

NEWS



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John F. Street, Mayor
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Mayor John F. Street's Budget Address March 18, 2004

Good morning President Verna, members of Council, special friends and distinguished guests. I am here to present for Council's consideration my proposed \$3.4 billion FY 05 General Fund Operating Budget and my proposed Capital Program and Budget for FY 05-10 along with my proposed 5 Year Financial Plan for FY 05 through 09.

This financial plan contains approximately \$374.6 million in wage and business tax reductions. Notwithstanding our rapidly declining capital borrowing limits, the proposed capital program makes effective use of our limited resources and reasonably provides for the maintenance of the City's existing facilities.

This budget and five-year plan are offered during a time of great national and state economic distress. State and federal revenues in support of social and other services have been reduced; the national economy continues to compromise local tax revenues. And there is an escalating demand for services by Philadelphians who themselves are financially pressed by the loss of benefits, rapidly escalating utility costs, unemployment and other increased living expenses.

Although our city has avoided the service cuts and tax increases common to other jurisdictions, increasing health care, criminal justice, and pension costs are challenging our financial capacity. This spending plan delicately balances the need to deliver high quality core city services while simultaneously investing to promote a bright future for our city in the 21st Century

Philadelphia is a city of proud neighborhoods and we will never default on our commitment to regular people who live in them. Our highly acclaimed Safe Streets Program, our Neighborhood Transformation Initiative and after school programs are protected in this budget. Abandoned car removal, vacant lot cleaning, snow removal and code enforcement have improved the quality of life in our neighborhoods, and are also funded. Over 23,000 positions are funded in the various city departments and agencies, which will allow us to maintain our core city services at or above current levels. However, the need to close a projected \$227 million FY 05 budget gap, projected to grow to \$670 million by FY 09, will require some significant changes in our service delivery goals and practices.

Proposed funding for many traditional services, programs and facilities has been reduced. Among other things this financial plan dramatically reduces our fleet, further reduces cell phones, curtails employee-parking privileges and continues to reduce the number of city employees. We will dispose of excess property, consolidate services where appropriate and work with our unions to lower the cost of delivering others. We will, however, work to avoid layoffs. Nothing is worse than losing one's employment in difficult economic times.

This budget maintains our commitment to public education. Our students and families are beginning to see the new materials, better-prepared teachers and support for struggling students that has been too long coming. However, notwithstanding recent progress too many Philadelphia public schools are far from the models of educational excellence appropriate to a world class 21st Century City.

This budget should not be viewed as a barrier to progress and prosperity or a source of pessimism and frustration. It allows us to make some powerful economic investments that will help grow our population; create new economic opportunities and build the new Philadelphia.

We will secure our future by turning our attention to job creation, waterfront development and tax reform.

We are off to an impressive start. The proposed office towers for Comcast and Towers Perrin, along with the Cira Centre, will be remarkable additions to our skyline. Those developments, along with the renovations ACE, INA is planning at 436Walnut Street signal that Philadelphia is a great place with a strong future. This development in addition to the major retail complexes being developed around the City, anchored by Lowe's, Home Depot and IKEA, along with the exciting new construction and renovations planned by the school district, represent several billion dollars of construction over the next several years. That construction will be accompanied by the welcome sight of construction cranes looming large on our skyline, unmistakable symbols of jobs, growth and economic prosperity.

This development will produce thousands of employment opportunities for people who live in our neighborhoods and our region. Our future will be distinguished by the presence of corporate leaders like Comcast, GlaxoSmithKline, CIGNA, ACE, INA, Sunoco and other businesses, large and small, who have decided over the last two years to remain in Philadelphia. That future will be promoted by the growing research and development capabilities of our 83 area colleges and universities. They have an impressive annual enrollment in excess of 300,000 students, many of whom, we hope to keep in our region as residents.

This dynamic future will be propelled by the creation of a \$500 million Economic Development Investment Fund, which I propose be funded over the next four years. This spending plan proposes to restructure the Water Department debt service reserve to make the first \$125 million available before the end of the calendar year. It is important to note that these dollars cannot be used to address our operating budget deficit problem.

