

These dollars support a variety of programs developed in support of the Mayor's Homeless Strategy including 55 safe haven beds as well as case management services to individuals living on the streets and in the shelter system. These supports provide a first step for individuals ready to stop living on the street and ongoing social services that allow individuals to sustain permanent housing.

The Department's transformation initiatives are also supported with reinvestment funds. These include programs established in the community as alternatives to traditional treatment. Programs like this allow individuals to drop-in and connect with other community resources and engage with peers in their fight against addiction. These dollars also fund a program to support the treatment system through intensive training and clinical support for staff in the delivery of cognitive therapy (an evidenced-based practice).

The second key area of investment is the \$12 million in support of the Behavioral Health Special Initiative (BHSI) program. Without the ability to continue to utilize reserves in excess of 45 days (the current standard), the City would lose the ability to provide services to about half of the approximately 10,000 individuals (many of them people waiting to be approved for medical assistance or not in the HealthChoices plan) currently supported through BHSI programming.

Public Input and the FY10-14 Budget Process

Budget Process with Public Engagement



Mayor Nutter at Dr. Doreen Loury's Kitchen Table meeting, East Oak Lane

In order to close the \$1.04 billion projected deficit for FY10-14, the Nutter Administration launched Philadelphia's most public and transparent budget process to date. There were several components to the public outreach. Beginning in late January, 2009, there were five PhillyStat-style sessions on the budget. The first two "BudgetStat" sessions concentrated on a general overview of Philadelphia's demographics, economic situation, and financial structure. The following three sessions then concentrated on a specific area and its related challenges: Public Safety, Economic Development, and Health and Opportunity. Concurrently, each department submitted scenarios illustrating 10%, 20%, and 30% cuts, and their related

impacts. These scenarios were posted on phila.gov for public consumption.

Using these same scenarios, the Penn Project for Civic Engagement and WHYY created a worksheet of options that were representative of the choices that the Administration faced when addressing the deficit. These worksheets were used in four workshops held throughout the city. During the workshops, the citizens in attendance broke out into small groups, where they discussed and deliberated on the choices. Each option was assigned a point value reflective of its actual monetary value, using a scale of one point being equivalent to \$2 million. The object for each group was to reach 100 points, or \$200 million – the average annualized value of the five-year deficit.

In each of the groups, there was also a member of the Administration present who was able to clarify explanations, answer questions, and listen to the priorities and concerns of the citizens. Additionally, citizens were given the option to voice their opinions through video testimonials and the "Wailing Wall," where thoughts could be posted anonymously in the form of post-it notes. All of this information and data was captured and analyzed, and presented in a comprehensive report to the Mayor.



A group debates the pros and cons of departmental cuts and revenue enhancements at the Community Budget Workshops (Photograph courtesy of Patrick Cobbs)

Additionally, the Administration sought input from three other sources – individual members of the public, the workforce and key stakeholders. Mayor Nutter embarked on a personal tour of the city, visiting diners, kitchen tables, barbershops and family basements to talk one-on-one about what the crisis means to Philadelphians and the city. The Managing Director's Office distributed a survey to the City workforce asking for recommendations on cost savings, efficiencies, and duplication of services. The survey yielded over 900 responses. Meanwhile, the relevant Deputy Mayors and Mayor's Office staff met in small groups with key stakeholders to give them the opportunity to voice concerns and contribute suggestions for handling the financial crisis.

All of these forms of input culminated in a final "BudgetStat" session in early March, where information from every aspect of the public engagement strategy was presented by the Mayor to the public and City Council. Using this input, the Mayor was then able to make the decisions that are reflected in this Plan.



The crowd gathered at the second Community Budget Workshop at Mastery Charter School (Germantown) organized by the Penn Project for Civic Engagement (Photograph courtesy of WHYY)

Addressing the FY10-14 Shortfall

Preserving Services and the Foundation for Economic Growth

The current recession has created a series of difficult choices for local governments around the country, as the map on page 23 illustrates. Many cities have resorted to deep reductions in services and staff to balance their budgets. The Administration has carefully considered its options for balancing the FY10 budget, just as it carefully considered the measures it implemented in the November 2008 rebalancing plan. The Administration has prioritized the collection of unpaid and delinquent taxes, implemented efficiencies in the delivery of services to residents and workers who commute into Philadelphia, and sought a series of concessions from employee unions in order to lower the cost of municipal services. As described earlier, the Administration will continue to pursue these priorities in the FY10-14 balancing plan because Philadelphians deserve the most effective and productive workforce and city services that can be provided.

However, the deepening recession has made it impossible to close the emerging budget shortfall solely through actions designed to make Philadelphia's government more efficient. The Administration's plan to close the shortfall, relies on \$30.6 million in annual reductions to services, \$14.5 million in annual efficiencies, \$16.4 million in increased fee revenue, totaling \$296.5 million over 5 years, and over \$300 million in labor concessions and salary freezes that the Administration is seeking from the City's employee unions over the Five Year Plan. Unfortunately, the \$600 million in savings over 5 years that these actions will produce, along

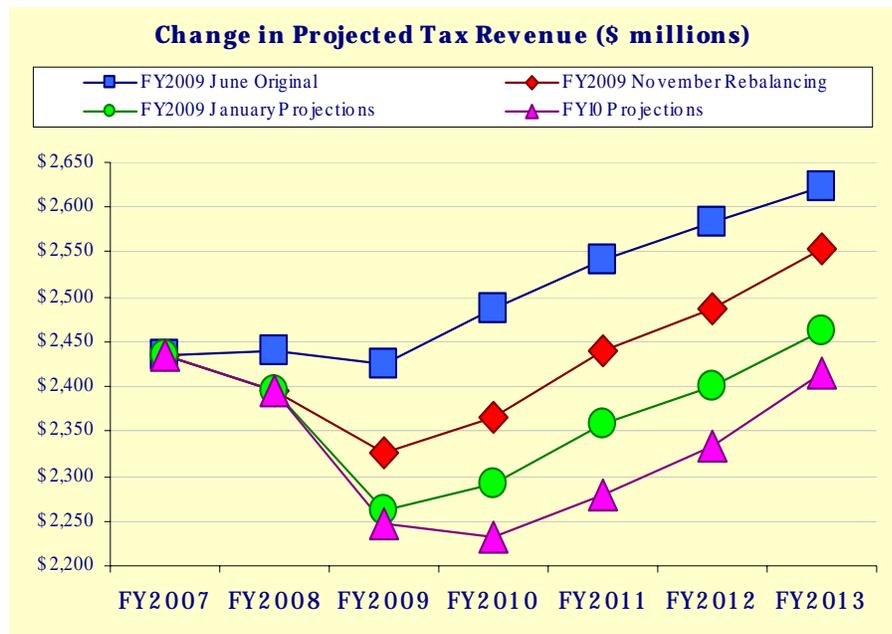
with \$331 million in savings associated with changes in the City's pension contribution formula, is insufficient to address the City's projected shortfall. Consequently, the Administration must raise taxes to close the remaining portion of the shortfall.

The decision to raise taxes was not taken lightly, especially since the November 2008 suspension of rate reductions in the wage tax and the business privilege tax raised \$230 million in revenue between FY09 and FY13. However, the damage to the City's economy that would occur if the Administration tried to close the remaining gap with service reductions or additional wage and business privilege tax increases would be severe and long-lasting. Closing the gap solely with expenditure reductions would require an additional \$222 million in annual reductions in FY10 and FY11, which would decimate the City's core services and damage the city's economy as a number of studies have argued. For example, Upjohn Institute economist Timothy Bartik observes that, "public services can

actually increase state and local growth,"^{iv} while New York University and former World Bank economist William Easterly believes that, "governments can kill growth by doing ... too little public service provision."^v Similarly, as Wharton economist Robert Inman has found, high levels of taxation on wages and businesses have driven jobs and businesses from Philadelphia, to the detriment of the City's economy.^{vi}

The Administration believes that temporary tax increases provide the best option to preserve Philadelphia's core services until the national and local economies rebound and revenue growth returns to some measure of its pre-recessionary levels. And the temporary nature of the increase in rates will limit the damage that would otherwise be done to long-term economic growth if deeper service reductions or higher wage and business taxes were enacted.

The graph below shows the significant losses to the City's projected tax revenue from FY07 to FY13, as of March 2009.



Cash management

Managing the City's cash flow is of critical importance in preparing the budget. The Budget Office forecasts monthly cash flows, estimating receipts and disbursements each year over the five year plan. Without these estimates, the City would not know how much is needed for its operations and how much money will be required to support its planned spending.

With a large budget such as Philadelphia's, the balance each month should be above \$100 million in order to ensure that it will not run out of cash to pay its employees, contracts and other expenditures as large payments can lead to substantial swings in daily cash balances. However, with the recession creating dramatic losses in revenues, the City has forecast that without intervention, either through departmental cuts or increased revenue, the City could have run out of cash before the end of calendar 2009. In order to balance the FY10 budget and FY10-14 Five Year Plan and prevent this devastating situation from occurring, the City has looked to short-term, phased out tax increases to fill the projected gaps while meeting its cash needs. (See page 32 for more information.)

Departmental Balancing Actions

Each department submitted a proposal outlining how they may reduce spending or raise revenue to meet a 10%, 20% or 30% reduction in their department's funding.

The submissions generated several different options for the Mayor. Some departments suggested innovative revenue ideas, such as charging a fee for trash collection from commercial establishments, while others focused on preserving their core department functions and reducing the items that were not deemed to be their priorities.

From these lists, and with input

from citizens and employees, the Mayor found savings of \$60.6 million each year for the life of the plan from departmental reductions and fee increases. Details of all balancing actions are provided in Appendix II.

Efficiencies

From these departmental reductions, the City estimates that **\$14.5 million** can be generated annually through efficiencies. These include:

- Overtime reduction—**\$2 million** (Police, Recreation, Public Property, Licenses and Inspections)
- Sustainable litter basket (discussed on pages 46-48)—**\$875,000**
- Waste minimization (discussed on pages 46-48) —**\$2 million**
- Incentive Based recycling (discussed on pages 46-48)—**\$1.5 million**
- Fleet reduction—**\$1.5 million**
- Energy efficiencies across departments (see page 48)—**\$1.5 million**
- Instituting a utilization review process related to prescription medications—**\$1.125 million**

Fee Increases:

The City plans on generating almost **\$16.4 million** annually through new fees and fee increases. Some examples include:

- Increasing fire EMS fees to bring in **\$5 million** in revenue
- Enacting fees for commercial trash collection, bringing in **\$7 million** in revenue
- Increasing fees in the Records department by \$30, generating **\$2.4 million** in revenue
- Charging a sliding-scale fee for uninsured patients at the City's Health Centers, generating **\$766,500**

Reductions

Over **\$30 million** in departmental reductions have also been generated. Some of the major changes to Departmental budgets include:

- Reducing demolitions, saving the City **\$2.1 million**
- Freeze civilian police hiring, saving over **\$700,000**
- Eliminating some over-the-counter medications at City Health Centers, saving **\$375,000**
- Eliminating approximately 250 positions, saving more than **\$11 million**

What the City Learned from Public Engagement

In their Executive Summary, the organizers of the Community budget workshops, write that a consistent theme emerged among citizens: they would accept tax and fee increases if it meant the preservation of core services, including public safety, health, and housing. Citizens also expressed a preference that layoffs should be a last resort – the Administration should continue to find efficiencies and consolidations wherever possible. Lastly, participants were enthusiastically supportive of the Administration tackling several long-term challenges, including pensions and healthcare.

Citizen feedback has been a crucial factor in this year's budget process. Suggestions and feedback from employees and residents have helped inform the decisions proposed in this Five Year Plan.



Mayor Nutter seeks input on the budget at a beauty salon in Germantown

Labor Agreements

The City’s labor agreements with its four major bargaining units expire on June 30, 2009. As part of the overall strategy for addressing the City’s \$1.04 billion five year plan deficit, the cost of wages and benefits for City employees must decrease by at least \$25 million in the first year of the plan, and by at least \$125 million over the life of this Five Year Plan. Dividing that \$25 million among the four unions (along with exempts and non-represented employees) based on their percentage of the current City payroll, requires annual reductions of Fraternal Order of Police costs by at least \$8.7 million, the International Association of Fire Fighters costs by at least \$2.7 million, and AFSCME District Councils 33 and 47 costs by a combined total of at least \$9.1 million. Exempt employees costs would be reduced by at least \$3.3 million and non-represented employees costs would be reduced by at least \$1.2 million.

Although wage freezes can slow the growth of payroll overall, such steps will not be enough to achieve the significant savings in the City’s employment costs that the City’s financial situation requires. Rather, achieving a balance between the employment needs of workers and the City’s ability to continue to provide key services to the public requires an actual reduction in the per employee cost of wages and benefits. Toward that end, the City proposes a number of changes that seek to bring the benefits of the City’s workers more in line with those of the City’s citizens and taxpayers, give the City greater flexibility to be smarter and more efficient in the provision of City services and reduce unnecessary costs, including excess overtime.

