

Budget Address
Mayor John F. Street
January 29, 2002

Council President Verna, members of City Council, members of my Cabinet and Administration, special friends and guests: Good morning.

Last January, I stood before you and proudly announced – "We are a government that gets things done."

2001 was a year of difficult challenges. Nonetheless, it was a year of accomplishment. Sustained by our shared ideals and nourished by pride in our great City, we continue to make progress on behalf of the people, the businesses which employ our workers, and the great region of which we are a vital part. Today, I can modify my statement from a year ago: we are a government that gets things done despite a series of difficult challenges –

- despite a national economic downturn and the abrupt end to the longest period of economic expansion in our history;
- despite a changing and very challenging political environment;
- despite the escalating security costs and emotional trauma caused by the tragic events of September 11.

Vince Lombardi, the legendary former coach of the Green Bay Packers, used to tell his players, "When the going gets tough, the tough get going." During the year 2001, we proved our toughness. We refused to let the rough economic climate impede our progress. We managed the affairs of the City with unwavering commitment to our vision of a better Philadelphia. We moved closer to this vision –

- forging a historic agreement with the Commonwealth and securing a better and brighter day for our public school students and their families,
- creating jobs by attracting entrepreneurs seeking a progressive pro-business environment,
- protecting and strengthening the hospitality industry,
- making our neighborhoods cleaner, safer, and more beautiful, and
- remaining faithful to our pledge to make every year in Philadelphia the "Year of the Child."

Tough times inevitably create new imperatives. If we are to succeed, we must maintain our focus, sustain our discipline, and remain undeterred in our vision.

We must never forget that **the ideals uniting us are far more important than the details dividing us**. At the end of the day, we are all on the same side – the side of the City we love and the people we are privileged to serve. Now more than ever, we need a partnership for progress.

If we are to continue to invest in our neighborhoods, strengthen our economy, and improve our schools, real partnership is essential.

The aftermath of the events of September 11 provide valuable guidance in forging this partnership for progress. In the difficult days and months following this tragedy, our nation demonstrated just how much we can do when we cast aside petty politics, work together, and devote ourselves to the common good.

The horror and anger ignited by the terrorist attacks on the World Trade Center and the Pentagon have not only redefined the American experience; they also ignited acts of bravery, valor and compassion that distinguish us as a society. The Philadelphia response to September 11 is exemplified by the work of the United Way of Southeastern Pennsylvania, the Red Cross, and the firefighters and other rescue workers who were among the first non-New York responders on the scene.

When I met them upon their return from Ground Zero, they were exhausted, emotionally spent, and very, very proud. Today we have with us Lieutenant Fred Endrikat, who led the recovery effort for the first several days at Ground Zero. Please help me welcome him and say thanks to

the United Way, the Red Cross, and all the men and women who volunteered in our time of national need.

The coming year presents an array of complex challenges. The \$3.1 billion general fund operating budget I present today sustains our long-standing commitment to incremental tax reductions, which have saved taxpayers more than \$875 million in wage and business taxes since 1996.

As you will hear, in FY04 we propose to restructure our tax reduction program to provide a stronger stimulus to our business community, attract more jobs, and expand our tax base.

For the moment, however, let me acknowledge our Council of Economic Advisors: Philadelphia Federal Reserve Chairman Athony Santomero, Robert Inman, William Stull, David L. Cohen, and Steven Sanders. They have volunteered considerable time to the study of our tax structure and our economy. Their advice helped shape key provisions of this budget. Members of the Council, I thank you.

Neighborhood Transformation remains at the heart of my "Vision for a Better Philadelphia." Although we have not as yet unleashed the full potential of NTI, we have generated inspiring activity in neighborhoods throughout the city. We have cleaned 17,557 vacant lots, hauled 11,099 tons of debris, and removed over 100,000 abandoned cars from the streets of

Philadelphia. In addition, we have visited with the owners and managers of more than 260 neighborhood-based businesses.

