COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, February 24, 2004
10:15 a.m.

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RESOLUTION 040076 - Resolution authorizing the Council Committee of the Whole to hold hearings on the findings and recommendations of the Tax Reform Commission's final report, released on November 15, 2003...

PRESENT:

COUNCIL PRESIDENT ANNA C. VERNA
COUNCILMAN DAVID COHEN
COUNCILMAN FRANK J. DICICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN JAMES F. KENNEY
COUNCILMAN MICHAEL A. NUTTER
COUNCILMAN FRANK RIZZO
COUNCILWOMAN MARIAN B. TASCO

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I N D E X

RESOLUTION 040076 PAGE

COMMISSIONER WILLIAM R. MILLER, IV
Tax Reform Commission..... 4
ROGER BALLOU, CDI Corp..... 11
REV. BRUCE EDWARDS, ULC..... 16
MARC BERMAN, Berman Travel..... 26
BRUCE CRAWELY, African American
Chamber of Commerce..... 27
EDWARD SCHWARTZ, Tax Reform Com.... 65
MELVIN JACKSON, Tax Reform Com..... 85
AL TAUBENBERGER, Tax Reform Com.... 121
ANDREW VANDENBRUL, Tax Reform Com.. 123
BRETT MANDEL, Tax Reform Com..... 137
CHRISTOPHER DWYER, Tax Reform Com.. 152
RICHARD VOITH, Econsult..... 161
KEVIN GILLEN..... 191
JACK HUNTER, Tax Reform Com..... 206
DAVID THORNBERG, Tax Reform Com.... 207

032404 - WHOLE - RES. 040076

COUNCIL PRESIDENT VERNA: Good morning, everyone. I just want our visitors to know that we're waiting for a quorum, and as soon as we have nine Councilmembers here, we'll go on with the hearing. Thank you.

(Recess.)

COUNCIL PRESIDENT VERNA: Good morning, everyone. We are going to be considering Resolution No. 040076. Though we do not have a quorum at this point in time, we are going to proceed with testimony because we truly believe this to be an informational session.

So at this time, I would ask Mr. McPherson to read the title of the resolution.

MR. MCPHERSON: Resolution authorizing the Council Committee of the Whole to hold hearings on the findings and recommendations of the Tax Reform Commission's final report, released on November 15, 2003, and further authorizing the Committee to seek advice and recommendations on tax policy and tax reform from citizens, financial experts, economists, academia, business executives and

032404 - WHOLE - RES. 040076

state legislative and executive branch officials.

COUNCIL PRESIDENT VERNA: Thank you.

It is my understanding that Joyce Wilkerson is here. Is she still in the room?

MR. MCPHERSON: She just stepped out.

COUNCIL PRESIDENT VERNA: Then I think we ought to proceed. I believe we have an agenda. The first panel.

MR. MCPHERSON: Commissioner William R. Miller; Roger Ballou, CDI Corporation; Reverend Bruce Edwards, Urban Leadership Council; Marc Berman, Berman Travel; A. Bruce Crawley, African American Chamber of Commerce.

COUNCIL PRESIDENT VERNA: Again, I apologize to all of you for the delay. However, we do welcome you and thank you for all the work that you did and the many hours that you put into giving us the information that you have. Thank you.

Mr. Miller, I'm sure you would like to open.

MR. MILLER: Good morning, Madam

President.

COUNCIL PRESIDENT VERNA: Good morning.

MR. MILLER: Good morning to the other Councilmembers who are present. I just have a brief statement that I'd like to read into the record.

I am a lifelong resident and business owner who's had the privilege of serving as a member of the Tax Reform Commission. I want to thank, certainly, Councilwoman Tasco for introducing Resolution 040076 which made today's hearings possible. I'd also like to thank Councilman Nutter for drafting the legislation that created the Commission in studying taxes. I'd like to thank you, Councilwoman Verna, also in my discussions after our deliberations and support that you, Councilwoman Blackwell, and others have essentially given us to give us this day to start what we simply see as a dialog.

We created a body of work. It's a very intricate body of work of three volumes.

Given your busy schedules and the fact that we spent nearly a year and over 10,000 hours to develop it, it's not something that you can do overnight. So we thank all of you for giving us an opportunity to sit here and begin a dialog about its importance.

In November 2002, nearly 170,000 Philadelphians voted to create the Philadelphia Tax Reform Commission to recommend methods to reduce the taxes of Philadelphia residents and workers and businesses. Following a study of thousand-page documents and testimony by dozens of tax experts, business owners, residents, we concluded that Philadelphia's unique tax structure has fundamentally damaged the City's economy. We now have the opportunity to move Philadelphia forward by adopting the Tax Reform Commission's recommendations as a total package instead of attempting a piecemeal effort that would shift the tax burden to either business owners or residents.

As a resident and a small business

owner, I felt the burden of an overbearing and, frankly, unfair tax structure. There are all sorts of tax abatements and TIFs that are being used to entice large corporations to move into Philadelphia or prevent them from leaving. And I think that that's essential.

But what happens to the small business owner who wants to support the City but is hit with the City's burdensome tax structure in my case as both a resident and a business owner?

There are no tax abatements or TIFs to keep us in Philadelphia. In fact, no one would think twice if a small business was forced to close or was forced to leave the City, and many of them are, taking its dozen or so jobs with them. But what happens over time when many of these businesses continue to leave? I mean, most of us are meeting with our accountants with regularity who are telling us, "You can't afford to operate in Philadelphia."