This includes achieving long-term savings through a new pension plan for newly-hired and non-vested employees. As part of the Administration’s proposal to generate these savings, the City is submitting an

application to the Pennsylvania Employee Retirement Commission to have Philadelphia’s pension fund declared “severely distressed” – the highest level of distress. Along with that declaration of severe distress comes an obligation to make significant changes to the pension fund to reduce employee costs. This new plan will provide a guaranteed level of benefits - lower than the benefits under the current plan - to employees who work for the City for a number of years and allow those who want higher benefits to contribute more of their own money and have the City match a portion of it.

The City also proposes changes in health benefit plans to reduce costs in both the short and long-terms. In addition, the City is seeking immediate relief from its current pension liability by proposing higher levels of contributions by existing employees towards their future pension benefits.

Other immediate cost savings proposals target elimination of expensive contract provisions including: the requirement that all Police Officers and Fire Fighters be guaranteed vacation during the limited summer months, as opposed to distributing leave time year round, leading to high overtime costs to replace vacationing employees; limitations on the City’s ability to change work schedules efficiently; staffing mandates; and guaranteed overtime far above what the law requires. Similarly, the City seeks to reduce the number of paid holidays from an extraordinarily high twelve holidays (including each Police Officer’s birthday) to nine holidays.

Wage Reserve Eliminated

The Five Year Plan for FY09-13 allocated \$402.9 million over the five years of the Plan in a separate line for funding wage and/or benefit increases that had not yet been negotiated with the City’s employee bargaining units. With the FY10-14 Plan, this reserve has been completely eliminated.

Changes in the Pension Fund Assumptions

Another way the City is seeking to generate savings over the FY10-FY14 plan is by making actuarial changes to its pension fund assumptions. In February 2009, the Philadelphia Board of Pensions and Retirement proposed to lower the assumed return on the pension investments from 8.75% to 8.25% and spread out the fund’s earnings and losses from five to 10 years, provided that a 40 year amortization schedule for the payment of Philadelphia’s unfunded liability is enacted into Pennsylvania law.

The estimated savings of these changes total over \$330 million to the City’s General Fund, assuming a 30% loss on the pension fund’s earnings during FY09. The net impact of all three steps of these pension changes will be to lower the amount the City is required to contribute to the pension fund over the next five fiscal years, and increase its ability to fund existing liabilities in the long-term.

The proposed changes to the pension fund assumptions have been tested by the City’s actuary and have been determined to be actuarially sound. According the City’s actuary, “each of these changes is individually supportable and in the aggregate provides a system of funding that recognizes the current funded status and implications for the City while providing a long-term approach to meeting the obligations to continue to provide retirement benefits.”

Projected Savings from Changes in Pension Fund Assumptions	
	\$
FY10	-\$932,000
FY11	\$130,943,000
FY12	\$60,210,000
FY13	\$72,166,000
FY14	\$69,254,000
Total	\$331,640,000

Additional Pension Initiatives

In addition to the pension cost-savings the City seeks to achieve through labor negotiations and changes to pension fund assumptions (see previous page), additional efforts to reduce costs and strengthen the health of the pension fund are being pursued:

- **Deferred Retirement Option Plan (DROP) Account Balance Interest Rate**

The Administration transmitted legislation to City Council in mid-March to change the interest rate applied to DROP account balances from a fixed rate to a variable, capped rate. The guaranteed earnings rate on DROP accounts is now a fixed 4.5%, which is damaging during years when the market decreases. The legislation introduced would ensure that the earnings rate for the accounts will equal the earnings rate for the pension fund for the previous year, with a cap of half of the pension fund's assumed earnings rate. This modification to a variable DROP earnings rate with a cap protects the health of the fund in years when earnings are weak.

- **Pension Adjustment Fund Contributions**

Another bill introduced in mid-March would amend the provisions governing when contributions are made into the Pension Adjustment Fund. Those contributions are used to provide cost of living adjustment for pensioners. If passed, the legislation would reinstate the minimum funding level established as of July 1, 1999 – a level of 76%– before any contribution to the pension adjustment fund would occur. The legislation would also require that the valuation of the pension fund, for cost-of-living adjustment purposes, be done using a ten-year rather than a five-year period. Spreading out the pension fund's losses/earnings from five years to ten years protects the pension fund's health because it eliminates dramatic fluctuations from year to year.

The pension fund is only funded at roughly 55% and, as a result of this year's market losses, that funding percent is likely to decline further. Because there is currently no minimum funding level requirement for the pension fund, the pension fund has been required to contribute more than \$65 million to the pension adjustment fund over the past two years (FY08 and FY09). While these costs cannot be recouped with the proposed legislation, the proposed changes can improve the future health of the pension fund by assuring that contributions are made only when the pension fund is healthy enough for such added obligations.

- **Elected Officials and DROP**

The Administration transmitted legislation to City Council in late-March to terminate elected officials' eligibility to enroll in the Deferred Retirement Option Plan (DROP). In large part, DROP was intended to provide the City with the ability to do succession planning for employees because once an employee enters DROP, that employee will leave City employment within a defined period of time. That benefit does not exist with elected officials whose tenure is decided by the voters. The Administration has consistently maintained that it is not appropriate for elected officials to enter the DROP and strong feedback from the public during community budget workshops reinforced that view. If adopted, the legislation would be effective January 1, 2010.

- **Annual Report on the State of DROP**

Together with legislation to terminate elected officials' eligibility in DROP, the Administration transmitted legislation to City Council in late-March to require that the Pension Board produce an annual report on the state of DROP no later than 60 days after the close of each fiscal year. If adopted, the report will include recommendations for retaining, revising, curtailing or terminating DROP.

- **Impact Study of DROP**

In mid-March, the City issued a Request for Proposals (RFP) for an impact evaluation of Philadelphia's DROP program. The purpose of the RFP is to commission a study to determine the effect of DROP on employee behavior. The results will be used to determine if the program is achieving its intended goals, its net cost, and whether it should continue in its current form.

Temporary Revenue Increases

As part of the plan to balance the FY10 budget and FY10-14 Five-Year Plan the Administration is proposing two temporary tax increases: an increase in the sales tax from the current 7% to 8% for FY10 through FY12 or from July 1, 2009 to June 30, 2012; and an increase in the property tax from 82.64 mills per \$100 of assessed value to 98.64 mills

Revenue Enhancements for FY10-14 (in thousands)						
	FY10	FY11	FY12	FY13	FY14	Total
Temporary Property Tax increase	\$153,934	\$117,694	-	-	-	\$271,628
Temporary Sales Tax Increase	\$106,475	\$116,514	\$118,716	-	-	\$341,705

for FY10, followed by a reduction to 94.64 mills in FY11, with a reduction back to the FY09 level of 82.64 in FY12.

The table above shows the main revenue enhancements used to balance the FY10-14 budget.

Temporary Sales Tax Increase

To balance the Five Year Plan, the Administration has proposed to temporarily increase the City portion of the sales tax from 1% to 2%. The effective sales tax rate in Philadelphia will therefore rise from 7% to 8% for FY10 through FY12. Beginning in FY13, the sales tax rate will revert back automatically to 7%. This proposed sales tax increase requires State authorization.

According to current revenue projections, a 1% sales tax increase for

Estimated Annual Sales Tax Burden for a Hypothetical Family of Three in Philadelphia, 2007			
	Current 7% Sales Tax Burden Amount	Change in Burden with 1% Increase	Sales Tax Burden Amount with a 1% Increase
\$25,000 family income	\$566	\$81	\$647
\$50,000 family income	\$803	\$115	\$918
\$75,000 family income	\$1,046	\$149	\$1,195
\$100,000 family income	\$1,491	\$213	\$1,704
\$150,000 family income	\$1,645	\$235	\$1,880

Source: Government of the District of Columbia, (August 2008) "Tax Rates and Tax Burdens - in the District of Columbia - A Nationwide Comparison. 2007"

FY10 through FY12 will generate \$341.7 million in revenue for the General Fund.

Temporary Property Tax Increase

As part of the City's effort to protect core city services while closing the \$1.04 billion shortfall, the Administration has proposed a temporary real estate tax increase of 16 mills for FY10 and a 12 mill increase for FY11. Currently, Philadelphia's real estate rate is 82.64 mills, divided between 33.05 mills for the City and 49.59 mills for the School District of Philadelphia.

The proposed temporary tax rate increase will change that rate from 82.64 mills to 98.64 mills for FY10 and 94.64 mills for FY11. Beginning in FY12, the real estate tax rate will revert back to 82.64 mills.

According to current revenue projections, a 16 mill real estate tax increase for FY10 and a 12 mill increase for FY11 will generate \$271.6 million in savings for the General Fund.

The City has analyzed the

Estimated Annual Real Estate Tax Burden for a Hypothetical Family of Three in Philadelphia, 2006					
	Current 82.64 mill Real Estate Tax Burden	Additional Tax Burden		New Real Estate Tax Burden	
		16 Mill Increase	12 Mill Increase	16 Mill Increase	12 Mill Increase
\$25,000 family	\$1,577	\$305	\$229	\$1,882	\$1,806
\$50,000 family	\$2,303	\$446	\$334	\$2,749	\$2,637
\$75,000 family	\$2,532	\$490	\$368	\$3,022	\$2,900
\$100,000 family	\$2,840	\$550	\$412	\$3,390	\$3,252
\$150,000 family	\$3,490	\$676	\$507	\$4,166	\$3,997

Note: Property taxes are based on 20% of estimated annual rent at the \$25,000 level. Source : Government of the District of Columbia, (November 2007) "Tax Rates and Tax Burdens - in the District of Columbia - A Nationwide Comparison. 2006"

estimated tax burden residents will face by 16 and 12 mill temporary increases in the real estate tax rate. The table above shows the annual impact of the

16 and 12 mill increases on the average family in Philadelphia depending on family income levels.

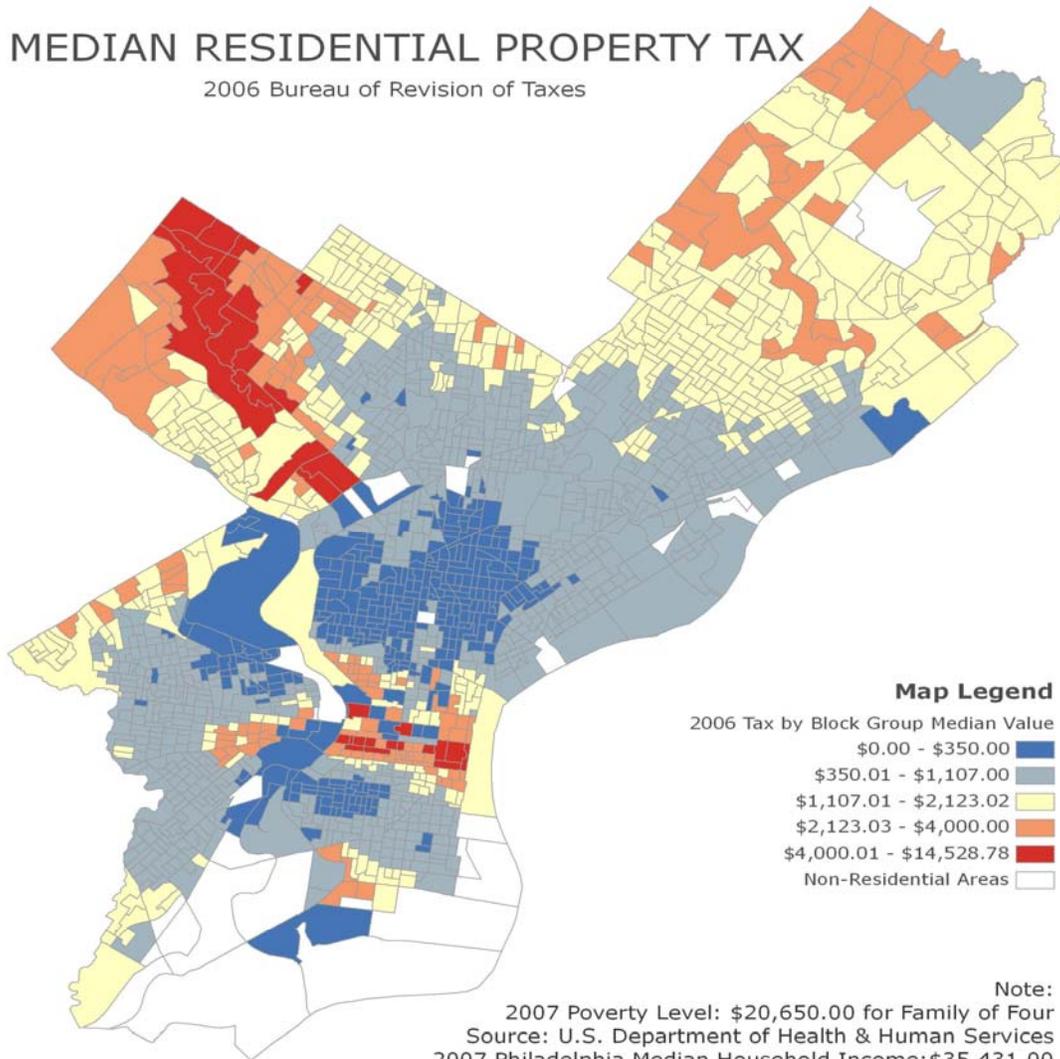
Using data from the U.S. Census and the City's Board of Revision of Taxes, the annual impact of a 16 mill real estate tax increase on sample homes in different areas of Philadelphia are shown below.