We are making progress and making a difference. I see it first hand when I visit neighborhoods, walk the streets, and talk with residents and local business owners. They appreciate what we are doing. We want what they want: safe and clean neighborhoods, open spaces where beautiful gardens grow and healthy children play, neighborhoods alive with pride and hope.

Nevertheless, we must do more. Blighted neighborhoods are an open wound on our City, breeding violence, drugs, disease, and despair. Let us act together to heal those wounds, so our neighborhoods thrive and people enjoy the quality of life they deserve.

Let us remember: sustained economic growth requires a City which appeals to both employers and employees — a place where people want to raise their children and spend their leisure time. Neighborhood Transformation is an economic stimulus. It is essential, not just for current residents but also for those considering a move to our City, whether for residential or business purposes.

Accordingly, I respectfully request that you amend the current Neighborhood Transformation legislation in ways that respect the aspirations of the people of Philadelphia, advance the cause of attracting entrepreneurs, and incorporate the priorities of eliminating blight and protecting the strong neighborhoods of this City from the insidious incursions of vacancy and abandonment.

While we have worked diligently to find common ground on NTI, make PGW more responsive to the people who depend on it, and stabilize the Philadelphia School District, we have not averted our attention from the creation of jobs, the continuing expansion of downtown, and the protection of our status as a premier destination city.

The new FedEx Distribution Center in Grays Ferry, the Kvaerner shipyard in South Philadelphia, the T.J. Maxx warehouse in the Northeast, the Eagles football stadium taking shape as you drive down I-95, the commitment by Bill Rouse to build the first skyscraper downtown in 20 years, and the announcement of the plans for the Comcast Pier at Penn's Landing, including the Please Touch Museum and the tram connecting Camden and Philadelphia: All of this is evidence of our success in creating a business- and developer-friendly environment which produces jobs for our City and region. We also are heartened by the pending acquisition of AT&T's cable division by Comcast Corporation and the decision by Citizens Bank to make our City a center for its operations.

Thank you to the Greater Philadelphia Chamber of Commerce, the Delaware River Port Authority, and Greater Philadelphia First who worked with our Commerce Department and PIDC to give life to many of these initiatives.

With your support, we are confident we can build on this success in the next fiscal year. Innovation Philadelphia is one key to this success, and the funds you authorized last year made it possible to attract a respected individual like Richard Bendis to our City.

Innovation Philadelphia is a forward looking public/private partnership designed to establish Philadelphia as a world class leader on the cutting edge of the knowledge-based economy. This initiative has one simple mission: to place us ahead of the curve — to attract 22nd century enterprises.

Our most valuable partner in this venture is our City's higher education community, which is attracting the very best and brightest minds to study, work, and live in our City. Innovation Philadelphia will focus on job creation and tax-base expansion. The seeds we plant today will invigorate economic growth tomorrow.

Let me thank Dr. Judith Rodin, president of the University of Pennsylvania, who chairs the Innovation Philadelphia board. As a result of her leadership, Innovation Philadelphia, PIDC, PCDC and the Commerce Department have bonded into a stronger economic development catalyst.

The progress we are now experiencing are signs of our City's capacity to weather the recessionary storm our nation is now enduring. Just think about it: there was a time – not that long ago – when national economic downturns hit our City more severely than the nation as a whole.

This time is different. We will survive and thrive. Our success will depend on a continued willingness to make tough decisions – like the 1.5 percent reduction in personnel expenditures mandated for every government department. It will require the continuation of the discipline

with which our Commissioners and Directors have managed the affairs of the City. It will require the same fiscal prudence we brought to labor negotiations. Because of our willingness to face hard questions and make tough choices, we are now positioned to defend ourselves against economic turmoil.

Other cities are curtailing public services, freezing tax reductions, and struggling to cope with spiraling unemployment. We are not immune to this damage, but we are well protected:

- Our fiscal discipline has produced a fund balance of \$230 million.
- Our rate of job loss from November 2000 through November 2001 was less than a third of the rate nationwide.
- Our relatively low cost of delivering services, a product of streamlining our delivery systems and instituting a variety of cost-cutting measures, has made it possible to fund all services at or above current levels.