Fortunately, with me this morning is Bruce Crawley who's President of the African

American Chamber who will speak more in detail about the impact on small businesses.

Any economist will tell you that the small businesses are the cornerstone of a City's economy. But who makes up for those jobs if we do not reform our tax structure and retain them as we also try to attract new and large businesses to Philadelphia?

I think in a recessed economy large corporations downsize to meet their profit margins; small businesses close. You simply say in a business regardless of large and small, one has to look at what are the propositions of keeping a business afloat. You have to try your best to increase your margin of profits. Larger corporations have strategies of downsizing and outsourcing. Small businesses, quite frankly, have to be able to contain costs. When you have a regressive tax structure, there's a cost burden laid on you that you don't have the ability to shift elsewhere. So we're driven out of business because of it.

You will hear testimony over the

next two days from a broad spectrum of Philadelphia residents, small business owners, large corporations, Chambers of Commerce, ranging from the African American Chamber of Commerce to the Greater Philadelphia Chamber of Commerce, all of whom offer their perspectives on why taxes are necessary. We also have the Northeast Chamber of Commerce, North Philadelphia Chamber of Commerce, the Pennsylvania Economy League and many others who have worked on this with us.

From the Tax Reform Commission's perspective, tax reform is a prerequisite to economic recovery and prosperity in Philadelphia and throughout the region. We cannot afford to not act on the recommendations which the citizens of Philadelphia said were a necessity and which reduce Philadelphia's tax burden equitably. Most importantly, the recommendations provided a revenue neutral road map to reduce taxes across the board without damaging the City's General Fund.

We should all remember that today,

as never before, all voters, whether they are black, white, rich or poor, democrats or Republicans, whether they live in North Philadelphia, South Philadelphia, West Philadelphia, Center City or the Northwest, people want results and people expect results.

The Tax Reform Commission's recommendations taken as a whole package are the end result of a process that was created by the people, and those same people now expect the Mayor and City Council to act responsibly, to take action. If nothing is done, the message says back to the citizens of Philadelphia that their needs are not important, the City spent a year and a half and a half million dollars on an exercise of futility.

I personally don't feel that you, Members of Council, that is your sentiment. I think your attempt today by having these hearings reflects your concern. I simply hope that it is a spirit of exchange between us and Council and used as an informational session. But I do want you to feel our passion.

032404 - WHOLE - RES. 040076

The essence of democracy, I think I said the other Thursday, is citizen participation. We are private citizens that banded together and decided that this was something that was critically important to our City's future and our own existence, and that's why we're here today. Thank you for the opportunity.

And with that, I want to turn it over to Roger Ballou of the CDI Corporation.

MR. BALLOU: Good morning, Members of the City Council's Committee of the Whole. For the record, I'm Roger Ballou, President and CEO of the CDI Corporation. We're located at 1717 Arch Street in Philadelphia. I am also a City resident.

The CDI Corporation is a publicly-own provider of customized staffing and outsourcing services. We currently have several hundred employees in the City. We pay $400,000 in City taxes, and our employees pay in excess of $1.1 million in City taxes.

I'd first like to thank Councilwoman Marian B. Tasco for introducing Resolution

032404 - WHOLE - RES. 040076

040076, granting this public forum to discuss the findings of the Tax Reform Commission.

I come before you today as a member of the Greater Philadelphia Chamber of Commerce Council for Growth. You may recall that Mark Schweiker, the President and CEO of the GPCC hand developed a letter from the Council for Growth that outlined our support for the Tax Reform Commission's recommendations.

In Mark's capacity as head of the new Chamber as a result of the merger between GPCC and the Greater Philadelphia First, he's charged with a very ambitious marketing campaign called "Select Greater Philadelphia - the Place to Prosper." This is a $16 million, four-year initiative to market the Greater Philadelphia region nationally as well as globally to successful businesses and ambitious entrepreneurs. A major component of the success of this effort is and will be the tax climate we can offer them. I'm asking for your help in making this happen. You can set the tax rates that will either drive people

away or encourage them to come and stay in Philadelphia. Tax reform is critical.

The region has huge natural advantages. Its proximity to the major centers of business and government in New York and Washington, the major universities here, the transportation networks, industries and growth segments of the national economy, including things like life sciences where this is one the world's centers; and the quality of life.

I want to acknowledge the fine work of the 15-member Tax Reform Commission for their relentless hours of meetings and research to develop a plan that was adopted almost unanimously. They have much to be proud of. The diverse group was able to hunker down over the long, hot summer and present a plan that I believe is fiscally responsible. In fact, the Commission received such glowing accolades that the Greater Philadelphia Chamber has been working with the General Assembly in modeling a State Tax Reform Commission after the Philadelphia

Commission, and we're pleased that Governor Rendell made mention of this in his recent budget address.

I'd also like to acknowledge and thank the Mayor for recognizing the Commission's work when on December 18, 2003, he instructed each and every one of his transition committees as part of the Philadelphia 21st Century Review Forum to carefully review these recommendations.

I've heard time and again the cry to make our City more competitive with our neighboring borders to help market the City and the region to the tourism industry and to expand the Pennsylvania Convention Center so we can get a bigger piece of the pie. I'd suggest that the best way to do this is to make this City a more business-friendly town in which to live and work and, yes, to prosper.

