



City of Philadelphia

OFFICE OF THE MANAGING DIRECTOR
PHILIP R. GOLDSMITH
MANAGING DIRECTOR
1401 JOHN F. KENNEDY BOULEVARD
ROOM 1430
PHILADELPHIA, PA 19102-1683

Remarks to the Central Philadelphia Development Corporation Membership by Managing Director, Philip R. Goldsmith, City of Philadelphia on Tuesday, June 15, 2004

"To Tax or Not to Tax, That is NOT the Only Issue"

Good afternoon.

Political debate is healthy, indeed essential in a free society. Politics is about working through divisive issues. It refers to a process of struggle, disagreement, competition but ultimately agreeing on certain actions. Most of all, healthy and constructive politics requires people to listen to each other and find some accommodation that will allow divergent groups to live together in the same space.

So for the next 30 minutes or so I will ask you to try to indulge me, if you can, by doing two things:

First, if you can, put aside your opinions about Mayor John F. Street, pro or con. Forget how he is represented in the press or perceived by opponents as arrogant or inflexible. I work with a vastly different man. More importantly, the issues now being debated in this City transcend this Mayor and frankly the next mayor and the mayor after that.

The tax policies this council is about to pass will virtually tie the hands of the next three administrations, long after most council people are out of office. So these issues are far too important to be decided by your personal like or dislike of a particular individual.

Second, try to put aside for the time being what you have read in the newspapers or the sound bites you have heard on KYW or the six o'clock news. Sound bites, whether they are a councilperson's, Mayor Street's or mine, are no substitute for formulating sound public policy.

Let me start by saying I reject two fundamental notions in this debate:

1. The question, being debated, is not: Tax reform or no tax reform. The issue is how much tax reform can we afford and still have the amenities and quality of life initiatives that are the hallmarks of all great cities.
2. I reject the rationale of the tax reduction hawks that drastic action is needed because Philadelphia is a dying City.
3. The real issue we should be debating is not simply the size of tax cuts but an array of strategies to make Philadelphia an even more attractive City for people to live, work and visit.
4. Tax policy is simply one instrument in our tool chest for improving our City. There are many others that I will discuss; including the level of services we offer our visitors, residents and commuters. If we spend all our money on the tax reduction tool, we will leave no money to afford the other tools that are needed.
5. By itself, tax reduction is a sterile strategy that may look appetizing today but will leave us hungry tomorrow—hungry for the services and amenities that we take for granted today and frankly many of you clamor for more of.

Philadelphia is not a dying City! It is a changing city. There is an enormous difference.

Dying cities do not have vibrant downtowns; they do not have three new state of the art sports stadiums, or a new state of the art performing arts center; Dying cities do not have developers flocking to town to put up market rate housing in South Philadelphia, where houses now go for hundreds of thousands of dollars, or in Brewerytown where one of our poorest neighborhoods will soon be transformed;

Dying cities do not have once decaying neighborhoods showing signs of life with new trees and community gardens;

Dying cities do not invest in a new strategic plan for its 9,000 acre park system which comprises ten percent of the City's land mass, or have visions of creating a new River City to capitalize on its 22 miles of river front;

Dying cities do not have a new children's museum being located next to the nation's oldest zoo or one of the nation's most innovative airlines deciding to settle into a much-improved international airport.

Dying cities do not have reporters visiting from The City—San Francisco, and then writing a story in its leading newspaper headlined “The city that knows how—Philadelphia effort stems tide of homelessness can San Francisco learn from it.”

You won't read this in the hometown papers here so let me read you what was written just this week in the San Francisco Chronicle. But first let me tell you why the reporters visited Philadelphia: Because only a few months ago our City was

recognized by the Bush White House in our efforts to curtail the problems of homelessness. But that too, you won't read in our local newspapers.

The Chronicle said:

"In fact, when surveyor Jasper O'Farrell designed San Francisco's main drag in 1847, he patterned it after Philly's. Both streets have lots of shopping, and they draw crowds of strollers and tourists. But there is one big difference that O'Farrell probably never counted on.

