

**A Call for Fiscal Integrity and Public Engagement**  
**Mayor Michael A. Nutter, Jan. 15, 2008**  
**(check against delivery)**

Good morning. I appreciate everyone being here today on what I'm sure was relatively short notice. I've asked you all here today because we need to share some information regarding some serious concerns about our great city of Philadelphia.

Later today, after this press conference I'll be leaving the city to travel to Washington to present testimony at a House Committee on President-elect Obama's stimulus package.

But first I want report on three primary issues:

- First, I want to give you an update on the city's grave and worsening financial condition,
- Second, I want to announce a NEW WAY in which Philadelphians will deepen their knowledge of the city budget process and inform me and my staff while working with City Council as we develop a proposed new budget, the FY10 budget for our city,
- Third, to introduce a new Private Sector Outreach Board, a joint effort of the city and the Greater Philadelphia Chamber of Commerce, which will develop recommendations to make city government more efficient, reduce costs and ultimately improve city services.

With the inauguration of President-elect Barack Obama just five days away, we're all filled with a certain sense of excitement and hope for our new president while simultaneously we have deep concern about the future of our economy as it continues to struggle through one of the worst recessions in our country's history.

The President-elect recently described the fiscal crisis facing our country as "unlike any we have seen in our lifetime," and he's warned that even with prompt action by Congress "it's altogether likely that things may get worse before they get better."

With the country losing 524,000 jobs in December, bumping the unemployment rate to a 16-year high of 7.2 percent nationwide and 8 percent at least in the city of Philadelphia, Philadelphians are justifiably worried about the future and about the quality of their lives in our great city.

Abraham Lincoln once spoke about commitment as that which transforms a promise into reality. He said it's the words that speak boldly about intentions; actions that speak louder than words and "the daily triumph of integrity over skepticism."

Every day, my administration, and that means each one of you here today and the many thousands who are not here, is COMMITTED to moving our historic green country town toward a future where Philadelphians are safe, where we can raise our families, live,

work and play and that there is a feeling of safety everywhere and that it becomes the norm in our city.

It's a city where Philadelphians are certainly safe from crime, but also where children are safe from abuse and neglect, where health is protected, buildings inspected and neighborhoods are reborn.

And while Philadelphians must be safe, we must also be smart in this new world economy. It certainly means better funded public schools, but also smart investment in adult literacy, new pathways for out-of-school youth and keeping our college graduates right here in the city.

Safe and smart can only be delivered by a city government pledged to the very best in customer service. Every day, we're striving for a future where Philadelphians will brag about the rapid, respectful, high-quality service they receive from their city.

But our vision of a safe, smart Philadelphia served by a high-performance government can't become a reality unless we maintain an unwavering commitment to sound fiscal practices, starting with living within our means.

As chief executive of this city, fiscal integrity is my most important responsibility.

Under the laws of the Commonwealth and our Home Rule Charter, we must produce a balanced, current fiscal year budget and a balanced five-year plan. And every year of that five-year plan must be balanced as well. We can't spend what we don't have. We can't use one-time budget gimmicks. And we will not play games with our fiscal books. Our budgeting system demands that we have foresight, that we anticipate the worst and sometimes even the best of conditions. They are all in the context of making hard choices. And that kind of decision making has helped us over the last 15 years to maintain fiscal stability.

In early November, I shared with you that the city government was facing a \$108 million deficit in the current fiscal year and that without emergency action, the city faced a billion-dollar, five-year budget deficit and budget gap. Through a very painful and thoughtful process and series of changes, we've closed that gap and balanced our budget and closed our books back in November.

Unfortunately, the recession has continued to gain force since the late October-November time period, and the revenue estimates, which were the basis for the budget changes we outlined to you in that November 6 address, have changed. The stock market, credit markets, the housing industry, consumer spending – all have sustained more damage. And now many economists are predicting continuing job losses through this year and possibly into next, which will continue to affect our national and city economy.

With tornado-like speed, this economic downturn has left the City of Philadelphia with a second budget deficit, which may exceed over ONE BILLION DOLLARS in the time period between now and 2014.