We don't operate in a vacuum. We realize that many factors have to come together to make things work. We're optimistic that the City residents will be

able to enjoy additional tax relief from the State as a direct result of the new gaming revenues. It should be noted, however, that state tax relief should be considered in addition to the City's, not in place of it. And in times when poaching has become fashionable for some, I'm of the mind that stealing companies from one another really doesn't get us anywhere. We're in the economic fight of our lives, and if we're to win, we must be competitive. One only fails if you give up, and we don't plan on giving up or anything along those lines.

Thank you for this opportunity to speak to you. I hope you're all planning to attend the Mayor's business luncheon on Friday, March 5th, and the Chamber's annual City Council reception on March 25th. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

MR. MILLER: We now have Reverend Bruce Edwards from the Urban Leadership Council.

COUNCIL PRESIDENT VERNA: Good

morning, Reverend.

REV. EDWARDS: Good morning.

Madam President, to you and Councilwoman Tasco and Councilman Nutter, sponsors of the resolution that we're here to support this morning, and to all of the esteemed Members of our City's Legislative Body, let me say again good morning and that I am Reverend Bruce M. Edwards. I'm the President of the Urban Leadership Council and a proud member of what we have come to call the Tax Reform Coalition (sic).

Since last Thursday afternoon following a meeting of members of that Tax Reform Coalition that has literally been together -- we were trying to figure it out a minute ago -- possibly three years now since we started working together in an effort that was launched by the former head of the Greater Philadelphia Chamber of Commerce, Charlie Pizzi, to ensure the continuation of modest wage tax reductions and that brought together organizations and groups as diverse as the Greater Philadelphia Chamber, the Center for

the Study of Economics, the Pennsylvania Economy League, the Pennsylvania Bar Association, small business owners, political leaders, City Controller Saidel and his great staff, Young Involved Philadelphians, the Greater Philadelphia Association of Realtors and, yes, the Urban Leadership Council. These diverse constituencies formed a bond that has remained strong and remained committed to achieving in a very real way tax reform for the City of Philadelphia.

This, in fact, became a labor of love for the Urban Leadership Council. And many times people would ask me, "What involvement, what delight does grass root folk take out of an issue such as tax reform?" Well, on May 15, 2002, the ULC submitted and provided oral testimony at hearings called by you to examine the value and ascertain support regarding a proposed amendment to the Philadelphia Home Rule Charter to provide for the creation, appointment, powers, and duties of a Philadelphia Tax Reform Commission; and should the creation of such a Commission be

placed before the citizens of our City for a vote by ballot question to be executed that November.

In that testimony, we gave only qualified support. We feared a Commission, as many had been in the past, would have become an impediment to real progress. We wanted no part of an entity that would become just representative of nothingness. We wanted something that would have real teeth and whose work would ultimately impact the City and call for real improvement in the areas of job creation, job retention, neighborhood restoration; and that in the end, the Commission's work would result in ushering in a new era of economic growth and opportunity that would lower the tax burden on Philadelphians and raise the economic growth opportunities that exist here.

In that testimony, the ULC also expressed concern as to configuration of the proposed Commission and the composition of the Advisory Board. But more importantly than that, however, was Article 5, Chapter 9,

Section B of the resolution. It was this section that gave us real concern about the validity of such a Commission. This was the wording that gave us the trouble: "The Commission shall not make any recommendations related to any expenditures, municipal government cost savings, or municipal government service reductions to offset any potential revenue reductions which may result from the implementation of any recommendation set forth by the Commission's final report."

This consideration bothered us greatly in that we saw no point in examining the City's tax structure for the mere sake of an examination. Nor could we see the value in doing a comparative analysis without the ability to make real recommendations that would get us out of the trouble that we're in and affect the City's bottom line. In simple terms, the ULC's position was that if the Commission was not going to speak to cost savings, possible revenue reductions, possible service reductions or any budgetary manipulations, not allowing the Commission to

address those matters would make the Commission of little value.

Well, I'll say hallelujah and thank God. That did not happen. The ULC and the citizens of Philadelphia are gratified that the end result of a Commission that was voted into being by the citizens has worked and has worked well. We're proud of the work that they accomplished. We paid attention to it. We involved ourselves in it, testifying before the Commission twice ourselves. So with our misgivings, we were proven to be wrong. The Commission was a real Commission. It had a mission and it has completed the mission.

In a letter to you, Council President Verna, dated October 20, 2002, the ULC made note that it continued to support the establishment of the TRC, particularly after learning of enormously high real estate property reassessments and pending commercial property reassessments that were on the way. Knowing that a family in Philadelphia with a median income of $40,000 who works in our City pays 14.4 percent of their annual income in

City wage, sales, and property taxes, we knew something had to give.

In the Mayor's own Budget Address that he delivered on November 21, 2002, the Mayor talked about the complementary work to be done by the Tax Reform Commission. He stated that this group would have the critical challenge of looking at the City's complete tax structure, including the real estate assessment practices of the Board of Revision of Taxes as well as identifying the right mix of revenue sources to balance the City's budget, provide quality services and grow the local and regional economy.

On March 18, 2003, I was before this same Committee supporting City Council Bill 030073, and in that testimony I marvelled at some of the glaring negative statistics being reported by speaker after speaker. If the statistics are true, we as a City continue to lose some 1,000 residents per month, draining our talent pool and decreasing the City's income. At this hearing, the ULC urged your vote for the bill and for your positive vote

to create, via voters approval, the Tax Reform Commission.

I urge you to work toward improving the City's economic lot as opposed to continuing to manage the City's decline.