Estimated Annual Real Estate Tax Burden for Sample Homes in Philadelphia

Philadelphia Neighborhood	2006 Assessed Value	2006 Property Tax	2010 Property Tax with increase of 16 mills,	Estimated increase in property tax, 16 mills
Chestnut Hill	\$80,518.72	\$6,654.07	\$7,942.37	\$1,288.30
Rittenhouse	\$53,421.16	\$4,414.72	\$5,269.46	\$854.74
West Mount Airy	\$37,827.80	\$3,126.09	\$3,731.33	\$605.24
Somerton	\$25,739.33	\$2,127.10	\$2,538.93	\$411.83
Pennypack	\$21,257.86	\$1,756.75	\$2,096.87	\$340.13
Roxborough	\$19,576.45	\$1,617.80	\$1,931.02	\$313.22
Overbrook	\$16,399.31	\$1,355.24	\$1,617.63	\$262.39
Pennsport	\$10,932.87	\$903.49	\$1,078.42	\$174.93
Wharton	\$9,666.82	\$798.87	\$953.53	\$154.67
Cobbs Creek	\$8,350.48	\$690.08	\$823.69	\$133.61
Hunting Park	\$4,319.22	\$356.94	\$426.05	\$69.11
Strawberry Mansion	\$3,391.38	\$280.26	\$327.74	\$47.48

MEDIAN RESIDENTIAL PROPERTY TAX

2006 Bureau of Revision of Taxes



Map Legend

- 2006 Tax by Block Group Median Value
- \$0.00 - \$350.00
 - \$350.01 - \$1,107.00
 - \$1,107.01 - \$2,123.02
 - \$2,123.03 - \$4,000.00
 - \$4,000.01 - \$14,528.78
 - Non-Residential Areas

Note:

2007 Poverty Level: \$20,650.00 for Family of Four
 Source: U.S. Department of Health & Human Services
 2007 Philadelphia Median Household Income: \$35,431.00
 Source: U.S. Census Bureau

The FY10-14 Contingency Budget

As the previous pages have described, the City of Philadelphia is seeking significant legislative assistance from the Commonwealth of Pennsylvania to implement the Mayor's FY10-14 Proposed Plan. The Mayor's proposal anticipates that the Commonwealth will approve legislation to give the City the ability to change the funding assumptions used for determining the City's contributions to its pension plan, which would save \$331.6 million over the Five Year Plan (FYP). The Mayor's proposal also anticipates that the Commonwealth will approve the City's ability to implement a temporary increase in the City's sales tax rate from 7% to 8% for the next three years, providing \$341.7 million in revenue.

In the event the Commonwealth does not approve these critical initiatives, the City will be forced to implement dramatic and deep reductions in services and an additional and permanent 6% increase in the City's property tax rate, to generate sufficient expenditure savings and revenues to rebalance the FYP. The Administration does not want to have to take these steps. The proposed Five Year Plan was developed to best position the City for economic recovery. That is why, for example, the Plan proposes temporary tax increases. Failure to get State approval for the sale tax increase and pension changes would force the City to implement changes that would have far worse impacts in the long run.

The Mayor's proposal contains a Contingency Plan in order to demonstrate to the Pennsylvania Intergovernmental Cooperation Authority (PICA) that the City has a credible and swiftly implementable alternative to the Mayor's preferred approach in the event the City does not

gain Commonwealth approval of the pension and sales tax initiative.

The contingency plan would require that the City's Real Estate Tax increase by 21 mills in 2010 to 103.64 mills, by 17 mills in 2011 to 99.64 mills, and by 5 mills in 2012 through 2014 to 87.64 mills if the Commonwealth does not approve the pension plan and sales tax legislation. These rate changes will generate an additional \$252.9 million over the FYP.

The contingency plan also anticipates implementing an additional \$405 million (a Tier 2) in departmental expenditure reductions over the FYP in order to ensure that the FYP is balanced. These reductions would have to be implemented at the beginning of FY10 by the Administration in the event the pension and sales tax legislation is not approved by the Commonwealth. Those reductions total \$81 million annually—\$405 million over the FYP—and would be in addition to the \$58.8 million in expenditure reductions and fee increases already included in the FY10 budget. The entire list of additional (Tier 2) reductions is included as Appendix III, and includes:

- Laying off 256 Police Recruits, saving \$12.3 million
- Freezing Sworn Police Hiring,

saving \$6.5 million

- Deactivating 3 engine companies, 3 ladder companies and 3 EMS units, saving \$16.8 million
- Reducing waste collection to 3 times per month, saving \$4.8 million
- Reducing City-wide cleaning, saving \$1.7 million
- Close one Health Center, saving \$2.3 million
- Reducing Supportive Housing services, saving \$3.8 million
- Reducing hours at Recreation Centers, saving \$7.2 million
- Reducing hours at Libraries, saving \$3.2 million

The Administration has also developed a set of FYP balancing scenarios in the event the Commonwealth approves either the pension or sales tax legislation, but not both. Those scenarios utilize the Tier 2 departmental reductions and a smaller property tax increase, where necessary, to ensure a balanced FYP and sufficient resources for the City's cash management purposes. Each of these options would require painful steps that the Administration believes should be avoided, but that would have to be implemented to ensure a balanced FYP that meets the requirements necessary for subsequent approval by PICA.

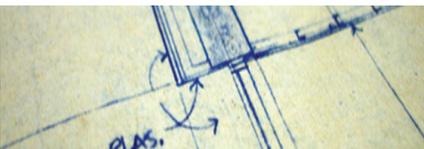


Creating Jobs & Economic Opportunity

Planning and Economic Development

The Deputy Mayor for Planning, Economic Development, and Director of Commerce is responsible for the oversight of all planning, business permitting, real estate, housing, workforce and other economic development functions of city government.

This role, for the first time, aligns the activities of these agencies under a single vision, mission and implementation plan. Departments and agencies under the Deputy Mayor for Planning and Economic Development's oversight include: Commerce, Licenses and Inspections (L&I), Planning Commission, Historical Commission, Office of Housing and Community Development (OHCD), Philadelphia Housing Development Corporation (PHDC), Redevelopment Authority (RDA), Philadelphia Commercial Development Corporation (PCDC), Philadelphia Industrial Development Corporation (PIDC), Philadelphia Workforce Development Corporation (PWDC) and Philadelphia Workforce Investment Board (PWIB).



INTRODUCTION

The Deputy Mayor for Planning and Economic Development leads the development of a comprehensive and integrated economic development, neighborhood revitalization, physical development and workforce development strategy. This integrated approach provides clarity to the private sector and to the public at large on City economic development goals and strategy.

This integrated role includes coordinating the budgets and

resources of all organizations within the economic development cluster to ensure alignment of priorities, consistent internal and external communications, and a coherent economic development budget and work program.

In addition, the Deputy Mayor for Planning and Economic Development chairs the Planning Commission and other committees, such as Development Cabinet and the Developer Services Program, as necessary to coordinate inter-departmental policy and manage the timely completion of major projects.

CREATING JOBS & ECONOMIC OPPORTUNITY

The goal of the economic development cluster is to create jobs and grow a competitive, world-class City of Philadelphia. The Administration must do this by addressing the fundamental structural economic challenges that have caused city population and job losses. The unique opportunity provided by the federal recovery package will enable the City to substantially initiate these activities in FY10.

Engaging with Stakeholders

At the same time, the City is working closely with Philadelphia's economic development stakeholders to focus efforts on targeting limited city funds that leverage private investment, building on the strength of existing assets and industry sectors, and growth sectors such as the green economy. The department has several initiatives planned for FY10 that will help us accomplish these goals.

Goal 1: Make Philadelphia a competitive place to start or locate a business by creating a consistent,

accountable, customer-friendly regulatory environment and reducing uncompetitive tax impacts.

- Provide quality business services and information by creating the **Office of Business Services**, including development of a comprehensive business website.
- Create a streamlined, customer-friendly development and permitting processes, including development process improvements, customer service training, and a multi-agency Developer Services program.
- Initiate the new Citywide Comprehensive Plan as a long-range guide to the City's development, and begin zoning code reform.
- Create a Design Review Board to provide a forum for citizens, developers and the Planning Commission to apply principles of design excellence to the public realm for qualifying large development projects.
- Create incentives for green development.

Goal 2: Put more people in jobs by growing the number of jobs offered in the city and improving workforce development programs to give Philadelphians the skills to meet growing sectors' needs.

- Support strategic sectors, including education, health care, hospitality, green and other growth industries by expediting institutional capital expansion plans, connecting growth sectors through transit investment, and spurring innovation through laboratory, incubator and advanced manufacturing facilities.
- Through the new offices of **Economic Opportunity and**

Business Services, promote entrepreneurship and small business development, particularly for Minority/Women/Disabled Business Enterprises (MWDBEs), with a coordinated small business intermediary strategy and entrepreneur network with technical assistance providers, Small Business Development Centers (SBDCs), and micro-lenders.

- Expand business attraction efforts by developing a comprehensive Philadelphia marketing program and package that complements existing regional and state business attraction initiatives.
- Improve workforce development system performance and coordination, particularly through entry-level growth industries with access for unskilled workers and ex-offenders, such as new federal recovery-funded weatherization programs.

Goal 3: Invest in Philadelphia's neighborhoods to create strong, stable housing markets and offer a better quality of life.

- Increase resources for market-rate and affordable housing development through strategic investment of federal recovery funds, **Housing Trust Fund** resources, matching grants for employer-assisted housing, and continuing the 10-year tax abatement.
- Target investments through Transit-Oriented Development (TOD), rezoning, site-specific RFPs, and large site preparation, including packaging development incentives.
- Minimize foreclosures and their impacts through implementation of the Neighborhood Stabilization Program (NSP) and continuation of the Mortgage Foreclosure Diversion Program.
- Facilitate timely development of City-owned property including

development of a policy for land disposition across agencies, appropriate interim uses, and aggressive disposition of marketable parcels for redevelopment purposes.

- Create a coordinated inter-agency neighborhood strategy to drive infrastructure, housing, commercial corridor, greening and policy integration.

Goal 4: Improve key regional assets to be more attractive to residents, workers and visitors.

- Continue strategic Center City investments including the Convention Center Hospitality District and the Benjamin Franklin Parkway.
- Redevelop the Delaware and Schuylkill waterfronts including planning, zoning, public trails and open space development.
- Support Centennial District improvements, expanding connections between the park and adjacent neighborhoods.

FINDING EFFICIENCIES AND REVENUE ENHANCEMENTS

The agencies under the oversight of

the Deputy Mayor for Planning and Economic Development have achieved budget reductions through a variety of measures:

- *Elimination of vacancies, hiring freezes, reduction of consultant fees and overtime:* Departments reduced overall staffing levels, including a significant reduction of overtime at L&I.
- *Consolidation of administrative functions:* Shared support functions among smaller departments, such as joint Geographic Information Systems (GIS) services between Commerce and the Planning Commission.
- *Integration of programmatic functions:* Better integrated program delivery, including commercial corridor, lending and technical assistance functions between Commerce, OEO, PCDC and PIDC.
- *Revenue enhancements:* Increased business and development permitting and licensing fees.
- *Technology efficiencies:* Introduction of on-line information and services, such as development of the business services web portal and scanned on-line zoning files.

PROMOTING PHILADELPHIA'S ASSETS

City Representative

The Office of the City Representative is the marketing, promotion, public relations and branding arm of the City of Philadelphia. The Office partners with the hospitality, international, and business entities of the city on public relations and marketing in order to promote Philadelphia.

The focus of the Office of the City Representative for FY10 will be the implementation of the new city brand throughout city government. The overhaul of the current event protocol and finding alternate funding sources to continue the use of special events in the promotion of the city to increase the tourism and convention trade are also moving forward. The Office hopes to realize revenue from new and expanded programming related to the Philadelphia Marathon and Welcome America, including innovative packaging of event components for the city's hotels to use in promoting room nights, and to increase spending by visitors at retail, restaurant and cultural venues. Finally, the Office is expanding its efforts with the Philadelphia Executive Marketing Council to increase promotion of issue-based marketing, following along with the specific campaigns to assist public safety, education and the 311 program. This effort carries no direct revenue gains; but is being paid for by donated services.

Enhancing Public Safety

The Office of the Deputy Mayor for Public Safety is responsible for setting policy and coordinating operations of the Police and Fire Departments, the Prison System, the Office of Emergency Management and the Office of Re-Integration Services for Ex-offenders.

In addition, the Office serves as the Administration's liaison to the First Judicial District, the Public Defender's Office, the District Attorney's Office, and Probation. The Office is also responsible for determining the City's criminal justice policy and working with criminal justice stakeholders to develop and maintain an efficient and effective criminal justice system.