The Investment Fund will underwrite an unprecedented investment in the fifteen miles of magnificent waterfront all along the Delaware and Schuylkill Rivers waiting to be developed into spectacular 21st Century mixed-use communities. Communities that can become home to thousands of new Philadelphians, who will be magnets for new economy and knowledge industry jobs. That investment will establish Philadelphia as the "New River City" in America. Complementing the waterfront plan will be the new strategic plan for the city's other great untapped resource Fairmount Park. Together they will give Philadelphia a combination of water and

park resources available for residential, commercial and recreational activities unparalleled perhaps in the world. When combined with NTI these new centers of economic activity will be the lynchpin to reversing the trends of population and job loss in our city.

To help prepare for my second term I invited more than 100 distinguished men and women from this region to participate in the Philadelphia 21st Century Review Forum charged with making recommendations to guide our second term activity. The considerable work of the Forum is published in a report entitled "Perfect the Vision, Secure our Future." You will hear a lot more about its recommendations in the coming weeks, particularly the work of the Ethics Committee, which was led by Judge Ida Chen. This budget supports an increase of \$550,000 for the Inspector General's office in FY05 as a part of our commitment to higher ethics and standards of accountability.

Based on the work of the Regional Cooperation Committee chaired by Nick DiBenedictis, the CEO of Aqua America, I am convinced that a critical part of our pro-growth agenda requires the promotion of our city and region. To do this the City should partner with the Greater Philadelphia Chamber of Commerce in its campaign to market the Philadelphia region as a business destination. I propose that the city contribute \$250,000 in each of the next four years to support the Chamber's Select Greater Philadelphia Campaign.

As we work to perfect our vision of a world class 21st century Philadelphia, we must diminish the negative influence our overall tax burden has on families and businesses. We must become more economically competitive.

Therefore, our spending plans incorporate the following proposals from the Philadelphia Tax Commission Report:

- the date for implementation of the FY05 wage tax reduction is changed from July 1, 2004 to January 1, 2005, in order to align city taxes more closely with state and federal tax cycles;
- to help fund reform in this difficult fiscal climate, this budget proposes increases in the parking tax.
- this budget proposes that the cap in the Mariano Tax Bill be raised from 2% to 4%.
- \$5 million is budgeted to begin the move to 100% annual real estate tax assessments scheduled to be completed in FY06;
- \$2.7 million is budgeted to increase our local tax collection efforts;
- the Five-Year Plan adopts the transition to a Land Value Tax to be phased in over a ten-year period, beginning in FY06; and
- beginning July 1, 2004 we will initiate the single factor apportionment business privilege tax formula, which removes a major disincentive for businesses that want to locate or expand in the City.

These initiatives will make our tax structure fairer and friendlier to residents, taxpayers, employers and employees alike. A special thanks to the tax commission for its stellar work in producing a blueprint to tax reform in our city.

Neighborhood revitalization, waterfront development and tax reform represent exciting, important and necessary investments to secure our future. However, we must protect the core services our citizens have a right to expect, even in a tough budget year.

We will not reduce our financial commitment to public safety. Some forms of violence are still out of

control, particularly against women and children. People must be safe. We are committed to putting more police officers on the street and making the very best use of our public safety dollars. Philadelphia has become a safer city and we will not compromise public safety. But let me hasten to add that the proliferation of handguns is unacceptable. I commend City Council for its recent attempts to impose reasonable limits on the availability of handguns, which account for over 80% of the homicides in our city. We must, however, acknowledge that ultimate legislative power to impose responsible gun control is the duty of the Pennsylvania General Assembly and the Congress of these United States.

Beyond protecting our core services and public safety, there are several important priorities established in this budget. We keep our commitment to diversity and inclusion. In response to the unanimous concern articulated by City Council last year, we propose investing \$700,000 into the Minority Business Enterprise Council to better manage its functions, including firm registration, certification, award tracking and compliance.

We have empowered the City's Contract Review Committee to examine DBE participation in every city contract, and propose to contribute \$1,000,000 to underwrite the emerging contractors program developed by the African American Chamber of Commerce with our Commerce and Housing Departments.