Now, here we are. The Tax Commission was voted into being. The Tax Commission has spent 10 months doing its work. It has been a good steward of the people's money. And I think we can all agree that it was a noteworthy process. They came back to us with documents that were clear in their content and in their substance. The 13 separate bills that represent the work of the Commission must not get caught up in political in-fighting, rules manipulation -- ya'll aren't listening to me. Let me go back on that one because ya'll aren't listening to me. The 13 separate bills that represent the work of the Commission must not get caught up in political in-fighting, rules manipulations, or any other such action that might prove negative and, therefore, impede the work of the Commission, your own work on behalf of

your constituents and ultimately the work of the citizens of our City.

Finally, let me say, we must insist upon a new standard of public and private service ethics in the City of Philadelphia. There is evident in our City a system that not only smells of corruption, back-door dealing, inside trading, manipulation of the process, and all too often it doesn't matter what the issue is as long as some individual, some firm, some non-profit group can find another way to pimp the public, get some more checks rolling in, and immediately go back to hoodwinking the public. That was not the mission of the Commission. That was not what the mandate of the Commission was. And the Urban Leadership Council will not tolerate it. We worked to get the Commission instituted, we stood with Councilman Nutter to get it instituted, we testified in front of it, we support its final document, but that's where we're going to stop. We expect it to be turned over to the citizens of Philadelphia, to their representatives in this Chamber, and

for the Mayor to get busy about turning the economic house of this City around. That's what it's about.

And I will leave you with those words. We demand this. The people of the City demand it. An immediate cessation, an immediate cessation in the kind of behavior that has literally torn a great city apart. We've got to stop it, and we've got to stop it now.

I thank you so much for allowing me to come. One of these days, ya'll are going to ask me to come down here and say a nice prayer. But every time I come, you got to make me come down here with my fire and brimstone.

(Applause.)

MR. MILLER: Thank you, Reverend Edwards.

We now have Marc Berman from Berman Travel.

MR. BERMAN: Good morning, Madam President, Members of City Council in my City. My name is Marc Berman, born and raised in

Northeast Philadelphia. My current residence though is Northeast Philadelphia. I'm an active member of the Greater Northeast Philadelphia Chamber of Commerce. Last year, my wife, who is also my business partner, took a risk. See, she opened a travel agency in a post-911 world. My job at the agency is marketing and E-commerce. I was told by many, "Are you nuts? It won't work. Travel agencies are closing left and right."

Then we took another risk. We opened in my City, Philadelphia. Did we consider other options? Yes. And no. I see companies taking the same risk that we did. We have a Wal-Mart, a Lowes, and a Target a few feet from the Berman Travel.com world headquarters in Oxford Circle, Bells Corner, Northeast Philadelphia. Even Chickie's and Pete's Cafe is expanding here in my City, taking a risk, but doing it.

As far as Berman Travel.com, it's 14 months since we opened. And during this time, Sandals Resorts in the Caribbean nominated Berman Travel.com for Newcomer of the Year,

not just in Philadelphia, but nationally.

And where is Berman Travel.com located? Not in New Jersey, not in New York, not California, Florida, Kentucky or Ohio. That's where our biggest competition is. We opened it right here, in my City, Philadelphia. Our primary wholesaler, Travel Impressions and American Express Company, named us Best of the Best, 2003, and it seems we're off to a good start.

Now your help is need to implement in their entirety the proposals offered in the Tax Reform Commission report. This way, other new businesses can see our growth in Philadelphia and join us in this great City.

I did take a risk. I don't know if it was worth it yet. It's only been 14 months. But I believe in my City. I love my City. I'm not leaving my City. So I'm going to stand behind my City and hope that all of these things become adopted. We need it. It's the greatest city in the nation.

Thank you for your time and support with this issue. It's crucial for the future

of our City. Thank you for your time.

COUNCIL PRESIDENT VERNA: Thank you.

(Applause.)

MR. MILLER: We'll now have A. Bruce Crawley, Chairman of the African American Chamber of Commerce.

MR. CRAWLEY: Thank you. Good morning, Madam President, Members of City Council. I'm here today as Chairman of the Board of the African American Chamber of Commerce. Bill referred to me earlier as President of the African American Chamber of Commerce. The President gets paid, the Chairman is a volunteer position. I want to make that clear.

The African American Chamber of Commerce, established 10 years ago, is a leading regional private sector advocate for the growth of African American businesses and the expansion of the African American economy overall in this City and region.

The organization currently has a membership of 750 businesses, the overwhelming majority of which are located within the City

limits. The African American Chamber was one of the appointing organizations to the Commission and we were proud to submit the name of Melvin Jackson, our board member, who with his wife owns and manages a successful West Philadelphia based healthcare business.

Oddly, we represent a community that is not diametrically opposed to the concept of paying taxes. For us, being asked to pay taxes is a sign of having an economic pulse, that your business is generating cash flow, that your family members are earning income and wages. And in an economy wherein the African American unemployment is twice that, 6 percent versus 12 percent, twice that of the general population, we take having an economic pulse very, very seriously. So we're not all that much turned off by taxes. We are more turned off by not having wages or revenues flowing through our businesses.

We come before you, with all that having been said, as supporters of the Philadelphia Tax Reform Commission and its advocates for a more fair and balanced tax

strategy for Philadelphia. For minority businesses, however, the definition of fair and balanced includes, not only tax rates that are not excessive or onerous, but also tax planning that provides sufficient revenue to the City's General Fund to support an attractive quality of life for City residents and City-based businesses.