Philadelphia Police Officer with Police dog

PROTECTING CORE SERVICES

There are many City agencies involved in the promotion of public safety, and

each has an important mission. The mission of the **Philadelphia Police Department** (PPD) is to fight crime and the threat of crime, including terrorism, by working with its partners to enforce laws, apprehend offenders, prevent crime from occurring, and improve the quality of life for all Philadelphians. The **Philadelphia Fire Department's** (PFD) mission is to ensure public safety through quick and professional responses to fire and medical emergencies and to minimize the loss of life and property through fire prevention. The mission of the **Philadelphia Prisons Systems** (PPS) is to ensure public safety by providing a secure, humane correctional environment that adequately detains people accused or convicted of illegal acts and which prepares incarcerated people for reentry into society. The mission of the **Office of Re-Integration Services for Ex-offenders** (RISE) is to provide effective and efficient reintegration services that result in the successful transition of individuals from Federal, State and local jails back into local Philadelphia communities, reducing the rate of recidivism.

Another important aspect of the City's public safety system is the **Office of Emergency Management**, which is responsible for ensuring the readiness of the City of Philadelphia for emergencies of any kind through an integrated and collaborative program of public education and outreach, mitigation, preparedness, response and recovery. The courts, the District Attorney's Office, the Defender Association of Philadelphia, the Sheriff and the other participants in the criminal justice system all play crucial roles in the City's efforts to promote public safety.

ENHANCING PUBLIC SAFETY



Firefighters in action at large scale fire. A 100 foot Ladder Truck is used to gain entry to upper floors.

Core public safety services must be protected. To that end, no police officer or fire fighter will be laid off as a part of the FY10-14 budget balancing plan. However, every attempt is being made to provide these essential services in a manner that is as cost effective as possible without diminishing, in any way, the overall ability to protect the safety of our citizens.

FINDING EFFICIENCIES AND REVENUE ENHANCEMENTS

Reduction and more efficient use of overtime continues to be a goal for the departments within the Public Safety cluster, and some notable achievements and savings have already be realized as a result of actions taken during the November 2008 Rebalancing Plan. Overtime reductions in the Police Department have been achieved with the appointment of the Inspector of Standards and Accountability to monitor and control the Department's



2008 Firefighter of the Year Firefighter David A. Pannella, for his valiant efforts and dedicated service in affecting the rescue of four civilians from a burning apartment building.

use of overtime.

Overtime costs continue to be a significant cost driver in the Prison System. To reduce overtime costs in the Prison System that are associated with hospital trips for inmates, the Prison System is working with Frankford Hospital to develop a secure ward. This will eliminate some of the overtime costs associated with inmates who need to be supervised by Correctional Officers while admitted to hospitals.

Opportunities exist for revenue enhancements in both the Prison System and Fire Department. The Prison System is developing proposals to implement various fees and co-pays for services used by inmates while they are in custody. The Fire Department is reviewing its EMS fee structure to identify any potential revenue enhancements related to increased reimbursement rates.

PUBLIC ENGAGEMENT— Listening to Citizens

During the FY10 budget community engagement process, and in response to public and stakeholder concerns surrounding the population of the Philadelphia Prison System, the Office of Public Safety convened the Criminal Justice Advisory Board. This Board, comprised of all of the Criminal Justice Stakeholders, is eligible for

Pennsylvania Commission on Crime and Delinquency grant funding and will work to reduce the prison population and ensure that all of the pertinent stakeholders communicate and operate the most efficient and effective Criminal Justice System.

MOVING FORWARD

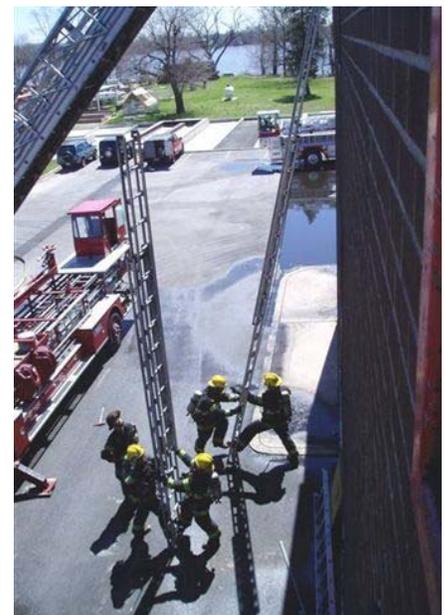
Continuing to reduce the City's homicide and violent crime rates, and sharpened focus on the City's most violent neighborhoods will continue to be the top priority of the public safety cluster.

Other activities include:

- Construction of the new, state of the art Youth Study Center is due to begin mid-summer of 2009, with scheduled completion in mid-2011 and occupancy and full operational capacity no later than October 1, 2011. Efforts will be directed at keeping this important project on time and within budget.
- The creation of the Delaware Valley Intelligence Center (DVIC) is a joint project of the Southeastern Pennsylvania Regional Task Force (SEPA RTF) and the City. The DVIC is a Fusion Center that will house a variety of federal, state, and local activities that will collect and analyze threat and criminal intelligence that will benefit a four state, twelve county area. A variety of funding sources from outside the city revenue stream are being pursued to help fund creation of the city's facilities at the DVIC location.
- Additionally, the City is seeking to expand the use of video technology in the court system. Rather than have inmates appear in court, hearings will be conducted via video connections

between the Prison and the Courts. Reducing the movement of inmates for court appearances should alleviate the security concerns associated with mass movement of inmates and should also reduce the costs associated with the processing and transporting of large numbers of inmates on a daily basis.

- The Office of Re-Integration Services for Ex-offenders provides reintegration services, such as basic education and job skills, for those individuals leaving City prisons so that they may reenter society as productive citizens.
- The Criminal Justice Advisory Board (CJAB) has recently been constituted, and consists of representatives from each of the Criminal Justice Stakeholder groups in the City. The City is now eligible to receive grant funding from the Pennsylvania Commission on Crime and Delinquency. The goals of the CJAB for the coming year will be to build efficiencies into the criminal justice system and reduce the City's prison population.



Philadelphia Fire Department firefighters

Keeping our Fiscal House in Order

Finance and Law

Divisions within the Finance Department include the Office of Budget and Program Evaluation, Administrative Services Center, Contract Management, Accounting, Office of Administrative Review, and the Office of Risk Management. In addition, the City Treasurer's Office, the Revenue Department and the Board of Pensions and Retirement are under the direct oversight of the Finance Director.

CORE SERVICES

The Office of the Director of Finance is responsible for the financial, accounting, and budgetary functions of the City of Philadelphia, setting citywide fiscal policy guidelines, as well as providing oversight and direction on financial matters to all City and quasi-governmental agencies. In addition, Finance includes a **Risk Management** division that analyzes and manages citywide insurance needs, as well as other risk exposure issues; the **Office of Administrative Review** that administers the adjudication process for taxpayer appeals of all city assessments or bills (with the exception of real estate tax assessments and tax principal); and a contract management unit that provides daily advice and guidance to various departments on compliance with Chapter 17-1400 of the Philadelphia Code.

Also under the purview of the Finance Director are the **Revenue Department**, whose mission is to set and interpret tax regulations, and collect all taxes and other fee revenue from the taxpayers of the City of Philadelphia; the **City Treasurer**, who oversees the management and investment of the City's cash, as well as recommending and implementing policies regarding all City debt; and the **Board of Pensions and**

Retirement, who manages all City Pension processes and oversees investment of the City Pension Fund.

Under the Philadelphia Home Rule Charter, the **City Solicitor** is the chief legal officer and counselor for the City. The City Solicitor represents the Mayor, and his Administration, City Council and more than 30 City departments, commissions and agencies. The City Solicitor manages the Law Department.

The City of Philadelphia **Law Department** is responsible for providing legal advice to all officers, departments, boards, and commissions within the City concerning any matter arising in connection with the exercise of their official powers. Included within this responsibility is the collection of all fines, taxes and other debts owed the City, the representation of the City and its officers in litigation, the preparation of ordinances for introduction in City Council, and the negotiation and preparation of City contracts.

PUBLIC ENGAGEMENT: Listening to Citizens

Throughout an extensive public engagement process on the FY10 budget, one comment was raised consistently and more frequently than all others in both formal budget workshops and informal conversations with the Mayor and his senior staff – Philadelphia should aggressively pursue any citizen or business that owes money to the City. While the Finance, Revenue, and Law departments had already dedicated resources to the issue of increased debt collection, public support for these initiatives along with declining revenues to the City, have further prioritized these initiatives for the upcoming fiscal year.

MOVING FORWARD

•Delinquent Tax Collection

The Finance, Revenue and Law Departments are working aggressively to pursue people and businesses that owe the City of Philadelphia money. Last fall, the City announced a series of aggressive new approaches to collecting delinquent taxes including publishing the names of the City's biggest business tax delinquents, enhanced auditing of taxpayers and increased matching of City returns with federal tax returns to identify those who may not be paying their share of taxes. Since the list of delinquent taxpayers was published, \$1.4 million in payments have been made and commitments for another \$1.4 million have been received. These departments continue to work together to devise new ways to ensure that the City collects all of the money that it is owed.

In the past few months, an emphasis has been placed on identifying non-filers of the parking tax. Investigators have been active in the area around the stadiums during games and events, and non-compliant operators have been contacted. Thus far, new investigations have yielded \$382,000 in assessments, with enforcement efforts ongoing.

The Law Department will work to identify additional savings by controlling liability costs and identifying affirmative litigation opportunities to collect money owed to the City. Additional anticipated efforts include the creation of one taxpayer database to replace two separate databases now maintained in Law and Revenue, expanding the use of collection agencies, publicizing real estate tax delinquents and introducing a tax fraud hotline. (See page 22 for additional information.)

•Streamline Payments

Public feedback and internal quality measures indicate that there is room for improvement in the way that the City processes payments from citizens and businesses. In order to address this, the **Revenue Department** is working hard to communicate, primarily through tax professionals, how citizens can speed processing times by making sure all of their information is clearly communicated and easily captured. The Revenue Department has explored the purchase of additional processing equipment and is adding an extra shift of temporary workers during the calendar year 2009 tax season to deposit payments more quickly.

•Decrease Outside Counsel Costs

In FY10, the **Law Department** intends to increase its internal staff to reduce outside counsel expenditures. Based on recent trends, the Law Department expects an increase in Civil Rights matters filed against the City. By using case management methods used in prior similar lawsuits, the Law Department intends to more effectively control the City's liability costs. The Law Department will also work with the Inspector General's Office to identify cost recovery opportunities related to the investigations of the inappropriate use of City funds.

•Smarter, Faster Collection of Penalties

The **Office of Administrative Review** (OAR) administers the adjudication process for taxpayer appeals of all city assessments or bills (with the exception of real estate tax assessments and tax principal). These include interest and penalties on delinquent tax payments, contested parking violations (through the Bureau of Administrative Adjudication), sanitation and other code violations, false alarm infractions, EMS bills, nuisance abatement fees and excessive water and sewer charges. Last fall, as part of the FY09 budget rebalancing plan, OAR was able to obtain City

Council approval to restructure the fees and fines related to registration of burglar alarms and associated false alarm fines. As part of this process, OAR was able to gain Council approval to allow for administrative adjudication of alarm fees and fines, as opposed to the requirement that all such cases be taken to Municipal Court. This allows for timelier disposition of cases and enhanced revenue collections. To further enhance collection efforts, OAR is exploring the possibility of seeking the same change in the adjudication process for other Code violations, such as SWEEPS violations and littering fines.

•Debt Management

The Finance Director and City Treasurer are responsible for overseeing the management of the City's debt. The current credit crisis and bond insurer downgrades have caused the variable rate bond markets serious difficulties. This has affected municipalities across the country, including the City of Philadelphia. Interest rates on some of the City's variable rate bonds increased

significantly to the 7% to 10% range, leading to higher costs and a need to take action to remedy this problem.

The City had approximately \$1.9 billion of outstanding variable rate debt including General Fund, Water, Aviation and PGW when the problems began in the market one year ago. Of that amount, approximately \$750 million has been restructured or refunded over the last year, bringing costs down to historical averages on these bonds. The City along with the Water Department, Airport and PGW, are currently evaluating options to best handle restructuring or refunding the remaining variable rate bonds.

Fiscally Responsible Government

In December 2008, Moody's Investors Service affirmed the City of Philadelphia's general obligation bond rating. According to Moody's Investor Service, this stable outlook "reflects the expectation that, despite these fiscal challenges, the city will address the current financial stress adequately through fiscal 2009 and beyond".^{vii} As evidenced by the recent Moody's affirmation, the City has demonstrated effective budgetary management despite weakening economic trends.