In the face of cataclysmic jolts to the nation's economy, our City is displaying remarkable resiliency. Last week it was reported that the hospitality community in Philadelphia has recovered from the downturn in convention and tourism business faster than any other city in America.

Tremendous credit should be given to leaders in the hospitality community who along with Comcast, DRPA and other important corporate citizens fashioned the weekend hotel package and that great commercial featuring the slogan "Philly is more fun when you SLEEP OVER."

I deeply appreciate the commitment of our hotel and parking operators, restaurants, cultural venues, and everyone who is pitching in to make the campaign which runs through March 31 a great success. I see Meryl Levitz, Bruce Crawley and Tom Muldoon: let's give them and the other leaders of our hospitality community a round of applause.

Visitors are returning, and traffic at our airport now stands at more than 90 percent of its pre-September volume. The openings of the Kimmel Center for the Performing Arts and the International Visitors Center; the powerful reading of the Declaration of Independence by a group of international celebrities; United Nations Secretary General Kofi Annan's receipt of the Liberty Medal; President Bush's visit to honor our faith-based programs and help us celebrate America's 225th birthday: all of this testifies to our status as a world-class City with world-class amenities.

However, our momentum will stall if we do not find new ways to support the hospitality industry, which provides our region with 43,000 jobs and a payroll in excess of \$1 billion. These 43,000 job holders live in every neighborhood of this City. They include 3,000 proud members of Local 274, who work in hotels, restaurants, sporting venues and catering facilities. The hospitality industry is a leading employer of our nation's most vulnerable workers, including welfare to work participants, single mothers and immigrant workers. We will not let them down!

In recent weeks we have seen hotel owners converge on Washington D.C. requesting tax incentives for travelers or other incentives to get "heads in beds." Like the airline industry, hotels face a bleak future unless help arrives.

Our hotel industry, hit especially hard after 9/11, is an employment-producing engine, a catalyst for economic growth. Now is the time to recognize its importance to us and our economy. Now is the time to reach out to our friends in Harrisburg and the region and agree to expand the Pennsylvania Convention Center.

Our center is among the finest in the country, but cities like Boston and Washington are expanding their facilities. In this business, you grow or die! I invite you to join this effort to improve and expand our center. It cannot be done without your support, and although there is no specific request in the budget presented today, this issue will require further discussion soon.

Let me state for the record: our labor community will be a valuable ally in expanding our Convention Center. We have made real progress pursuant to the Project Labor Agreement we signed last year, and Bob Butera, the CEO at the Center, Billy Corazo, and many others deserve recognition for our progress.

We all agree Philadelphia must remain competitive in the hospitality community, and the leaders of every union in our building have assured me they will work to resolve any outstanding issues,

including the issue of costs. We cannot expand our Convention Center and the related businesses it attracts unless we are customer-friendly and cost-effective.

We are periodically reminded, sometimes by members of this body, of the middle class exodus from our City during the 1990s. We are fighting back! My confidence is buoyed by the fact that in 2001, we experienced the hottest residential housing market in 80 years – proof that our tax abatement programs are creating an enticing environment for developers and homeowners. On the waterfront, in center city, around our colleges and universities and in many neighborhoods, we have new and compelling evidence: if we build it, they will come. Every new amenity available in our city contributes to the rebuilding of the middle-class, which is essential to future prosperity.

2001 had its challenging moments, and I stand before you today, bruised a few times, but proud that it was another year of accomplishment for Philadelphia.

The highlights I have described are snapshots of our progress. Together those snapshots are a window into the soul of a government determined to improve the quality of life in Philadelphia, to create a city that is attractive, comfortable, and safe – a City where people want to live, work, visit, raise their children and pursue their dreams.

The challenge of implementing this vision of a better Philadelphia will demand a new culture of collaboration – an agenda, rooted in shared ideals, that will allow leaders in the General Assembly, City Council, and the Mayor to work together in the kind of partnership Governor

Schweiker and I fashioned around public education in Philadelphia. We cannot allow politics or personality to get in the way. I stand ready and willing to work with Democrats and Republicans to fashion a "Partnership for Progress" that stretches not only throughout our City but throughout the Commonwealth.