Unlike some others in the regional business community, we don't necessarily believe that tax cuts are an absolute panacea for curing all of the business location entrepreneurial development and residential out-migration issues that have challenged this great City for the 40 to 50 years. While we believe that intelligent and professional tax rate strategy is important, we also are strong believers in the fact that tax revenues can also be built by including more businesses and employees in the municipal tax base.

The problem with the current tax base, as we see it, is that the tax planners have not paid anywhere near the appropriate levels of attention on how businesses and

employees that may grow out of the new majority of the City's population can contribute to greater overall tax revenues, balanced budgets, greater infrastructure and service development capability, and even to reduce per capital and per business tax rates.

The focus of the tax planning, the goal of the majority of the tax advocacy has been to accommodate those who have every intention to leave this great City as soon as they possibly can, on those who have already left and who have little desire to return. We find that at least troublesome and at some level clearly unproductive. This is a Philadelphia tax plan designed to supplement the General Fund and to grow this great municipality. While we understand the ongoing need to attract and accommodate outsiders, we are much more interested in a comprehensive tax plan that works for people who want to be here, whose houses and businesses are located here now, whose children are enrolled in Philadelphia-based schools and who believe in the future of this new international City.

From where we sit, that hasn't been the case at all. And that is the principal reason why the African American Chamber of Commerce did not join the now infamous three-block long parade of briefcase carriers that demanded radical suburban focus tax cuts.

Are we imagining all of this? Former Federal Reserve economist and now Econsult Principal Wharton Professor Voith was quoted recent as saying, "Will cutting wage taxes work? Will lower taxes encourage a few of the people leaving the City to change their minds? Will lower taxes encourage others to move to the City? Will a business add an employee here rather than elsewhere if it costs less in taxes? Ultimately, is investing in City wage tax cuts worth it? No one knows for sure." I repeat, the Wharton Professor Federal Reserve economist said, "No one knows for sure."

From the hysteria of the parade coverage, you'd think it was an ironclad sure thing. It's not. In fact, in the same article, Professor Voith pointed out, "Only

four of the largest cities in the country even have a wage tax." Yet, as we know, those same cities have all experienced the same suburban out-migration, the same economic polarization and the same decline in quality of their systems, as has Philadelphia.

While we support the Tax Reform Commission report in a broad sense, we also want to register our formal strong recommendation that we not stop here if we truly want to achieve a vibrant municipal economy. We need to recognize that 56.5 percent of the City's population is now comprised of African Americans, Hispanics, Asians, and Native Americans, and that 24.7 percent of the Philadelphia-based businesses are owned by those same people, the new majority in this City. But here is the tragedy and a substantial reason for our economic malaise. Even though Philadelphia's minority businesses support a $360 million annual payroll and more than 19,000 jobs, they collectively share just 2.2 percent of the City's gross receipts. Clearly, there is

squandered economic opportunity in that disparity of population to gross receipts and the disparity of businesses to gross receipts.

In our discussions with members of the Tax Reform Commission, for example, we find that simply increasing minority gross receipts from 2.2 percent to 6.6 percent, still leaving more than 93 percent of the gross receipts with white-owned businesses, we project an additional increase of 8 to $9 million dollars in annual gross receipts as tax revenue and an additional 38,700 jobs, and an annual wage tax increase of 40 to $50 million. That's the tax revenue benefit of economic inclusion. It's an approach that has for too long been unexplored in the City's tax and budget planning.

We at the African American Chamber of Commerce strongly recommend that we begin to focus our tax strategies on the people who actually live here and the businesses that have tied their future to this City.

In summary, let me reiterate, any tax structure of any City, no matter how fair,

is doomed to failure if nearly 60 percent of potential wage earners are under-employed or unemployed and that if 1 in 4 of its businesses are excluded from an opportunity to contribute to the tax base. Thank you all very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions from members of the Committee regarding the first panel's testimony?

Your going to have to raise your hands because we don't have the box here.

Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you very much.

I'd like to thank you for coming in today to begin this whole discussion around your work that you spent so long preparing and I want to thank you for issuing a report that is objective. And I know from Bill Miller, my buddy, all of the dialog that went on during the course of your deliberations. So I want to thank you because you're all very busy. Thank you for being in the City, working in

the City, and taking time to contribute to an effort that we need to really look at. And I just want to express my appreciation to you for that.

COUNCIL PRESIDENT VERNA: Thank you.

Anyone else?

Councilman Kenney.

COUNCILMAN KENNEY: Thank you.

I was just curious, Mr. Crawley. During the course of your testimony, you eluded to or you made mention to a suburban-based tax reduction. Can you elaborate on what you meant by that?

MR. CRAWLEY: Yes. I think that too often, as we've been engaged in these dialogs about wage tax cuts, the focus of whatever proposed tax structure, the focus of whatever proposed tax rate level is too often on -- often the vain attempt to bring businesses that are located out in the other four counties and southern New Jersey and northern Delaware back into Philadelphia without the appropriate focus on the businesses that are here now and who have every intention to stay.

I think that it also has been used that the structure of the wage tax argument has been used to explain the residential out-migration from the City. And as I said and as I refer to a report by Professor Voith at Econsult and the Wharton School, 4 in 10 of the largest cities in America don't even have a wage tax. And yet the same patterns of out-migration, the same patterns of economic polarization exist in those same cities. The same pattern of declining support of their public school system exist in those cities. So it's not just the wage tax. It's an issue of inclusion, inclusion of the people who have businesses of all color, of all ethnic backgrounds whose businesses happen to be located in this City.