ROOTING OUT WASTE, FRAUD & ABUSE

Chief Integrity Officer and Office of the Inspector General

Raising the public's confidence in the conduct of the City's business remains critical to the Nutter Administration. City officials and employees know that the Administration expects them to base decisions in awarding contracts, bestowing financial assistance and providing services on one, and only one, consideration: what is in the City's best interest. The City's Chief Integrity Officer (CIO) reviews City contracts to ensure that they were awarded properly and that the contractors are fully providing the services for which the City pays. The CIO also secures language in City contracts going forward to make the basis for payments transparent and to ensure that contractors are accountable for the public dollars they receive. In addition, the CIO also educates and responds to inquiries from City officials and employees, as well as the public, about such ethics issues as conflicts of interest, political activity, and handling of gifts and invitations. The Inspector General's (IG) office roots out fraud, corruption and misconduct in the city. The IG is exploring alternative funding sources for investigations and has generated savings in the general fund by reallocating the costs of investigations in certain departments to the appropriate enterprise fund or funding source outside of the general fund.

Both offices continue to develop and establish working partnerships with city, state, and federal law enforcement. The IG and the CIO meet with every Department Head and Deputy Mayor to discuss ethical issues related to those departments. They have also spoken with employees throughout city departments about their ethical obligations as city employees, and have made clear to City vendors, businesspeople and citizens that gifts or benefits must not be offered to officials and employees in exchange for City contracts or services. This outreach to front line employees and to the public on ethics and integrity matters has never been done as extensively by any administration, and the response has been enthusiastic and positive.

Investing in Youth & Protecting the Most Vulnerable

Health and Opportunity

The Office of the Deputy Mayor for Health and Opportunity includes the Office of Supportive Housing (OSH), and the Departments of Public Health (DPH), Behavioral Health (DBH), and Human Services (DHS). These agencies provide services that are critical to the health, safety and well-being of the City's residents and to the stability of its neighborhoods.

CORE SERVICES

Along with its many assets and amenities, Philadelphia is a city with a high poverty rate, low educational attainment among residents and great need for support services and healthy recreational and developmental activities that support children while parents are at work or school. The departments in the Office of Health and Opportunity provide these services and activities, comprising a critical piece of the City's safety net and offering opportunities for every citizen. Further, the grouping of these agencies allows the Office to enhance public safety and quality of life for all residents of the City.

The Department of Human Services is responsible for mandated child welfare and juvenile justice services for the children of Philadelphia and offers a range of supports to children and families to keep them safe and secure. **The Departments of Public and Behavioral Health** offer direct health services as well as services that protect citizens from environmental risk and communicable disease. **The Office of Supportive Housing** provides shelter and housing programs for those who have no home of their own as well as supports to develop self-sufficiency. These services are available to every citizen regardless of ability to pay. As the country's economic situation worsens, they become even more critical.

Some of the services offered in this

cluster are mandated and must be maintained. Others, while not mandated, provide healthy, safe environments for our City's most vulnerable and so were preserved despite a difficult budget situation for all departments. After-school programs, homeless shelter beds and lead poisoning prevention programs fall into this category. Moving forward, our plan is to increase the focus on population-based approaches at a primary prevention level instead of high-cost interventions after damage is done.

PRESERVING PROGRAMS IN A TOUGH ECONOMY



The current economic turmoil only heightens the importance of the services of Health and Opportunity. Increased unemployment (as discussed on page 14) means increased need for the services offered across the Health and Opportunity agencies.

Increases in unemployment automatically add to the number of the nation's uninsured and will undoubtedly increase the need for city health center services. The clinics are often the only dependable providers of basic services like prenatal care, childhood immunizations, asthma treatments, cancer screenings and tests for sexually transmitted diseases.^{viii} "Research has repeatedly shown a higher prevalence of ill health...in men and women who are unemployed".^{ix} Furthermore, "... longer-term unemployment causes deterioration in mental health in those who were previously healthy".^x

Faced with a declining City budget, and an expectation of increased need, department staff made some critical decisions about services to be preserved.

- The **Office of Supportive Housing** insured that no shelter beds or housing program slots would be cut. Additionally, funds that support the Mayor's Homeless Strategy were preserved as this partnership with the Philadelphia Housing Authority provides permanent housing and support to families and chronically homeless individuals.

- The **Department of Public Health**, which serves a high proportion of those with no health insurance through its eight health centers, balanced the need to provide critical public health services while insuring that primary care remained available to those in need. The Department will maintain its system of health centers; instead of service reductions, the Department will increase fees and improve collections. With an expected increase in the uninsured, the provision of primary care through these centers becomes an even more critical part of the City's safety net.

- All services for abused and neglected children and for children at risk of entry into the child welfare and juvenile justice systems were preserved. The Department kept service reductions to a minimum by targeting programs that were duplicative of services being provided in other systems. DHS also found savings in administrative efficiencies such as fewer contracts.

PUBLIC ENGAGEMENT— Listening to Citizens

Every department in Health and Opportunity held numerous meetings with staff, provider agencies and

interested stakeholders to insure that all voices were heard as part of the budget process for FY10.

While the **Department of Behavioral Health and Mental Retardation Services** (DBH/MRS) did not face City cuts, reductions from the Commonwealth were required during the current fiscal year and additional reductions may be required in FY10. The Director instituted monthly meetings with the directors of contract agencies and provider organizations and other stakeholders. Of primary concern to stakeholders was the desire to avoid across the board reductions. In response, the department enacted only targeted reductions to services, based on performance, as well as administrative savings associated with hiring freezes and other reductions.

Because so many of the services of the **Department of Public Health** are community-based, the Commissioner and Chief of Staff met with the entire workforce to solicit feedback and ideas about how best to meet growing community need in a time of fiscal austerity. Meetings were held with the members of the Board of Health and the health center community boards, as well as other community stakeholders, to get feedback on proposed budget reductions and revenue enhancements. In response to a request for more health data on the neighborhoods served by each of the health centers, the Department of Public Health developed and published a report entitled, "Health Center Service Areas: Examining Population Health in Philadelphia," available on its website.

In FY09, the **Office of Supportive Housing** reduced case management budgets in contracts with non-profit organizations that provide emergency housing to single men and women, as well as to two programs serving homeless families. In considering FY10 budget reductions, stakeholders were strongly opposed to additional reductions in case management funding and OSH agreed to identify alternate reductions.

FINDING EFFICIENCIES AND REVENUE ENHANCEMENTS



Diabetes Education Class at a City Health Center

The **Department of Behavioral Health and Mental Retardation Services** (DBH/MRS) and the **Office of Supportive Housing** (OSH) joined forces to advance the **Mayor's Homeless Strategy**. Specifically, this initiative involved the expansion of treatment services and the use of reinvestment funding to develop fifty-five additional low-demand beds with behavioral health services to help move people living on the street. DBH also increased its investment in behavioral health services provided to residents of emergency shelter, helping to offset some of the reductions OSH was forced to make to balance its budget in FY09. These collaborations provide options for those most in need that were not available before. Not only are new behavioral health supports offered, but individuals who have spent years living on the streets have embraced the low-demand offering, taking the first step to recovery.

- Every department has instituted administrative savings, including unit and position consolidations and overtime reductions. **DHS** expects to reduce overtime spending by more than \$1 million this year through strict adherence to and enforcement of overtime policies and will continue this overtime management next fiscal year.

- The **Department of Public Health** is integrating services and consolidating three divisions: Maternal, Child, and Family Health; Lead Poisoning Prevention; and Chronic Disease Prevention, leading to a net reduction of eight positions. This consolidation is being done to address

coherently the underlying predictors of poor health outcomes, to think creatively about surveillance, analysis, and policy development to protect and promote health and move towards a Healthy Homes model for which the Department expects to receive federal funding that targets many of the health risks inherent to poor housing.

- In order to increase revenues to support services, the **Health Department** is instituting fees for some services, including a sliding-scale fee for patients of its eight primary care health centers and a charge for applicant physical examinations at its Medical Evaluation Unit. These two items are expected to bring in over \$1 million in revenue in the next fiscal year. New restrictions on dispensing of over-the-counter medications and re-institution of a utilization review process related to pharmacy and laboratory utilization in Ambulatory Health Services are both expected to reduce department expenditures. By implementing these initiatives, the Health Department is avoiding crippling service cuts.

MOVING FORWARD

Protection and support of vulnerable populations, enhanced opportunities for youth, healthy communities with opportunities for residents, and improved use of data across service systems to improve client outcomes and determine program effectiveness will continue to be of great importance in FY10. If the City is successful, then one day every Philadelphian will have a home, every resident will have access to health services, children and adults will be able to engage in a wide range of activities and every resident will be safe. In the next fiscal year, each agency in Health and Opportunity will continue on a path to make these hopes a reality.

- The **Office of Supportive Housing** and the **Department of Behavioral Health and Mental Retardation Services** will continue efforts to expand housing opportunities. Through a partnership with **Philadelphia Housing Authority**

(PHA), OSH will expand permanent housing for families and singles. DBH/MRS will implement an initiative to increase rent-subsidized apartments for its clients through a partnership with the Pennsylvania Housing Finance Agency (PHFA), providing long-term, apartment-based rental subsidies for 63 adults with mental health and/or substance abuse issues. Funding to support this project has been provided via Health Choices reinvestment dollars.

- **DBH/MRS** will continue the reconfiguration and recovery-focused transformation of mental health and substance abuse residential services to focus on increased independence for individuals living in congregate housing. Other programs are moving to a recovery focus that expands the use of community settings and allows participants to achieve individualized goals including education, employment, housing, spirituality, and socialization. A continuation of the specialized Intensive Residential Assessment Initiative will enable persons who have been incarcerated to re-enter the community. This project serves to reduce delays in the release of offenders from incarceration into residential drug and alcohol treatment programs. Initial outcomes have been positive and, as a result, consideration is being given to pursuing expansion.

- The **Early Intervention and Children's Unit in DBH/MRS** will ensure the effective delivery and coordination of services to address the needs of children who are at risk for developmental delays. This collaborative connects children age birth to three to early intervention services and provides supports to some of the City's most vulnerable families.

- The **Department of Public Health** will continue the maintenance and improvement of core public health services to protect and promote the health of all Philadelphians and provide a safety net for those most at risk. The Department provides over 300,000 primary care visits per year to over 80,000 adults, children, and pregnant

women. Over 50% of the patients are uninsured and have few other options for primary care. The Department also provides free vaccines to over 350 medical offices for patients without medical insurance. Focusing on the most vulnerable, DPH will continue its home-based family support programs for over 3,800 high-risk families with young children to reduce infant mortality and connect women and children to needed social services. Monitoring the city for 57 reportable illnesses and infectious diseases to prevent their further spread is a key component of public health services for Philadelphians, along with management of an STD clinic that tests and treats thousands of patients per year, and through multiple partnerships, the work of the AIDS Activity Coordinating Office to coordinate screening, treatment, and social support for Philadelphians living with HIV/AIDS.

- In FY10, **DHS** will launch full implementation of In-Home Protective Services (IHPS) and Alternative Response Services (ARS). DHS is undertaking a massive restructuring of its in-home services to children at risk of abuse and neglect currently known as SCOH (Services to Children in their Own Homes). IHPS will address the needs of children who are in need of a protective intervention, but who can stay in their homes with the implementation of a comprehensive safety plan. Children who do not need a protective intervention, but who can benefit from other services to build families' protective capacities and prevent risk of maltreatment, can be diverted to an ARS program where they will receive services of lesser intensity than IHPS. It is expected that 1,800 families will be served by IHPS. Implementation of Family Stabilization Services (FSS) will provide the final step in phasing out Services for Children in their Own Homes. FSS will bridge the two new services by providing in-home services to approximately 600 families in FY10, who are not experiencing active safety threats but who are court ordered to be monitored by the Department.

EDUCATING OUR CHILDREN

Mayor's Education Office

The Mayor's Education Office works in partnership with the Philadelphia School District to improve educational outcomes for Philadelphia. The Office fosters partnerships with public, private and non-profit organizations to support improved educational outcomes for children and adults and to advocate for parents, young people and schools.

In FY10, the Mayor's Education Office will continue to work to achieve the Mayor's goals of increasing Philadelphia's high school graduation rate to 80% within 5-7 years and doubling Philadelphia's college attainment rate of 18% in 5-10 years.

In order to work towards these goals, the Mayor's Education Office will improve data crosswalks across schools and other systems, support the expansion of college readiness and access services, develop interventions focused on the dropout problem, improve safety in and around schools, increase parental involvement in education, strengthen literacy services, and communicate goals and build capacity in City leadership and workforce.

The Mayor's Education Office will also leverage the Philadelphia Council for College and Career Success to lead the work to achieve the Nutter Administration's goals. The Council includes representatives from K-12 and higher education, business, and local non-profit and advocacy organizations, who will collectively work toward:

- Creating a citywide system for dropout prevention and re-engagement of disconnected students;
- Aligning and monitoring the City's diverse youth-related funding streams, including youth funds and activities authorized by the Workforce Investment Act;
- Aligning the various resources that support a college-going culture;
- Expanding and improving youth workforce development programs in the City;
- Influencing the design of an enhanced career and technical education system; and
- Strengthening the high school to college pipeline.