Let me be very clear about this: we didn't create this global recession, which apparently has no known end in sight. It initially caused a billion dollar problem, which we addressed in an emergency, mid-year budget change in November. And now, we face a second round of fiscal stress, another billion dollars over the next five-year period of time.

The first billion dollar deficit required many painful choices. This second billion dollar deficit will require drastic choices to be made throughout our city government.

The major factors in this second billion dollar deficit are the same as last fall – a huge drop in revenue from the real estate transfer tax, weakening business taxes and vast new payment requirements because of the stock market losses in the city's Pension Fund.

In simpler terms, people are not buying and selling as much real estate as they used to. When businesses lay off workers or go out of business, they don't pay as many taxes as they used to. And I don't think there is anyone in this room who has the ability to control what happens on Wall Street or the Dow Jones average. When it goes up, we do fairly well. When it goes down, we don't. That's the way the market works.

So for example, in 2006, we collected \$236 million in the real estate transfer tax; in 2008, \$185 million.

For Fiscal 2009, the current year, we're expecting less than \$129 million – a \$56 million swing from last year and a 45 percent decline in just three years. For the sake of comparison, some of these numbers would actually dwarf the size of some of our city departments.

Based on the 20-percent decline in the Pension Fund through November, the city must contribute an additional \$239 million to the fund through 2014.

If we experience a further 10-percent decline in the Pension Fund, which appears increasingly likely once we account for investment losses that have occurred since November, we're estimating the need for an additional \$119 million in payments to the pension fund through 2014.

Here's another way of viewing these soaring pension costs: in 2008, the city contributed \$352 million to the Pension Fund. For 2011, we're projecting a required payment of \$522 million. That's a 170 million dollar change, a 48 percent increase over the 2008 payment and a change that is more than the Fire Department's annual personnel budget of \$172 million.

We're also now projecting new reductions in business tax collections due to the recession. Including losses in the current fiscal year, we're looking at about \$119 million in lost business taxes through 2014. For further context: from last year to this year, our BPT revenue is down \$33 million, which is almost the entire cost of running the Recreation Department this year.

And so, at this critical time, at the intersection of our vision for the future and a fractured global economy, we must acknowledge that we face enormous challenges as we move forward laying out our vision for the city of Philadelphia. There are new fiscal roadblocks that may delay our ability to get where we're trying to go.

But just because we're in a recession, I will not retreat from our main priorities in this government – a safe city, a smart population, excellent service and sound finances for our city. The citizens of Philadelphia elected me to lead and that's what I'm going to do, but I can't do it without our citizens. We need to work together, talk together and chart a path to a better future ... together.

And that means all of our citizens and all of our city workers. This grave situation requires that all of us experience the pain of change, that all of us must sacrifice. I'm calling on our four municipal union leaders, whom I respect greatly, and all of our public employees to be prepared to share in the pain and sacrifice as we move forward. We must change how we run this city government. We must change how we fund the government. And we must change how much it costs to run our city government.

For too long, we've had practices and policies that make us inefficient, that require too many people to do certain tasks and that support operations that we may no longer need.

And that's why I'm pleased to announce that in the coming weeks, the citizens of Philadelphia will participate at the front end of our budget process in a manner unlike any other in the history of our city. It will be a very public, open exercise aimed at gathering ideas about the very real choices we face as a city.

But first, let me say again and we've had a number of opportunities to do this but I would not let this day pass without saying again to the citizens of Philadelphia that I am very sorry and I apologize to you for not having more time when we made our budget revision in November to spend more time in public engagement. We were forced to take very quick actions under emergency circumstances because of a growing fiscal crisis. In town meeting after town meeting last November and December, Philadelphians complained loudly that they were not part of the process. We and I heard you.

And unfortunately, that situation was forced on us by the rapid course of daily changing events. But we could have and should have done better. And you deserve more. Unfortunately, as I mentioned we had to act swiftly because our No. 1 concern was maintaining our fiscal health in the current year and the years to come. That's what leadership demanded, but I truly understand and respect your concerns.

And I really did hear our constituents out there and we will do a better job of explaining the challenges and seeking their input before we make future choices.