I would encourage us to have a more balanced approach as we look at tax reform and to focus on people who have tied their fortunes to this City.

COUNCILMAN KENNEY: I think that the only difference probably with Philadelphia and the other cities that you're mentioning

relative to out-migration rates is that they've repopulated their cities with efforts like immigration efforts and other things so cities like Chicago, Boston, New York -- New York had a 15 percent out-migration of native New Yorkers over the last decade and a 9 percent net gain of population. So I think we have a long way to go in that area.

MR. CRAWLEY: And I think immigrants of all ethnic backgrounds are encouraged to move into a city where there is economic inclusion. If they believe that they as immigrants and they as minority immigrants specifically won't have an opportunity to be included in the overall economy without regard to minority set-aside legislation and those kinds of false arguments, if they don't believe that that can happen, they won't move to that City. And I think that if Philadelphia wants to have competitive advantage, it ought to begin to move in that direction, both for tax planning and for the general flow of this economy.

COUNCILMAN KENNEY: Well, that's

what made it so hard all the time to support a lot of the Public Works projects in the City because seemingly that most of the people who benefit from them are suburban construction workers without the opportunity for minority men and women in the City to access the construction trades and to work on those projects, so that's a lot of frustration that we went through in dealing with things like stadiums and other things. So I do agree with you there. Thank you.

MR. CRAWLEY: Thank you, Councilman.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions or comments?

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam President.

Good morning to the panel and thank you for all of the work that you've put into this Commission report.

Just this morning, I had the opportunity to speak to some folks who are principals in a company that is currently in

the City of Philadelphia, and the company has been here for about 250 years. It's an insurance company. And on this Thursday, I intended to introduce legislation, TIF legislation, that will help provide some gap funding that will enable this company to stay in the City of Philadelphia. It's not similar to what the KOZ that we're talking about or the KOIZ Zones. This company, because of policy changes post-9/11, can no longer be insured if they continue to have more than 800 people working for their company in one building at a time. And that's something, I think, that other companies may have some experiences with going forward.

So this company intends to buy a building and stay in the City of Philadelphia and actually grow over the next few years, their employment to about 200 more jobs, high-paying jobs, average salary 50 to $70,000 a year. They're currently leasing space in Liberty One or Liberty Two. But the interesting thing about my conversation this morning -- they had to make a decision. The

policy, again, doesn't permit them to house more than 800 employees in one facility at any given time, so they have to basically split up their employees, put no more than 800 in one building, a few hundred somewhere else. And they don't want to leave the City of Philadelphia. They're basically an institution, they've been here a couple hundred years, 250 years. If they were to look at leasing space as opposed to buying -- and they're not in the business of property management, they're not in the business of owning real estate; they're an insurance business. The cost of leasing space that will accommodate what they're required to do under the policy, separating the employees out, would cost their company over the course of 15 years $35 million to stay in the City of Philadelphia more than it would if they went to a suburban or South Jersey; $35 million over the course of 15 years. And that doesn't even take into consideration the wage taxes. That's just the cost of the U & O business taxes and general business privilege taxes, et

cetera, strictly on a lease basis. They'll probably save a few bucks by owning their property, but they just have a commitment to the City.

And I know we all have horror stories, we've heard these stories before and we'll continue to hear these stories during this discussion, but it was just interesting that just this morning they came in. $35 million dollars over 15 years.

MR. CRAWLEY: Part of that, Councilman, has to do probably with the fact that even though we have a 14 percent vacancy rate for commercial real estate in Philadelphia, there's a 20 percent vacancy rate in the suburbs. So you can strike a deal because a lot of those buildings are, you know, you can drive a truck through and won't find people with leases. So it is a good time to negotiate leases in the suburbs as compared to the City.

COUNCILMAN DICICCO: And because of those policy changes that they've required, the likelihood is if there were some sort of a

terrorist act, it's more difficult in the suburbs because those facilities are kind of horizontally laid, spread out over a campus. Generally, in the City, you're in a vertical building and it's one building where 800 to a thousand people may be working for that particular company and it's an easier target. And they've taken that into consideration. But they're a Philadelphia-based company and they want to stay here. So, again, I'm going to introduce a TIF for them. That wasn't the purpose of my raising it, the purpose was $35 million is a considerable amount of money over a 15-year period.

COUNCIL PRESIDENT VERNA: Councilman, I understand the same company is being enticed by New Jersey.

COUNCILMAN DICICCO: Yes.

COUNCIL PRESIDENT VERNA: And making all kinds of very, very good offers to them.

COUNCILMAN DICICCO: Some areas in New Jersey, they're putting as much as $20 million in an incentive to lure companies out to them. Just, "If you move here, we'll

give you $20 million for retrofitting or what-have-you to get your company up and running.

MR. BALLOU: Just as a quick comment on that, though, we actually looked at real estate in the City and in the suburban areas and in New Jersey just recently. And just a fact to comment, that the rates in the City have fallen so much that the actual rental rates available here are equivalent to the outside rates. I think they're talking mainly business occupancy tax and turnover tax is the differential. The rates in the City have fallen by 50 percent in most of the A and B level buildings.

MR. CRAWLEY: You're talking about the vacancy rates?