Investing in Youth & Protecting the Most Vulnerable

Parks, Recreation, the Free Library

INTRODUCTION

On November 4, 2008, Philadelphians overwhelmingly voted for reform, by supporting the merger of the city's park and recreation systems into a new transparent and accountable City department. Merging Fairmount Park and the Department of Recreation will improve services, increase performance and accountability, reduce the duplication of services and maximize funding. This merger will also allow the City to respect the history and mission of both departments while enhancing their incredible assets and strengthening the services they provide.

Why the change? Of the ten largest cities in the nation, only Philadelphia has separate departments for parks and recreation under the municipal administration. Having two different departments often resulted in overlapping responsibilities, confusion in delivery of services, and historic under-funding. Currently, the two departments coordinate some administrative functions which has reduced, but not eliminated, the redundancies and inefficiencies. For instance, there are still two permitting offices for baseball fields and the head of any office has to report to either the Recreation Commissioner or the Fairmount Park Director. This is why the other major U.S. cities have a combined parks and recreation department and why the 2004 Fairmount Park Strategic Plan recommended merging the two.

The Department of Parks and Recreation will be a unified

department with a unified purpose: to revitalize and invest in the City's park and recreation systems. The Department will be led by a Commissioner of Parks and Recreation, who will also be responsible for overseeing the Free Library system.

FINDING EFFICIENCIES AND REVENUE

ENHANCEMENTS

Since 2006 the **Free Library** has been actively engaged in redesigning various business processes in order to take advantage of new efficiencies, redeploy staff and resources to public service operations. They have combined two divisions and streamlined the ordering and distribution process to get materials to the public faster, resulting in a staff reduction of 30 positions in the Materials Management division. A union-supported audit demonstrated that the General Information Department could be staffed by non-librarians, a shift that saved money and provided librarian staff to departments where their skills were in greater demand. The Library's IT department eliminated professional services contracts and now manages PC upkeep and replacement in-house, saving \$900,000.

A new combined **Department of Parks and Recreation** will improve services for citizens by eliminating duplication of efforts, combining the best practices of both Fairmount Park and the Recreation Department with successful methods used by other urban parks and recreation departments. It will provide better value for every taxpayer dollar by removing inefficiencies and making it easier to attract outside funding.

Fairmount Park is pursuing

several opportunities that will improve services for park users and increase revenue to the General Fund. They include food and beverage vending opportunities at heavily used places in the park system, professionally managed parking at selected sites and special events, greater cell phone coverage in remote sections of the park and the sale of high quality organic material such as compost and mulch.

PROTECTING CITIZEN PRIORITIES

Recreation centers, parks and libraries serve as neighborhood anchors and community gathering points, as well as sites for programming and community activities. They are central to the Administration's belief that strong families build and sustain strong neighborhoods. No library or recreation facility will close as part of the budget balancing plan.

The **Free Library** will continue to provide current materials of high interest in a variety of formats for persons of all ages as well as timely, accurate information, and reference services. It will support the educational goals of Philadelphians by providing materials and programs for children, as well as for their parents and caregivers. The Library expects to be a major force in keeping students in school, improving the literacy rate across the city and in closing the "digital divide." The Library will embrace new technologies from E-books to downloadable books, music and videos to multilingual catalogs and websites and whatever comes next – providing free access to all. The 21st Century library is an active and responsive part of the community and an agent for change, remaining flexible to respond to the needs of Philadelphia



and Philadelphians.

Both the Recreation Department and Fairmount Park will continue their work providing programming, high quality facilities and open space. The **Recreation Department** determined that no center would close, preserving programming and community access and insuring that recreation centers would be available to the children who attend after-school programs. The Department will support structured programming for youth, older adults and disadvantaged populations through After School Programs, Summer Camps, Older Adult Centers, Teen/YAC centers, and Carousel House. It is increasing inspections and maintenance activities to ensure clean and safe facilities throughout the City. With the initiation of a program to clean vents in all facilities, the Department will reduce energy costs.

In FY10 **Fairmount Park** will continue the preservation, protection and maintenance of the open space, street trees, natural and cultural resources of Philadelphia's parks for the recreation and enjoyment of residents and visitors. Likewise, the Free Library system managed the impact of its budget reductions to preserve access to LEAP, its after-school program, and insure that the reduction in public access to reading materials, computers and Internet access was minimized.

Proceeding with the Park and Recreation merger, two crucial sets of activities will need to be refined: the practice of asset management across the system and creation of a unified plan for seeking funding and resource partners. For the City as a whole, the management of capital and long-term investment in the City's existing assets needs considerable attention. The processes developed in the Department of Parks and Recreation should be part of this larger government-wide conversation.

SUPPORTING ARTS & CULTURE

Office of Arts, Culture and the Creative Economy (OACCE)

Housed in the Mayor's Office, the OACCE is the City of Philadelphia's designated Local Arts Agency, which supports and responds directly to the arts, culture and creative economy community through partnerships with artists, cultural organizations and other City agencies to benefit residents across the City. By consolidating citywide staff and programs and coordinating arts, culture and creative economy activities with other City departments, the City will be better positioned to support Philadelphia's cultural community, a vital component of the City's economic vitality and social fabric.

Many of the arts programs that the City supports through the Mural Arts Programs and through general operating grants reach vulnerable populations, particularly at-risk youth. Arts organizations funded through the Philadelphia Cultural Fund provide programming for Philadelphia's schoolchildren and underserved adults. Many arts activities remain low cost and are essential to maintaining community pride, a sense of togetherness, and avenues of expression, especially during difficult financial times. City programs and policies that encourage creative entrepreneurship and for-profit and nonprofit cultural and creative businesses will grow the cultural sector and ultimately create new jobs. For FY10, plans are being developed to direct a portion of the Philadelphia Cultural Fund investment to a special grant-making program targeting such acute needs as youth violence and job creation.

Expanded and new programming will focus on the following areas:

- **Capacity Building**

The City of Philadelphia must play a role in nurturing the cultural community in ways that fit with the goals and objectives of the City and the current Administration. The Arts sector, like any industry, needs management and leadership training and support, as well as financial resources to help it grow. Special care will be taken only to fill gaps in this area, not to duplicate the excellent existing services of GPCA, Arts & Business Council and others.

- **Anti-Violence**

Philadelphia's cultural organizations have stepped in and are trying to make a difference by providing free programming for disadvantaged youth. Through leadership, targeted grants, and formal initiatives and partnerships, the City can improve opportunities for Philadelphia's youth.

- **Creating Partnerships**

The Office will promote successful initiatives and seek out opportunities where government and the arts can work together towards common goals. These partnerships will involve both internal and external partners, and externally the partners may include nonprofit arts groups, businesses, human service groups, foundations, and others.

- **Sustainable Funding**

The Office will research and develop revenue-generating ideas for the OACCE. Additionally, with the support of the arts and foundation communities, the OACCE will identify a sustainable funding mechanism for the arts sector and additional resources for the creative economy sector.

- **Convening**

The OACCE will seek to play a significant role in convening the field and its stakeholders, utilizing the role it can play as a neutral party to stimulate dialogue and foster conversation on critical issues.

Providing Essential Services

Transportation and Utilities

The Deputy Mayor for Transportation and Utilities oversees, coordinates decision making, and articulates a shared vision among the agencies that comprise the City's transportation and utility infrastructure:

- Department of Streets – Sanitation Division and Transportation Division
- Philadelphia International Airport and Philadelphia Northeast Airport
- Philadelphia Water Department

The Deputy Mayor's office also manages the City's relationships with the independent local, state and federal agencies and private entities that serve the City including SEPTA, PATCO, Federal Transit Administration, Delaware Valley Regional Planning Commission, Philadelphia Parking Authority, PennDOT, Federal Highway Administration, Amtrak, the Federal Aviation Administration, the Philadelphia Regional Port Authority and Philadelphia Gas Works.

The Department of Streets operates primarily as a General Fund agency. The Philadelphia Water Department and Philadelphia's airports both operate as enterprise funds. Enterprise funds are financially supported by users, meaning that tax dollars do not pay for operations or capital expenditures.

INTRODUCTION

The transportation system and utility infrastructure are the backbone of Philadelphia's community and economy. This is why one of Mayor Nutter's first actions was to re-establish the Office of Transportation and Utilities. A successful future for Philadelphia rests in no small part on the ability to provide transportation and utility services that promote a strong economy and support a high

quality of life. To realize that future, a strategic approach must be applied to the oversight and planning of three city agencies and coordination of dozens of local, state and federal agencies and private entities.

PROVIDING ESSENTIAL SERVICES



The Streets Department provides essential transportation and sanitation services for the City of Philadelphia. The Transportation Division is responsible for 2,180 miles of streets, 320 bridges, 2,800 signalized intersections, 42,000 stop signs, 100,000 street lights and 18,000 alley lights. The Sanitation Division provides weekly collection of rubbish and recycling, daily commercial streets litter basket collection and street cleaning, daily enforcement of sanitation regulations, and daily illegal dumping clean-up. The divisions work together to clear snow during winter weather events. Ensuring that streets are safe, rubbish and recycling are collected, litter cleaned and street cleaning are the core services provided by the department.

The **Philadelphia Water Department** serves the Greater Philadelphia region with integrated water, wastewater, and stormwater services. The department's primary mission is to plan for, operate, and maintain both the infrastructure and the organization necessary to purvey high quality drinking water and an adequate and reliable water supply for

all household, commercial, and community needs. The Water Department is responsible for three water treatment plants treating an average of approximately 260 million gallons of water from the Delaware and Schuylkill Rivers each day to produce safe and high quality drinking water, and three wastewater treatment plants cleaning approximately 475 million gallons per day of sewage. It also maintains approximately 3,133 miles of water mains; 3,516 miles of sewers; 79,159 stormwater inlets; 25,195 fire hydrants; multiple finished water storage facilities; and over 30 water, wastewater and stormwater pumping stations.

In addition to retail services in Philadelphia, the utility also provides wholesale drinking water and wastewater treatment services to more than 50 neighboring communities. It also serves as the environmental entity for the city with the mission to sustain and enhance the region's watersheds and quality of life by managing wastewater and stormwater effectively. The Philadelphia Water Department, as an enterprise agency, has been insulated from drastic budget cuts. Nevertheless, it continues to seek operating efficiencies along with state and federal funding.

Philadelphia International Airport (PHL) is the only major airport serving the City of Philadelphia and surrounding counties located in Pennsylvania, New Jersey, Delaware and Maryland. In 2008, J.D. Power and Associates ranked PHL the highest in customer satisfaction for large airports. As one of the largest economic engines in Pennsylvania, it generates \$14 billion annually for the local economy. Two hundred businesses linked to the Airport employ over 42,000 workers. In 2008, PHL accommodated 31.8

million passengers, including 4 million international passengers, and handled 492,000 aircraft takeoffs and landings. Twenty-nine airlines offer over 600 daily departures to 122 cities, including 40 international destinations. Three additional international destinations will be added in the summer of 2009: Birmingham (UK), Oslo, and Tel Aviv. Approximately 559,000 tons of cargo and mail are moved annually by commercial airlines and a half-dozen cargo carriers.

Although the PHL has not been subject to recent General Fund budget cuts, it is affected by city-wide increases in healthcare and pension costs. In addition, PHL is sensitive to external factors affecting the aviation industry, such as airline consolidation, reduced seat capacity, jet fuel volatility and overall weak economic conditions. Consequently, the Airport continues to maintain competitive airline rates and charges, while providing the highest level of customer service and safety.



PUBLIC ENGAGEMENT— Listening to Citizens

Meetings with stakeholders as well as the public forums sponsored by the Penn Center for Public Engagement informed Streets Department proposals for revenue enhancement and operational efficiencies. Stakeholders have long advocated for an incentive based recycling program to increase the amount of recycling and reduce landfill costs. Stakeholders have also advocated for public recycling containers in commercial corridors. Comments from the public forums suggest service cuts at the

Streets Department and revenue generation by the Streets Department are acceptable areas of shared pain for residents in order to meet our financial challenges.

FINDING EFFICIENCIES AND REVENUE ENHANCEMENTS

The less waste that ends up in the landfill, the less it costs the City to provide sanitation services. That is why the Streets Department is pursuing two significant efficiencies: incentive based recycling and solar powered compacting litter baskets. These are part of a policy known as “Waste minimization,” which seeks to reduce the quantity and toxicity of waste to conserve natural resources and taxpayer dollars. Every ton of recycling saves the City on landfill costs. It is anticipated that by offering citizens an economic incentive to recycle, recycling tonnage will increase and provide a net savings of \$1.5 million. Each year Philadelphia’s residents dispose of about 700,000 tons of solid waste. In 2008 about 10% of that waste was recycled, and increasing the recycling diversion rate to 30% will bring significant cost savings. In July 2008, the City deployed single stream curbside recycling, which allows residents to put all of their recyclable items in a single bin for collection. Since implementing single stream recycling citywide, recycling tonnage increased 36% compared to a year ago. In January 2009, the program was enhanced to provide weekly collection on the same day as trash collection day. The Department is modifying its regulations to reduce the maximum amount of waste residents can set out for collection to four 32 gallon containers and eight bags, about a 50% reduction from the previous limit. The Department will reduce the toxicity of the waste by no longer collecting computers and TVs at the curbside. These items can be dropped

off at a number of Citizen Drop off Centers or at Household Hazardous Waste drop-off events.