This budget proposes to invest \$250,000 to support a prisoner re-entry program administered by the Philadelphia Prison System. The men, women and children in the care and custody of our penal system must be provided a better opportunity to become reintegrated with their families and into our neighborhoods.

The City also proposes to provide unprecedented support to the victims of domestic violence. In FY05, funding in the amount of \$1,065,000 is proposed to expand the number of emergency shelter beds for battered women and their children and to enhance technology and staffing for a citywide Domestic Violence Hotline.

Last summer we launched Global Philadelphia to increase language access, including the translation of vital documents and the deployment of interpreters. We propose to spend \$500,000 to support this effort in FY05.

We also propose to continue the City's commitment to technology. Within 60 days users will be able to pay bills and fees by credit card online. And before June 15th the City will establish Love Park as a free wireless hot spot, consistent with our recognition of the increasing importance of wireless technology to a vibrant 21st century urban environment.

Although our direct support for art and culture in this budget is reduced, including funding for the Art Museum, the Atwater Kent Museum, the African American Museum, the cultural and recreation fund, we intend to work in partnership with the leaders in the business, arts and culture community to approach our local foundations and others to help fill the gap.

The Right-Sizing Government Committee of the 21st Century Review Forum evaluated the number of facilities providing services to citizens to determine whether or not the number was commensurate with our population density and financial capacity, and concluded that, "Library materials and staff are thinly spread across too many facilities. Small recreation facilities that are lightly used lay only blocks from larger, more complete facilities. Benchmark studies, whether by square mile, per capita, or raw numbers, show that Philadelphia operates significantly more pools, libraries and recreation facilities...than other similar sized cities."

Although blind adherence to such comparisons is inappropriate, this and the work of our Managing Director have persuaded me that we must objectively review this issue. We, never want to find ourselves in the position

of our sister city, Pittsburgh, which was forced to close all of its pools and recreation centers.

Over the next several weeks we must make practical decisions on many service-related issues, including the number and location of recreation facilities and pools we should maintain, transfer or merge. We must confront service delivery issues raised in our police and fire departments, as well as the level of service appropriate to our branch, regional and main libraries.

But even after we have completed the task before us fundamental inefficiencies will remain because of the limitations imposed on us by the Philadelphia Home Rule Charter – a charter that is over 50 years old. President Adamany’s committee spoke to this issue saying “the 1951 Home Rule Charter was, above all else, a reform document intended to break clearly with the past...In the end, the attempt to preserve reform has itself become an impediment to reform.” Any thoughtful independent review of the Charter will conclude that it precludes the use of proven management tools that could facilitate important cost savings. Charter reform is worthy of a Charter Commission and should be a priority.

I propose to work with a small group of Council members and civic leaders to establish a sharply focused mandate for a new Charter Reform Commission, which could address the Charter-related structural problems that make permanent reform difficult to achieve. This year we must negotiate new labor contracts with District Councils 47 and 33 and our police union. This budget contains no funds to absorb any wage increases that are sure to result from those negotiations. City employees should not be asked to assume greater responsibility without any increase in compensation over the life of a new contract. But to achieve that objective, everyone must sacrifice to produce the budget savings necessary to fund a fair contract including the courts and other independently elected officials.

The budget and five-year plan before you are delicately balanced. It will not be easy. But I am optimistic about the recommendations we have made.

The proposed budget administers some harsh but effective medicine and despite the potential political pain, it compels us to make some fundamental changes that are long overdue. It also allows us to make some vital investments that have extraordinary upside potential for every neighborhood and every person in our City. Incredibly, the fiscal crisis that confronts us and the solutions proposed create a win for the budget and a win for our future. All we have to do is make the right decisions. Let us lead this city to embrace those changes and give the prescription laid out in this budget a chance to work.

We must insist on the framework of this budget but the detail is not carved in stone. We are willing to listen and compromise. But we cannot avoid or circumvent the challenges before us. Succumbing to the inevitable inclination to avoid taking decisive action would be a grave miscalculation.

The time to act decisively and responsibly to secure our future is now! And if not now, when?

Thank you and God Bless.