"In San Francisco those strollers and tourists step over, around and alongside thousands of homeless people panhandling, shooting dope, pushing shopping carts or sleeping on the cement. In Philadelphia you have to look long and hard to find a single panhandler or homeless person of any kind, anywhere along Market Street.

"Or its downtown, for that matter. Or in its famous Independence National Historical Park, where the Liberty Bell sits among other icons of the foundations of American history.

"That's because the City of Brotherly Love, perhaps more than any other in the United States, has solved its problem with chronic homelessness."

The article goes on and on.

And since they mentioned our Independence National Historic Park, let me add that dying cities don't have a new Constitution Center or a new home for its Liberty Bell. Nor do they have the nation's greatest boulevard like the Ben Franklin Parkway, which is undergoing new improvements because of the partnership of the Center City District, the foundation community and, yes, the City government of Philadelphia.

Dying cities don't have real estate prices going through the roof, not just in fancy neighborhoods like Society Hill or Rittenhouse Square but also in row home neighborhoods like Fishtown.

Dying cities do not have growing universities like Penn, Temple, Drexel, St. Joes and LaSalle—all investing in our City with the cooperation of city government.

Nor do dying cities lead the way in a new governance structure for public education, such as the diverse provider model that was established a few years ago by the leadership and cooperation of Mayor Street and then Governor Schweiker. Let me remind you that in standing firm against simplistic notions of turning an entire school district over to an unproven company, we ended up with Paul Vallas rather than Chris Whittle.

And let me remind you that recent test scores have shown that the district's wholly operated schools are outperforming the private provider operated schools. Sometimes you need leadership that rejects the idea of the day and doesn't play to

the media but works outside of the klieg lights to fashion reasonable solutions to complex problems.

Finally dying cities are not able to renew 80 of 81 leases that came up between 2002 and 2004. To paraphrase Temple University, many of these companies could have gone anywhere. Instead, companies like ARAMARK and Marsh USA and Radian and SCA decided to stay put.

A dying city, far from it. But a changing city, of course. Philadelphia is not what it once was in the 40s or 50s or 60s. Few cities are. And for those who hunger for the old days remember that our air is cleaner as is our water. We live better together as a people. Yes we are also a smaller City when measured in population, but stronger in our diversity. We are a changing City—from an old industrial manufacturing center to a service sector economy and beyond. Transformation takes time whether it is an urban City or even a business. Whether it is Philadelphia or PNC.

For those who decry our population loss, that too is part of change. As people get older and move to the Sunbelt states or the suburbs for more space or take advantage of the federal government's highway system that changed the mobility of people. And while our detractors blame Philadelphia's perceived ills for the population loss, let me remind you that, except for West Virginia, Pennsylvania has had the worst population growth in the nation. And Pennsylvania includes far more than Philadelphia.

If you look closer at our population from 1990 to 2000, it tells a different story than the drum beat of a deathwatch. One out of every three-census tracts in Philadelphia actually showed growth. A mere eight percent of our census tracts accounted for 65 percent of our population loss. That's a far cry from the drone of the doomsayers. It also calls for different strategies than a blanket one size fits all tax reduction strategy.

When we look further at cities that have experienced far greater growth, we realize that some like Phoenix increased their land mass by 48 per cent; San Antonio by 55 per cent, Las Vegas by 105 percent. How? By annexing their Lower Merions. As those of you in business know, there is a difference between same store growth and growth coming from new stores or acquisitions.

When you look further at growth rates in this nation, you will note that the cities with the greatest rates of growth are those with the most new immigrants in the booming states of California, Florida and Texas, where they are geographically close to the native lands of the new immigrants. In Austin, Texas 35 percent of its growth can be attributed to an increase in foreign-born residents. In Phoenix that figure is 51 percent. In Houston, it's 68 percent, and a whopping 91 percent in Dallas.

These cities, too, are changing.