These savings are critically important to the City’s finances, but also are important to the Administration’s “green” policies. Waste minimization conserves natural resources and reduce greenhouse gas emissions that contribute to global warming. According to the EPA, recycling one ton of aluminum cans saves the energy equivalent of 36 barrels of oil or 1,655 gallons of gasoline. In 2007, the amount of energy saved from recycling aluminum and steel cans, plastic and glass containers, newsprint and corrugated packaging was equivalent to the amount of electricity consumed by 17.8 million Americans in one year.

The Department will also pursue proposals for solar powered compacting on street litter baskets. These baskets have an increased capacity to hold litter, by compacting the litter down. Many of the litter baskets will include, for the first time, on-street recycling containers. This will reduce collections on those routes from 17 times per week to five times per week, saving nearly \$1 million per year. The cost of the compactors will be funded by a State grant.

Moreover, about 15,000 small businesses currently receive City trash collection at no cost. The budget calls for these businesses to begin paying for the cost to collect their trash, just as the Philadelphia Housing Authority and Philadelphia School District pay for the cost of trash collection.

The Streets Transportation Division will use federal dollars to replace existing traffic signals with energy efficient LED traffic signals.



The energy efficient signals will save the City millions of dollars over the life of the signals. The Transportation Division is also actively engaged in operational reviews that aim to maintain service levels while decreasing costs. The reviews are focused on pothole repair, street repair and street light outages. The division will continue to report its performance throughout the year.

MOVING FORWARD

The City will maintain core Streets Department sanitation and transportation services with minor

service reductions. The Sanitation Division will close three of five citizen drop off centers. The closings will require more residents to rely on private collection for bulky items. Despite these reductions some new programs will provide benefits to customers. The Sanitation Division will focus in FY10 on the implementation of the largest incentive based recycling program in the country and realizing the savings from solar powered compacting litter baskets.

Nevertheless, the Transportation Division will no longer be able to

maintain existing service levels for pot hole and ditch repair. Reductions to transportation maintenance crews will result in pot hole repair taking 72 hours instead of 24 hours. The Transportation Division has successfully pursued funds made available by the American Recovery and Reinvestment Act, discussed on pages 24-25, to repave hundreds of city blocks. These projects will restripe miles of worn down bike lanes, bring curb cuts to current standards, replace outdated street lighting and improve drainage.

GROWING A GREEN CITY

Office of Sustainability

If FY09 was about creating the groundwork for making Philadelphia the greenest city in America, then FY10 will be about implementing that vision in the Mayor's Office of Sustainability (MOS).

Over the past 10 months, the MOS has engaged thousands of stakeholders and citizens from Philadelphia and the region by speaking at more than 100 events and community meetings and meeting with organizations who will become partners in pursuing and achieving the City's sustainability goals. Those goals—as well as the initiatives needed to meet the proposed objectives—will be articulated in April 2009, when the MOS releases its sustainability framework. This document will describe work to be done to decrease local energy demand; increase public green space and tree canopy; reduce green house gas emissions; and create new low- and high-skilled jobs. The framework will also highlight key City management and operating efficiencies and reforms that need to be achieved for implementation. The framework has emerged from the work of the City's Sustainability Working Group, which consists of 75 staff members drawn from 24 City agencies.

In defining what sustainability will mean to Philadelphia—its government as well as its residents—the framework will detail the connections between the environment and the city's economic future. Initiatives designed to decrease the city government's energy demand by 30% over the next seven years will not only help lower greenhouse gas emissions in Philadelphia, but also bolster the City's fiscal health. If successful, over the next five years, the City will avoid over \$7 million in energy costs.

Currently, the City's total energy budget, including electricity and fuel costs, is approximately \$100 million, of which \$34 million was in the General Fund. In order to reduce these costs and become a more environmentally conscious government, the MOS has developed a program by which departments will reduce their energy costs 10%. This program will incentivize departments to turn off the lights, setback the thermostats, and close the propped open door.

Currently, each department's energy bills are paid directly out of the General Fund, making electricity and heat essentially "free" for individual departments. Because there is no annual hit to a departmental budget if energy demand increases, no incentive for conservation exists among City employees. Beginning in July 2009, the MOS will provide departments with a target energy budget that calls for a 10% reduction in consumption over the fiscal year. If a department exceeds this challenge, savings will be granted back to their program budget in FY11. If energy expenditures fall below their Target Energy Budget, that amount will be credited toward their next year operating budget.

In addition, the MOS has issued a request for proposals for an energy service corporation (ESCO) contract that will reduce City energy demand by approximately 20% in four of the largest municipal facilities—the Municipal Services Building, One Parkway Building, the Criminal Justice Center and City Hall. Proposals are due in May, with work anticipated to begin in September. Under an ESCO contract, the City would not be responsible for the upfront capital investment, yet savings could begin to inure to it within a short time frame.

Efficiency savings and innovations will not be limited to City properties and spaces. MOS is currently working with the Philadelphia Housing Development Corporation to create a pilot program that will combine weatherization and basic systems repair programs so that a 'whole house' energy efficient approach is undertaken for low income Philadelphians, enabling them to better afford and mitigate energy costs.

MOS is also identifying opportunities to produce solar energy on City buildings and property. It is working with Public Property to determine whether a green roof could be installed at the Fleet Management building located at Front & Hunting Park and with the Philadelphia Water Department to develop a solar facility at the Baxter Water Plant in northeast Philadelphia.



Solar Panel Installation above Riverside Correctional Facility Gym Roof

A Government that Works Better & Costs Less

Administration and Technology

Administrative services are the core business requirements for the city of Philadelphia. The Administrative Services Portfolio consists of the Office of Fleet Management, Office of Human Resources, Procurement Department, Department of Public Property, and the Records Department. Along with the Division of Technology (DOT), these agencies provide administrative support including facilities maintenance, Human Resources services, telecom management, technological capacity, fleet management, and centralized procurement of goods for the entire city government. The Managing Director's Office coordinates citywide customer service and performance management programs and activities, including the 311 Contact Center, PhillyStat and the Reform Agenda. (These three programs are described in detail on pages 50-51)

INTRODUCTION

The Administrative Services Group provides the internal functions necessary to give the service agencies what they need to serve the public. All of the administrative agencies have a support mission and, therefore, naturally complement one another within the cluster they are located. The Division of Technology's (DOT) mission is to work in partnership with City agencies to implement and manage information systems and to support and enhance governmental operations on behalf of the citizens of Philadelphia.

GUIDING PRINCIPLES

All of the basic tools that the service agencies use to accomplish their missions come through the Administrative Portfolio. The most important guiding principles for the

City become the most important guiding principles for Administrative Services. It was essential for the Administrative Portfolio to determine the most critical administrative functions to maintain continued delivery of core services to the general public. The Administrative Portfolio will adapt service provision to best reflect the priorities of the City, and to best serve the city departments and agencies that provide service to Philadelphians.

DOT's major objectives are to provide a reliable information technology (IT) infrastructure and efficient and cost-effective applications solutions to 53 city operating units. A core element of this service is the provision of innovative solutions to City agencies through strategic planning, centralized oversight, project management and efficient support for city agencies through a data center, help desk, and IT network. DOT works diligently to provide a world-class Internet website and cable television to enhance constituent services; and to provide IT training to bolster the capabilities of in-house personnel.

In preparing the FY10 budget, DOT's priority was to maintain personnel, contractual services, and equipment necessary for DOT to continue mission-critical functions. With 140 General Fund personnel, DOT's ability to provide core services to 53 City agencies is already challenged. To reduce staff would further diminish DOT's ability to carry out core services in support of city departments. DOT's proposed budget reductions are designed to maintain support for critical business applications and to ensure continuity of operations.

PUBLIC ENGAGEMENT— Listening to Citizens

Public input during the FY10 budget process was particularly useful in making reforms in the size and administration of the City's fleet. Significant reductions are being made in the size and administrative costs of the City's fleet to save money for FY10 and subsequent years. In addition, the public's interest in advancing administrative efficiency has helped the Administration focus on reform projects within the Department of Procurement, Office of Human Resources and Department of Public Property that will lead to internal efficiencies and better customer service.

In all, 24 technology-related suggestions were submitted by City workers to the Managing Director's Office as part of their employee outreach survey on the budget. Several of these suggestions, including centralization of IT functions, email expansion, and software standardization, are already being implemented. Others are either under consideration by reform teams, or their impact is being determined.

FINDING EFFICIENCIES AND REVENUE ENHANCEMENTS

Where possible, the Administration will review and implement additional efficiencies and revenue enhancements. For example, land recording fees will be increased by \$30 across the board. Duplicative functions such as information technology support will be consolidated with the goal of reducing costs and making internal service delivery more efficient for other

departments throughout the City. These reforms are currently underway and ongoing.

Through consolidation of citywide IT in FY10, DOT has put forth a plan, which, if implemented, will provide savings and efficiencies which will allow reinvestment in infrastructure and applications, in order to ensure continuity of operations and to update outdated business applications over the next five years.



Fire Service Paramedic on duty using a Segway. These Segways are used to maneuver in large crowds and have equipment to provide medical intervention to patients.

MOVING FORWARD

The Administration will also continue to place a premium on maintaining high quality access and delivery of customer service. Accordingly, the 311 contact center will continue to maintain operations, offering citizens' unparalleled access to City services with new Internet access coming by the beginning of FY10. The Administration will also continue to utilize PhillyStat to review service delivery performance, seek continuous improvements and provide the public with a transparent vehicle for monitoring customer service.

The Department of Technology will continue to prioritize services and funds in order to accomplish the following:

- Reduce ongoing IT support costs and increase service effectiveness citywide by implementing an improved IT vendor sourcing strategy;

refreshing technology infrastructure and the communications network; and consolidating common IT support functions, such as application development, help desks, and PC, server, and network support.

- Provide a secure and stable IT operating environment through end-to-end network management, data center support, application support, secure the network, and ensure that the network is backed up and can be restored in the event of a disaster.
- Enable high-performing government through automation and simplification of processes; error reduction; improvement in interdepartmental communications,

collaboration, and information sharing; and leverage enabling technologies, including handheld devices, Web augmentation, and citizen self-service, thereby improving provision of services to clients. Examples include: implementation of a time and attendance system to manage overtime; creation of Mindshare, a Citywide document and knowledge management repository to serve citizens, businesses, employees, and other governments and institutions; and automation of certain Records Department functions to improve efficiency and customer service.

2009-2014 Reform Agenda

The 2009 – 2014 Reform Agenda began in December 2008 as part of an effort to improve efficiency across City government and address the need for reform in a number of City departments. It seeks to identify ideas for efficiencies in the FY10 budget as well as throughout the Five Year Plan.

In order to carry out the Reform Agenda, ten Reform Teams were created, composing of City staff members and private sector leaders, in coordination with the City of Philadelphia's Private Sector Outreach Board. Each team is chaired by the relevant Deputy Mayor, and reports its progress at a monthly PhillyStat session led by the Managing Director.

The area of focus for each of the teams was selected to reflect the top priorities of the Nutter Administration – sound finances, public safety, building a smart population, and providing excellent customer service.

The reform teams are examining several “budget busters,” such as the six departments where 16,000 of the 28,000 City employees are located, and other areas where reforms can have a major and direct impact to our citizens, producing cost savings and better service. They will also look at the long-term reform ideas for cost savings and revenue increases gathered during the public engagement process for the FY10 budget. The Reform Teams will also look at opportunities for reform that have gone unaddressed or have failed to be implemented successfully in the past.

The areas of focus for the reform teams are:

- Police
- Fire & Emergency Medical Services
- Prisons & Criminal Justice
- Human Service
- Education
- Energy & Sustainability
- Development Process
- Streets
- Administration & Technology
- Customer Service

Philly 311



One of the primary campaign goals of Mayor Nutter was to bring 311 to Philadelphia. At its opening on December 31st 2008, Philly311 was the fastest-launched and least expensive 311 program for a major city.

Philly311 averages over 4,200 calls a day from customers for City information and services. Like 911, dialing 311 connects citizens to a call center staffed with trained call takers who have access to translation and hearing impaired services. Philly311 call takers are more than just operators – they function as customer service representatives for all City departments and agencies.

Using a web-based knowledge database, Philly311 call takers have easily searchable information on all City departments and agencies. The knowledge database is an easy to use tool to track calls, look up information using keyword searches, and send service alerts to the appropriate City Department. City departmental work order systems are integrated to Philly311 so service alerts go directly into a department's system, allowing departments to respond to a citizens' service requests quicker and more efficiently.

Over time, Philly311 will become the city's primary customer service

feedback tool. Data from Philly311, such as how many informational calls on a certain topic, type/frequency of service request, and origin of 311 calls, are fed into the PhillyStat process and, during PhillyStat sessions, departments will be expected to respond to data from Philly311. Through assessment, evaluation, and customer feedback, city strategies can be continually reviewed and improved as part of the City's Performance Management System.