MR. BALLOU: No, I'm talking about the rental rates have fallen 50 percent from where they were three and four years ago. So it's not the rental rates that create the problem or create the impetus, it is those turnover taxes and occupancy taxes which on a lot of jobs, on a $50,000 job, it's not as

much to absorb. But on your processing jobs, your more entry level jobs, jobs like that, it becomes a very high component of your decision where you put the work. And that's where the City gets hurt tremendously is in an awful lot of the jobs that are wonderful starting jobs for people, 25 and $30,000 jobs where the business occupancy taxes and the turnover taxes make it unattractive to leave those jobs in the City. So a lot of loss of jobs that's going on here is hollowing out of existing firms that may stay in the City for their high-end jobs but not for a lot of the other jobs.

COUNCILMAN DICICCO: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President.

First, to the panel, thank you very much for your testimony. And I wanted to go back to -- Mr. Crawley, you had raised a

couple times in your testimony, which if we have a chance, I certainly would like to have a copy of.

MR. CRAWLEY: As soon as I get it typed, Councilman.

COUNCILMAN NUTTER: I understand. Well, no need to admit that. It was so fluid, you know, "The copies are back at the office."

On the economic inclusion issue, though, and as we're in this setting at least having a tax policy discussion -- you and I have obviously had a number of conversations about the issue. I wanted to better understand, though, from a tax policy standpoint how we create an environment that is economically inclusive, or is that more of a public policy issue? What kinds of things will we do on the tax side that create that inclusion?

And then I have a follow-up question about that.

MR. CRAWLEY: Councilman, I think that if the premise is that the tax basis broaden and it's broadened according to the

opportunity that exists in these under-included businesses, then you can do projected reduced tax rates.

COUNCILMAN NUTTER: Right, just because you have more people participating.

MR. CRAWLEY: And still project the same kind of revenue impact. And that's the premise. The premise is if you consider the same sources for your tax revenue generation, same sources for job creation, same sources for wage tax, then you're going to have to have a rate level that predicts the kind of revenue you need to balance your budgets.

COUNCILMAN NUTTER: Because you're always pulling from the same pool.

MR. CRAWLEY: Absolutely.

COUNCILMAN NUTTER: Then the second question is a follow-up to that, it it's probably less of a tax policy discussion and more a public policy discussion about your thoughts or views or suggestions, even criticisms, about -- for the African American Chamber or other businesses that you're involved in, how often is there outreach to

the Chamber members or other business that you're aware of with regard to either City or State -- kind of leave the feds to the side for a moment -- or naturally private sector business opportunities where some of the not-so-known entities are provided that opportunity, whether it's for a concession contract or other situations where people have experience, they're actually in that business presently, they didn't just create something of the moment to take advantage of the opportunity -- nothing wrong with that if you know what you're doing. So from your perspective as Chair of the African American Chamber, what's not happening? What kinds of things should happen to broaden that base, get your economic inclusion and then provide that opportunity?

MR. CRAWLEY: Two things. One is clear from the numbers, that those activities are not happening either in the public sector or private sector. If you got 24 percent of the business and they get 2.2 percent of the gross receipts, obviously, public and private

sector. It's not doing both or not doing an adequate job of outreach. So we know that from the number.

But one of the things that we've been discussing at meetings, we recently had a meeting between and among the members of the African American Chamber, Hispanic Chamber, and Asian Chamber. And at that meeting, we talked about a concept that would assist in developing the kind of revenue growth that could then be shared.

We draw that from looking at the major complaints that are being made now about the national candidates for the Democratic Primary and the complaints that are being lodged against President Bush. And that is that this economy, this Administration, has allowed and fostered an environment wherein US-based corporations are going overseas to purchase goods and services, de facto exporting jobs.

So the jobs that get created by the revenue generated by those companies are created offshore. And so there's great

harangue about that. People are complaining, and that ought to be brought back. And what we're suggesting is that the combined groups of African American, Hispanic, and Asian Chambers, both in the City of Philadelphia and within the region, that there been a commitment between members of the public and private sector, there been a commitment that there been a county first and region first procurement policy.

If we could, first, capture the dollars that these governments are spending anyway. They have to do procure. They have to put RFPs together. What percentage of those revenues, what percentage of those procurements are being spent within Philadelphia County and then within the other four counties in the region and how much of that is being spent arbitrarily outside the region without any plan to ensure that it's county first and region first.

Same thing could apply to those counties out in Bucks, Montgomery, Chester and Delaware. Our issue there is that if that

were to take place and if the public sector could do it and then if the private sector -- say, the 200 largest corporations in the region could come together and do the same thing, look at how much they spend on procurement and where is it spent, is it spent within the region? Is it spent within that county? Capture that. Look at the differential that could be attained if they increased the percentage of in-county and in-region purchases. There would be a dollar value -- I don't know how many billions of dollars that we could keep within this region. And there you'd have a built-in attraction to entrepreneurial entities, businesses that would be formed because they knew that money was spent only if you happen to be a resident business here.

So that could happen. And as it happened and if it was done inclusively, not only the broad business community would grow, but the minority business community which, again, is 24 percent of the businesses in the City of Philadelphia.

So that's how we see that happening and that's how we see the tax effect.

The tax effect numbers that we talked about in the report were based on that premise, that there would be monies generated by keeping procurement at home to a greater extent than it already exists. Not a hundred percent of it, but 60, 70, 80 percent of procurement kept within the county, kept within the region to create that flow and then we'd be able to do that.