Nothing illustrates the need for partnership – and the value of partnership – better than the historic agreement we reached with the Commonwealth regarding the governance of public education.

The School Reform Commission the Governor and I appointed has now been seated. I want to thank the Commission members for agreeing to serve and welcome them here this morning: Chairman Jim Nevels, Jim Gallagher, Dan Whelan, Sandra Dungee Glenn and Mike Masch.

This Commission will make decisions that will affect the lives of hundreds of thousands of children and their families, and influence the course of this City for years to come. I believe the Governor and I have assembled a quality team, worthy of public trust and confidence. I also believe public education in Philadelphia can be better, must be better, and will be better if it receives the broad public support it deserves.

I have spent considerable time with SRC Chairman Jim Nevels, and I believe we share common goals, even though we may not always agree on the details. My appointees to the SRC have

assured me they will work with their new colleagues as a constructive force for reform that gives our students a better chance to compete.

We all agree the status quo is unacceptable. We need small class size, better facilities, better implemented programs, smart technology, and better supported teachers with a far more friendly learning environment. Teachers and students alike must be safe and properly supported!

I know there are powerful feelings among some legislators and education advocates favoring exclusive local control of public education. Exclusive local control is also my preference. However, I assure you, this City will continue to have its say about the future of public education.

Through my personal efforts and those of my appointees to the SRC, through the work of our local Secretary of Education, through the outreach of a reconstituted and expanded Board of Education, through the vigilance of our students, parents and community members, through the deeds of our school district employees, and, of course, through the commitment of this City Council, our voice will remain strong and effective.

But after two nonstop years of making dramatic changes at the School District, changes that included new leadership, a longer school day, a more uniform curriculum, significant labor contract reforms, establishment of 39 charter schools, budget savings of about \$50 million, and an administrative reorganization that put teachers back in the classroom, it nevertheless became clear that the City and School District could no longer go it alone.

Lurching from one crisis to the next made for an unstable environment, jeopardizing some of our most promising reforms: smaller class sizes, a more demanding curriculum, a safe and orderly school environment, and the use of instructional technology to facilitate learning. If we were going to sustain these reforms and offer children the quality education that is their sacred right, we needed a new partnership with the Commonwealth – a partnership on behalf of continued reform and additional State funding.

The agreement I reached with Governor Schweiker did not come easily. Our negotiations were intense, candid, and honest. I thank Governor Schweiker for his leadership, commitment and courage in bringing our talks to a positive conclusion. I also thank him for his unprecedented pledge to request \$75 million of new money to support our public schools in his FY03 budget.

The agreement does not answer every question and address every concern:

- It does not provide a clear direction for the future of charter schools, which offer valuable public school options but have contributed significantly to the School District's financial deficit.
- It does not provide the long-term financial stability we need, which will come only through statewide reform of public school funding.
- It does not guarantee we will like every decision the SRC makes.

- It does not define the role of Edison Schools, a matter on which the Governor and I honestly disagree. I have grave reservations about taking substantial public dollars that could go toward upgrading teaching materials or reducing class size and divert them to a private, for-profit company with little experience. This is, very simply, not a wise use of public education dollars.

Nonetheless, our agreement with the Commonwealth brings necessary change:

- It does give the City a significant role and a meaningful say in the policies of the School District.

- It does protect the City treasury by capping the City's financial commitment, and most importantly

- It does give children, parents and school employees the certainty they need and deserve: our schools will open on time and will remain open without interruption throughout the entire school year.

Let me share the financial terms of the agreement.

During the current fiscal year, as soon as we secure legislative clarification on the recapture provisions of Act 46, I will submit a transfer ordinance and ask you to approve a one-time grant

of \$45 million to the School District. This grant would fulfill an earlier commitment to Governor Ridge and our teachers.