Research and best practices show that numerous cost savings and efficiencies can be realized through a 311 system. While many of the City's inspection functions require expertise, others involve simple identification of deficiencies, such as a pot hole, missing manhole cover, broken street light, or missing stop sign. Because 311 provides residents with an easy to remember number, they can be engaged as "ad hoc" inspectors, calling in service requests related to the City's infrastructure assets. Such assets could then be repaired on an as-needed basis, without City employees dedicated to the inspection function.

In the future, citizens will be able to access Philly311 via the web, track service requests online, search the knowledge database, and send service requests to Philly311 via a mobile device.

PhillyStat



To deliver on his promise to provide services smarter, faster, better, in a more transparent manner and simultaneously hold departments accountable for results, Mayor Nutter started PhillyStat in February 2008. PhillyStat is a regular meeting, open to the public and now replayed on the City's government-access television station (as well as available for download on the City's website) organized around particular results and issues. Participants include the Managing Director, the relevant Deputy Mayors, representatives from the City Solicitor's Office and the Office of Human Resources, and the relevant City agencies. The goal of these meetings is fostering data-driven, real-time problem solving and continuous improvement within City service delivery.

Through the PhillyStat process, 30 City departments have developed performance measures and customer service standards with target goals established for each, for which they report their progress in PhillyStat.

PhillyStat sessions have also been organized in a manner to facilitate collaborative problem solving between City departments. As no social issue is owned by any one particular department and, consequently, when seeking appropriate solutions, multiple agencies and partner organizations must be brought to the table.

The PhillyStat process has served as a catalyst for process improvements throughout the City. From reducing the turnaround time by the Office of Housing and Community Development for processing of settlement grant checks for the City's home purchase assistance program to establishing published customer service standards at the Department of Public Health, departments are now dedicated to seeking ways to deliver services smarter, faster, and better.



Two Philly311 employees taking customer calls

The FY10-14 Capital Budget

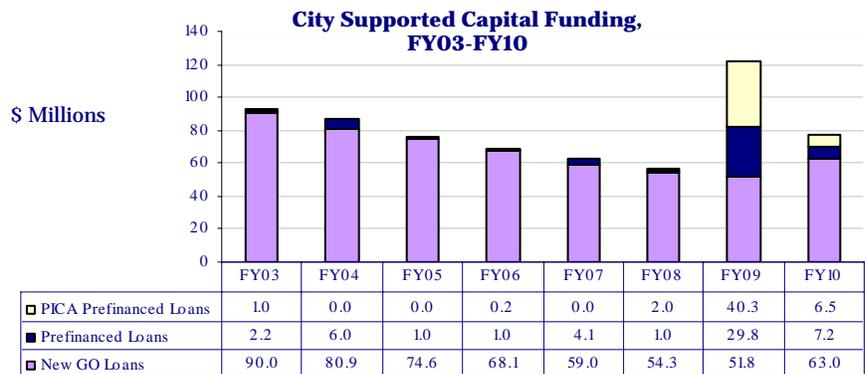
The Capital Program is the City’s six-year plan for the construction and renovation of public buildings, facilities, and infrastructure. The Capital Program includes projects that promote the Mayor’s initiatives, including ensuring public safety, promoting economic development, positively impacting the City’s neighborhoods, promoting constituent services, and promoting high-performing government.

City-Supported Capital Funding

The Nutter Administration is committed to investing in the City’s infrastructure, which has suffered from years of neglect. To support

infrastructure investment, the City has pledged to spend \$76.7 million in FY10 of City-supported capital funding. Of this amount, \$63 million will be funded through new General Obligation bonds issued by the City, \$7.2 million will be

funded through previously authorized capital funds, and \$6.5 million will be funded through pre-financed PICA loans. The chart below shows City support of the Capital Budget in FY10, compared to prior years:



Major Capital Program Projects

Project	Cost
City Hall Exterior Improvements	\$4.5m
Fairmount Park Facility and Parkland Improvements	\$6.9m
Fire Department New Facility	\$2.5m
Schuylkill Riverfront Improvements	\$2.5m
Network Infrastructure Stabilization & Enhancement	\$4.0m
Pier 11 North Infrastructure Improvements	\$1.4m
Prison Facilities Renovations	\$3.6m
Recreation Facility Improvements	\$9.3m

Additional information regarding projects and funding sources appears below and in Appendix IX

While the City is committed to investing in its infrastructure, the City’s ability to do so is restricted by both the State Constitutional debt capacity and the City’s financial capacity. Under the Pennsylvania Constitution, the City’s total debt capacity is limited to 13.5% of the ten-year average of the annual assessed valuations of taxable realty in the City. As of March 2009, the City’s

remaining debt capacity was \$119 million. The Board of Revision of Taxes, following a recommendation made by the Tax Reform Commission, is moving toward 100% assessment of real-estate properties. When assessments increase, the 10-year moving average of assessment values used to determine the constitutional debt limit would subsequently increase. Nevertheless, the City’s ratio of debt service to obligations will continue to restrict its ability to issue General Obligation (GO) debt. A relatively high ratio of debt service to obligations will not only crowd out other operating expenditures, but if the ratio gets too high, it could also result in a reduction of the City’s bond rating, thereby increasing the costs of borrowing.

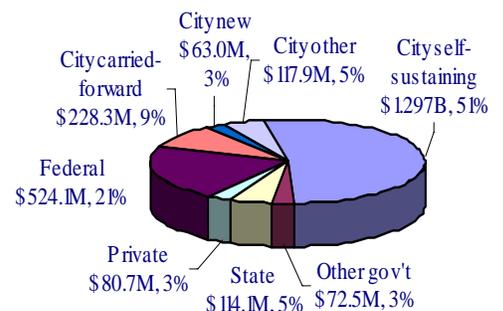
Capital Budget Funding Sources

The total cost for the 76 projects included for FY10 is nearly \$2.5 billion (including Water and Airport projects). These 76 projects include several hundred “subprojects” that are either new or “carried forward” from previous years’ budgets (see chart on the right).

Of this total budget amount, \$63 million is provided by new GO bonds issued by the City of Philadelphia. These bonds are tax-supported (i.e., repaid from the City’s general tax revenues). An additional \$228.4 million will come from carried-forward City tax-supported loan funds.

Other City sources total \$118 million. City “self-sustaining” loans account for nearly \$1.3 billion of total budget-year funds. Funding from other levels of government, including Federal, Commonwealth of Pennsylvania, and regional sources, totals \$711.1 million in the budget year. Finally, \$80.7 million of FY10 funding will be provided by private sources.

Sources of Capital Program Funding



Capital Budget Uses of Funds

In keeping with the City's priorities, the Recommended FY10-15 Capital Program includes projects that promote the City's strategic initiatives for sound finances, a safe city, a smart population, and excellent government service. A sampling of capital projects that support these priorities is presented below.

Projects that ensure **sound finances** strengthen fiscal integrity and stability now, and help to avoid unnecessary costs in the future:

- A total of \$4 million, including \$3.6 million in new City funds, and \$400,000 in other pre-financed loans, will fund the Division of Technology's Network Infrastructure Stabilization and Enhancements for the City's computing foundation, improving business operations across agencies.
- \$500,000 of new City funding will enable Energy Efficiency Improvements through the Office of Sustainability. This funding coupled with carried-forward loans from previous years, will enable energy efficiency improvements at locations across the City, Energy Star Building upgrades, and Green Lights Lighting upgrades.
- The recommended budget also includes \$665,000 in new City funds for Citywide Environmental Remediation through the Department of Public Property, including asbestos abatement and environmental consultant services citywide regarding storage tank testing and replacements.
- A total of \$9.6 million in new City funds and PICA pre-financed funds enable Quadplex Facility Improvements (City Hall, Municipal Services Building, One Parkway Building, and Criminal Justice Center) through the Department of Public Property.

Projects that provide for a **safe city** increase the feeling of safety from crime, emergencies, and accidents at home, school, in the neighborhood, and at work and play:

- \$890,000 in new City funds will be used for critical window and door and roof replacements, mechanical, and electrical and plumbing renovations at 14 Police Stations.
- Prisons will use \$3.6 million in new City funds for much-needed Prison Facility renovations including ventilation and mold remediation at the Curran Fromhold detention facility, and an automatic lock security system, critical multi-phase mechanical, electrical and plumbing restoration, and fire alarm system at the House of Correction.
- A total of \$10 million in new City funds and pre-financed loans will fund Street Reconstruction and Resurfacing across the City's neighborhoods.

Projects that promote a **smart population** ensure that Philadelphia is a city of well-educated individuals and active participants in the new world economy:

- The Commerce Department's Commercial Development projects total \$3 million in FY2010 for upgrades to Neighborhood Commercial Centers for curbs, sidewalks, lighting, landscaping and other complements to public and private reinvestment.
- The Commerce Department will also use \$7.5 million in federal, state and new City funds for Navy Yard Infrastructure, in support of public and private development.
- Free Library Improvements for FY10 totaling \$965,000 in new City funds will upgrade and enhance Libraries serving the public across the City. Included are much-needed HVAC and

Boiler system replacements at several branches.

- SEPTA Bridge, Track, Signal and Infrastructure Improvements secure access to work and other destinations for Philadelphia's population. In FY10, \$105 million in state, federal, city, and other monies will be used for the Market Elevated Reconstruction, and Regional Rail substation, bridge and signal improvements.

Projects that promote **excellent service** create a high performing government, known for great customer service and a high level of integrity:

- In FY10, \$505.3 million from federal, state, private and city self-sustaining funds will enable Philadelphia International Airport Terminal Expansion and Modernization, Airfield Renovations and Additions, and enhancements to baggage inspection to provide faster and better service for the growing demand of air traffic in and out of Philadelphia.
- Fairmount Park Site Improvement projects total nearly \$16 million from multiple sources in FY10 for new amenities on the Parkway, drainage improvements on parkland to stabilize embankments, natural terrain and pathways, tree planting and play area improvements.
- \$630,000 of new City funds will fund Health Facility Renovations at various Health Centers around the city to improve service, safety, and longevity of buildings.
- SEPTA - New Payment Technologies will be funded with nearly \$24 million in state, federal, new City funds, and other governments. This new fare system will replace the entire array of current collection equipment, providing better service to SEPTA's riders throughout the region.

Conclusion

Last year, the Nutter Administration pledged to seek citizen feedback on the values and decisions reflected during the budgeting process. That pledge has only been strengthened as a result of the immense financial challenges facing the city. In a time of tremendous fiscal distress, the Nutter Administration responded by creating the most transparent and detailed public engagement process the City has ever experienced. The FY10-14 Five-Year Financial Plan reflects the decisions and policy vision made by the Administration after careful deliberation of public feedback. These processes, and the resulting decisions, make clear that open, honest government and publicly accountable decisions are core values of the Nutter Administration.

The two budget balancing plans that the Administration has crafted in the last six months have contained proposals to erase over \$2 billion in deficits. The plans include a range of efficiencies, improved collections of taxes owed to the City, and savings through changes in pensions, health care and work rules. All of those actions, however, were not nearly enough to close the huge financial gaps facing the City. As a result, the Administration was forced to propose a mix of painful cuts, temporary freezes in wage and business tax cuts and temporary property and sales tax increases. All of the Administration's actions were taken in the context of what actions would best position Philadelphia to thrive when the economic recovery begins. Many of the proposals were ones that the Administration would not make under any but the most dire financial circumstances, but were necessary to guarantee the City's long-term fiscal stability.

Our vision of Philadelphia is a city where people are safe, educated and employed. The critical foundation for getting there is rooted in government decisions that are fiscally responsible. Some elements of fiscal reform will require significant time and cooperation to achieve. Others require the closing of smaller gaps and may occur sooner. Some have already begun. To reach our vision, Philadelphians both employed by, and served by, the City must be prepared to make tough decisions today in order to secure our collective long term future.



Endnotes

- i International Monetary Fund, January 2009 World Economic Outlook
- ii Blue Chip Economic Indicators® Top Analysts' Forecasts of the U.S. Economic Outlook for the Year Ahead Vol. 34, No. 3 March 10, 2009, page 1
- iii Federal Open Market Committee, Summary of Economic Projections for the Meeting of January 27-28, 2009, Page 3
- iv Timothy Bartik, Who Benefits from State and Local Economic Development Policies?, W.E. Upjohn Institute, Kalamazoo, MI, 1991, P. 48
- v William Easterly, The Elusive Quest for Growth, MIT Press, Cambridge, MA, 2001, P. 234
- vi Robert Inman, "Local Taxes and the Economic Future of Philadelphia: 2008 Report", Testimony given at the 2008 Police Arbitration Hearing, Philadelphia, PA, 2008
- vii http://www.phila.gov/investor/pdfs/Moody_Philadelphia_2.pdf
- viii Kevin Sack, "Expansion of Clinics Shapes Bush Legacy", The New York Times, 26 December 2008
- ix Bartley, M. Jane Ferrie, S.M Montgomery, "Living in a High-unemployment Economy: Understanding the Health Consequences"
- x Ibid.

All Philadelphia Police Department Photographs courtesy of Philadelphia Police Officer Ed Fidler.