I say all this not because I don't think Philadelphia can do better. Of course it can. That's why my colleagues and I are in public service. We have optimism or perhaps conceit that we can make a discernable difference. But to arrive at appropriate

solutions you have to make an accurate diagnosis of the problem and the causes. The people that have jumped aboard the tax reform express without paying attention to the stop, look and listen signals run the risk of derailing this City for years to come.

I say all this to counteract the naysayers who are repeatedly spreading the gospel of a dying City to sell the salvation of steep tax reductions. If you say it long enough it will become a self-fulfilling prophecy because national newspapers like the Wall Street Journal will jump on it to further its discredited supply side economics.

Now, how can we make Philadelphia an even a better, more thriving community?

Yes, tax reform is one tool as I indicated earlier. This Administration has been painted as anti-tax reform. The truth is as follows: This Council and Administration have had tax reductions for nine consecutive years totaling \$930 million. The Mayor's 2005 budget and five-year plan called for another \$375 million in tax reductions. Compare that to other cities like New York, Detroit, Houston, Los Angeles, and Atlanta that increased its taxes during a time of national economic stagnation or abruptly halted tax reduction programs. Or even compare our record to the Commonwealth of Pennsylvania that recently enacted a \$4 BILLION tax increase with barely a whimper of protest from those who now want to lynch an Administration because it proposes a fiscally sensible tax reduction policy that will not break the bank. And, I add emphatically, protecting this city from a serious cash shortage problem caused by less tax revenues and a meager appetite for real cost reduction.

Our FY05 budget plan was based on a three-part strategy:

1. Continue our tax reduction efforts, mainly by immediately implementing the single factor apportionment recommendation of the Tax Reform Commission;
2. Maintain core services while at the same time rightsizing departments, such as Recreation that were developed for a population of 2 million.
3. Make targeted investments in economic development, primarily to our riverfronts with a modest investment of operating funds.

At first, our plan was praised. Then the firestorm hit. The result was something like this:

Let's do all the tax reductions of the tax reform panel at once—though we will forget other parts of the panels' recommendations such as parking tax increase and never mention the possible shift of the burden from wage tax to real estate tax;

1. Don't touch my Recreation center or pool even though we favor rightsizing in concept;
2. As for targeted economic development efforts that can really foster growth, well that was shoved to the side.

What Council has done instead is to pass a tax package that extends into the year 2017 and will take an additional \$2 billion in revenues from the City. How will we balance the budget as required by the City Charter, PICA, the rating agencies and sound fiscal management? Well those are details; we'll let the Administration worry about that (until of course, they decide to do something that might strike too close to home).

Under the Council plan we will have to close a \$60 million gap. And that is before you factor in \$1 dollar for any labor settlements we have with three of our four unions this year.

As many are fond of saying, \$60 million is no big deal with a \$3 billion budget. But what is left unsaid is that we already closed a \$900 million gap and another \$834 million gap in last year's plan.

Our payroll has already shrunk by nearly 1,000 employees or 3.5 percent since last October.

As someone who has done major restructuring in the private sector as well as during my tenure as interim CEO of the Philadelphia School District when we reduced the number of administrative clusters from 22 to 10 with the support of this Mayor, I know that the actual doing is more difficult than those who talk about it think it is.

And I also know that you can go too far.

Let me remind you that Philadelphia is a huge city—135 square miles compared to 45 miles like Boston, where I spent last weekend feeling comforted by reading about the problems in Beantown. Philadelphia is a city that has the vibrancy of Rittenhouse Square but the bleakness and despair of Hunting Park.

It is a city where I can talk to people in one meeting about their desire to have more improvements made along the beautiful Pennypack Park and in the next hour be in a crack house in Southwest Philadelphia, where a mother is keeping her family warm by hooking up a kerosene heater to the oven and a wading pool sits in their living room and serves as the family's toilet.

We need to ask ourselves what kind of City do we want to be.