We will involve citizens in the early stages of budget process. Now, some of you are familiar with the general budget process. In the past, mayors quietly gathered input from their department heads and some time before the end of March just simply presented a budget to City Council. I've been on the other side of that process many times. Only then did the public have a true opportunity to engage in dialogue and input at budget hearings.

Tomorrow, our budget team will notify department heads to begin developing budget scenarios based on different levels of funding. Each department will be asked to propose budget scenarios based on a combination of new efficiencies, spending reductions and revenue enhancements and increases that generate savings of 10 percent, 20 percent and 30 percent. This information will help us have an informed civic dialogue regarding tradeoffs and priorities with both the public and City Council.

Everything is on the table – programs, services, tax and fee increases, contracts that are already in place, city cars and everything else that folks want to talk about. Let me repeat, one more time. EVERYTHING is on the table for discussion and legitimate debate. Let me also say, just because something is on the table for discussion and debate doesn't necessarily mean that we will do it or implement it, but I think having information helps us make better and more informed decisions about an array of options.

And as our work begins internally, I will also be visiting Philadelphians in our neighborhoods, hearing their concerns and whether it's at kitchen table discussions or meetings with civic groups, I'll visit neighborhood businesses and sometimes even have these discussions literally right out on the street.

In late January, we'll begin a series of Phillystat meetings, which of course are open to the public and will be broadcast on public access Channel 64. The first two meetings will set out the broad fiscal conditions in which we find ourselves. Later, in February, I'll chair three Phillystat sessions as we begin to work through the tough choices outlined by the departments and to look for the smart investments.

Then, in mid-February, we'll hold four community budget workshops where we'll examine the real budget alternatives that our city department agency heads have come up with. The workshops will be facilitated by the University of Pennsylvania's Project for Civic Engagement. Participants will break into smaller groups and work through budget options and trade-off scenarios with the help of their facilitators.

While all of this is going on, I'll also be meeting with City Council members to review what we've learned from the public. During this process, I can assure you that the ideas we gain from these workshops and our many contacts with Philadelphians will play a central role in developing our new budget. Those discussions and options and ideas must also be consistent with our No. 1 priority, which is fiscal integrity. On March 19, I'll offer my 2010 budget in an address to Philadelphia City Council.

Finally, let me announce the formation of a Private Sector Outreach Board, a joint effort of the city and the Greater Philadelphia Chamber of Commerce.

This board, consisting of a distinguished panel of private sector leaders from throughout Philadelphia and our region, will help us identify opportunities to make city government more efficient, to drive down costs and to increase the quality of our city services.

While it will look for efficiencies that can possibly be introduced in the fiscal 2010 budget, the board's long-term mission is to examine some of the major structural issues that have constrained city budgets for many years if not decades – issues including the tax structure, the criminal justice system, employee pension and health care costs and court funding.

The board member are as follows:

Judee Von Seldeneck, chairman and CEO of Diversified Search,  
Rosemary Turner, vice president and COO of UPS Metro Philadelphia District,  
Daniel Fitzpatrick, President and CEO, Citizens Bank Eastern Pa.,NJ, De.;  
President Ann Weaver Hart, Temple University;  
Michael Pearson, president of Union Packaging;  
J. William Mills III, president, PNC, and  
Harold L. Yoh III, chairman and CEO of Day & Zimmerman.

I thank all of them for their willingness to serve.

In the weeks and months ahead, we'll be engaged in a budget process like no other because we're in an unprecedented time of fiscal challenge for our city and nation. Now, more than ever, we must come together and share the burden and sacrifice that is required. There really are no other options.

In this time of challenge, President-elect Obama recently said we must put aside our narrow partisan differences and focus on a sense of common purpose. The first question should not be "What's good for me?" But rather, and I'll change the context a bit – "What's good for the city our children will inherit?"

I'm confident that if we work hard and stick together on behalf of the citizens of Philadelphia, we'll set a course that ensures our fiscal integrity and when the economy becomes strong, our city will be ready for prosperity. That is my daily goal; that is our daily mission; that is our focus and that is my duty on behalf of you all.

Thank you very much.