For FY03, I am requesting \$45 million in new, recurring revenues to fulfill our commitment to children and their families. Of this amount, \$25 million would be in the form of millage to be applied to the estimated debt service on a \$300 million deficit funding bond. The remaining \$20 million would be provided in regular, recurring support to the School District. I will make this request in tandem with the General Assembly's adoption of a State budget containing \$75 million more for Philadelphia public schools.

Make no mistake: the City will feel the squeeze of this additional funding to the School District, but it is the right thing to do.

Public education is already the City's top spending priority, even though our support is continuously and unfairly undervalued by our critics. Nevertheless, we always knew that we would have to do more in exchange for more State support.

It will take tremendous effort by the City and the Commonwealth working in concert to build a public school system worthy of our children. The transformation will take courage, creativity, patience, trust ... and money. There can be no doubt: \$45 million is not too much to invest in over 200,000 public school children who will always rely on this system as their gateway to the future.

Let me give special emphasis to the fact that our historic partnership with the Commonwealth does not represent a permanent solution to the District's long-term financial difficulties. At best, we are building a bridge to the future, which will crumble under the weight of additional funding requirements unless we act soon.

The time has come for a school funding mechanism reflecting the fact that education is an investment in our future, an investment in our most precious resource – our children.

The anthropologist Margaret Mead spoke wisely on this issue many years ago: "The solution to adult problems tomorrow depends upon the way our children grow up today. There is no greater insight into the future than recognizing when we save our children, we save ourselves."

The current education funding formula jeopardizes our children – and ourselves. All of us have a responsibility to mobilize public support on behalf of a change in the way education is financed within our Commonwealth. We must abandon the real estate tax as the primary way of funding public education.

Success will demand a statewide coalition: adequate funding for public education is not just a Philadelphia problem – it is a Pennsylvania problem, with cities, suburbs, and rural communities all feeling the burden. I am encouraged by the many new voices – including the State Board of Education, Greater Philadelphia First, and members of the School Reform Commission – which have recently joined the chorus on behalf of revamping the State's school funding system. We

should all call on this year's gubernatorial candidates to speak clearly to the question of statewide tax reform.

Our agreement with the Commonwealth and our advocacy for a new education funding mechanism both take aim at the same goal; to bring our children the benefits of literacy and liberty. No matter the obstacles, we will meet our obligations to the children of our City. We will remember, now and always, the wisdom contained in a maxim that has long held a special place in the culture of Native Americans. That maxim states: **"We do not inherit the world from our ancestors; we borrow the world from our children."**

Last year, we awarded a total of 101 after-school and youth development grants – funding for 77 new programs and 24 existing programs. These grants represent one of the wisest, most cost-effective investments we can make. All the available data indicate children are most likely to get into trouble between the hours of 3 p.m. and 6 p.m. – the hours after school ends and parents typically return from work. Law enforcement officials tell us that structured after-school programs are essential in reducing juvenile crime and preventing juveniles from becoming victims of crime.

Our goal is to ensure that every child in Philadelphia – every child – enjoys the social enrichment, the academic opportunities, and the personal safety offered by after-school and youth development programs. This budget, therefore, requests \$23 million to support our child-centered programs in the Department of Human Services.

We must honor our commitment to children, and we must do so despite the challenging fiscal climate we now confront:

- Current economic projections tell us that growth in revenues from wage, sales, and business privilege taxes will remain sluggish until at least the third quarter of 2002.

- Homeland defense initiatives will cost our City \$21 million before the end of FY02.

- The costs of our criminal justice system – the result of improving safety throughout the City and increasing arrests by 28 percent since 1996 – will continue to outpace inflation.

This is the backdrop against which my administration worked to develop the budget we offer today. We are facing a tough budget year. The Operating Budget and the accompanying Five-Year Plan project moderate revenue growth (less than one percent) and moderate inflation (2.5 percent).