To keep our City viable and changing for the better, we need to look at the other tools in our arsenal aside from just tax reduction. And we need to ask ourselves how we will be able to afford the other tools if we mortgage our future with a steep tax reduction policy today...

Before I talk about further cuts to our services, let me remind you of some of the things we aren't already doing:

We can't keep our public restrooms in the park operational all year; or renovate and light all ornamental City fountains to create a night time visual impact; or repair our police stations; or create meaningful truancy prevention programs; or repave our streets in a timely cycle. And I will also tell you that in some areas of this City we have infant mortality rates that rival third world countries; our restaurant inspections, one of our major industries, is below what it should be; we can't keep up with dumpster violations that tarnish our center city and neighborhoods as one business person recently reminded me when he sent a box of pictures of dumpsters to my office.

Imagine what will happen to the quality of life if we are forced to cut more than is prudent. I say this not as a threat but as Chief Operating Officer of this City with an obligation to let you know.

We will need to look at eliminating bulk trash collections and street cleanings; vector control; night time inspections of bars and clubs will be reduced; snow clearing and pothole repairs will suffer. To some of you that work in our City but live in the suburbs that may not be such a big deal. But for those that live here, the cleanliness and safety of our neighborhoods, including our center city neighborhood, means a great deal.

When Councilpersons call me, they don't call about tax reform; they call because they want better city services for their constituents. And they want it now. They are right. Or when a civic leader calls me and asks me what happened to all the policemen in Center City, he will be right to ask, and I will need to tell him the truth.

Fantasy? A threat? Hardly. Look to the second largest city in this commonwealth—Pittsburgh. It has shut down its entire recreation department!

There is no business or individual that makes relocation decisions strictly on the bottom line; they are interested in the quality of life in the city they chose to work or live. But that part of the equation has been virtually lost in the din of tax reform, no—not tax reform-- drastic tax reduction.

Just as San Francisco is looking to us for ideas on dealing with the homeless, we should look westward as a reminder to what happens when a good idea is high jacked and strapped on a runaway train. Remember Proposition 13 and its consequences in California—closed libraries, school districts that couldn't be operated effectively, a world renowned university system that became second rate.

Tax reform, yes. But let it be sensible affordable tax reform. Let us recognize that the heart and soul of a city is not merely measured by rates of return but by its quality of life and livability. Let us remember that even the greatest of tax reduction proponents, President Reagan, eventually had to raise taxes, but the great communicator called them revenue enhancements.

If we really want to attract and retain people to work and live here let me give you a few other ideas aside from continuing a sensible and affordable tax reform policy:

1. Continue our efforts to improve our education system so young child raising adults don't feel they have to flee the City to educate their children;
2. Let's further reduce our automobile insurance rates, a far greater burden to people moving into the City than the wage tax;
3. Let's give serious thought to reforming government by sensible City Charter and Civil Service changes. We are riding a 1952 chassis into the 21st century;
4. Let's get the Commonwealth to help us regulate firearms in Philadelphia. We have more than 30,000 permits with more than 22 police department employees processing and checking applications. New Jersey has 1,000 permits in the entire state; New York City 16,000. Is it any wonder that New Jersey has fewer homicides in its entire state than the City of Philadelphia? The financial cost and cost in human blood to our young is enormous and disgraceful in the city of Brotherly Love;
5. Finally, let us recognize that Philadelphia, as defined by today's boundaries, is a relic; its boundaries were fixed in 1855 before the Internet, the computer, the federal highway system, the automobile. We remain a region and city frozen in time in an ever-changing world. We are a fragmented region burdened with redundant municipal services, little coordination, too much divisiveness and competition, and not enough communication and cooperation.

Let us remember that no one referred to Smarty Jones as the Bensalem wonder horse. All of us, here and nationally, referred to him with pride as the Philadelphia champion.

Tax reform yes, but what we really need to stay competitive in today's global economy is a new vision for how we look at Philadelphia and the region and frankly how we look at each other.

Thank you for listening.

###