This budget addresses our greatest needs, builds upon the success of our first two years, and invests strategically in our future. It is designed to inspire confidence among our citizens and within our business community. Given the state of the national economy and the challenges I have described, this budget is tight and has little flexibility. It prescribes the fiscal discipline necessary to protect the City's long-range financial well being.

This budget sustains City services at current levels. It will require some sacrifices, but it makes prudent and targeted investments – in quality programs for children, neighborhood transformation, job creation, and strategies to make Philadelphia fertile ground for growth of the knowledge-based economy. These are the critical priorities of my "Vision for a better Philadelphia."

The Five-Year Plan proposes an important restructuring of the City's tax reduction program. Unfortunately, given the downturn in the economy, increased spending for security, and our contribution to the School District, we cannot afford the current tax reduction program. We propose to reduce the overall tax reduction program by approximately 50 million dollars over the five year period. While we support the tax reductions scheduled for FY03, beginning in FY04 we propose greater reductions in the gross receipts portion of the business privilege tax. In fact, by FY07, under our restructured tax reduction program, the gross receipts taxes will be only half of what it was when our tax reduction program began in 1996.

Beginning in FY04, we will freeze the wage tax at FY03 rates. We are targeting the gross receipts tax because it is the City's most onerous, anti-business, and anti-job tax. If, however, the economy recovers and there are no further unexpected blows to our budget, we will responsibly restore the 50m reduction and reduce the dreaded gross receipts tax even further!

Let me bring to your attention several important items in this budget:

- The General Fund fully supports wage and benefit costs for a deserving workforce of 25,440 men and women, including approximately 2,500 firefighters and 6,900 police officers.
- We will be a safer city. We will upgrade homeland security and emergency preparedness while providing funds to fight 10,800 fires, make 182,000 EMS runs, process 80,000 arrests and house 8,034 inmates.
- The budget provides the Department of Streets with the funding to complete 2.7 million square yards of street resurfacing and repair of every reported pothole within four days. It will enable us to collect 770,702 tons of refuse per year – and we will do this on time, more than 95 percent of the time.
- This budget provides DHS services for 23,700 children, and ensures that 550 of our most vulnerable citizens will be adopted into loving homes. In addition, we will open an additional nine Beacons Schools, which make neighborhoods partners in providing community services and meeting the needs of children.
- This budget takes advantage of the departure of over 1,000 non-uniform employees who are enrolled in the Deferred Enrollment Option Program (DRO). I am challenging Department's to leave open vacancies caused by DRO departures, substantially reducing the City's workforce and reducing the City's costs by \$55 million between FY03 and FY07.

Today starts a New Year for this City Council. During your recess I have had an opportunity between Eagles celebrations to spend time with many of you, and I hope in the near future with all of you. I am not oblivious to your concerns.

This City needs us working together. I am committed to working harder at responding to your concerns, listening to your ideas, and earning your support. Politics has its place, but should never undermine the good of the City. I respectfully request that you focus on the substance of this budget. It is an honest document, and it defines in stark terms the challenges for my administration and this Council.

This year we cannot ignore the turbulent economy that is upon us, but neither can we allow it to unsettle our focus on a better Philadelphia for tomorrow. This year will test our resolve. I, for one, am confident.

Most of us go back a long way. We have made many tough decisions – tougher than those we now face – over the past two decades to keep our City solvent and point Philadelphia in a better direction. Now, once again, we are called to action! This budget reflects the priorities of people in neighborhoods across the City. It is not everything we want, but it is what Philadelphia needs.

I am confident. I know we are committed and firmly believe we will remain steadfast in our focus: on creating jobs, transforming neighborhoods, fortifying our economy, and offering our children the opportunity to live, love, learn, grow, and become responsible, productive citizens who will lead Philadelphia through the challenges of this new millennium.

Together, Council President Verna,
together, Majority Leader Blackwell,
together, Majority Whip Tasco,
together, Minority Leader O'Neill, and
together, each and every member of this Council:

We will make the tough decisions necessary to meet our obligation and implement our shared vision of a better 21st Century Philadelphia.

Together, we will get the job done.

THANK YOU, God bless you, and God bless our City.