COUNCILMAN NUTTER: I know you're aware and it's, I'm sure, too new for us to have much data, but you know last year there were a variety of amendments to the Home Rule Charter, all of which passed and they did a number of very positive things. One was an attempt probably at a smaller level to start proceeding down the path that you mentioned with the bid preference for Philadelphia-based businesses. The year is new and young, and I don't know how many bids we've had since the calendar year started, but certainly there's a smaller model, I think, of the kind of thing

that you're talking. And, I mean, it's across the board, it's not preferential to any particular sector, but it is at least Philadelphia-based.

MR. CRAWLEY: Rising tide would raise all ships.

COUNCILMAN NUTTER: Well, that's what they say.

MR. CRAWLEY: And a greater potential is for government to use its bully pulpit with the private sector, to say, "Private sector, can't you also retain, manage, and project your own procurement within the region?" We create a lot of cash flow.

COUNCILMAN NUTTER: Okay. Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Madam President, I think that my question was answered already, but I just want to be sure on the point about the policy of a particular company limiting

800 employees to a particular facility. How widespread is that?

And I understand there's a concern for terrorist attacks. I believe that's why that policy was put into place.

COUNCIL PRESIDENT VERNA: Are you referring to the comment that Councilman DiCicco made?

COUNCILMAN RIZZO: Correct.

COUNCIL PRESIDENT VERNA: I believe it's an insurance company.

COUNCILMAN RIZZO: I understand that. My point being, how widespread has that type of policy spread? Because if a company is going to spend 35 million additional dollars over 15 years to assure continuity in their business, that is obviously something that everybody should be concerned about if that policy is going to start to ripple through many industries or many corporations that reside here in the City.

COUNCILMAN DICICCO: Madam President, it may very well be the case. It's not just this company. It just happens to be

that this company does have in excess of 800 employees now located in either Liberty One or Liberty Two. My understanding from a very brief conversation with the people this morning is that insurers of companies such as this insurance company are making that a requirement. I suspect it's a national policy at some point, if it already is not in place.

COUNCILMAN KENNEY: Point of information.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you.

On that same note, my understanding, though, is that these policies apply to what they term as trophy buildings. Buildings like Liberty One and Two, the high profile potential terrorist targets because this company will be moving to Fourth and Walnut at a 12-story building but don't have the same problem because it's not a high profiled building like something like Liberty One and Two or other high profile buildings that are more potential targets of terrorists than a

normal office business.

COUNCILMAN DICICCO: But most companies, I would assume, fit into that category of the trophy building because they require so much space that they're generally in the high-rise buildings.

COUNCILMAN KENNEY: Well, they're going to a thousand people in Fourth and Walnut. But because of the low profile of the building, it's 12 stories, it's not in an area that's potentially - I guess when they do their insurance calculations, I assume they take into consideration the size and profile of the building which then, I think, limits it to so many buildings, but not every building.

COUNCILMAN DICICCO: I think post-9/11 in the New York area, my understanding is financial institutions, security exchange, they have basically downsized from putting all their employees in one building, even as far as New Jersey. A lot of those companies have sub-offices, if you will, in New Jersey because they've spread out their employees so, God forbid, some sort

of terrorist attack took place, they wouldn't get totally wiped out. So it's in line with that mindset.

COUNCILMAN RIZZO: Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

Councilman Cohen, did you want to be recognized?

COUNCILMAN COHEN: Yes.

COUNCIL PRESIDENT VERNA: The Chair recognizes you, sir.

COUNCILMAN COHEN: Thank you, Madam President.

I hear lots of talk about the entrepreneurial system. And whenever we talk about taxes, I hear about companies -- the African American Chamber of Commerce who's present here, but I hear the same thing from the Chamber of Commerce as I do from the African American Chamber of Commerce, always talking about entrepreneurial thing. What about the worker? Because I'm a partisan Democrat. I don't know whether I'm in the

presidential race or not now that Howard Dean has gone out. But I was at least with him in the Democratic wing of the Democratic Party, but I don't hear Democrats talk. I hear the same talk whether it's a Republican or Democrat, it's always about these big companies and the tax policies, yet I see no enthusiasm in the community by leadership in the communities, whatever the communities are, black or white, for the targeted tax cut that I proposed and which has received at various times as many as 11 votes. Is that because the money would go to workers and nobody seems interested in workers because they're not entrepreneurs? I thought that the purpose of talking about reforming a tax system was not just to help companies, I thought it was supposed to reflect itself in savings to ordinary working people. And if you tell me, "Well, they'll come," then I say, "Well, let's cancel the election, let's just keep Bush in power," because Bush follows this theory that if you take care of the entrepreneurs, everybody else will be taken care of. You

know, it will finally trickle down. I'm looking for people interested in tax reform, and I must say I was very strongly disappointed by the membership of the Tax Reform Commission because very few of them seem interested in the ordinary average worker, the middle class citizen. They didn't, for example, even discuss, they didn't criticize, they didn't attack, and they didn't approve, they said nothing about the targeted wage tax cut because that would mean into the -- maybe not into the hands of the entrepreneurs, but it would leave room for a targeted wage tax cut that comports with the Democratic Party's program for tax cuts.

Yet, here again this morning, I hear the same talk about entrepreneurs. I'm interested in the neighborhoods, in the communities in Philadelphia and workers and the average citizen. And the people that vote -- I believe they're voting when they vote for Democrats that they're voting for an economic program that's different from that of the President's. I hear everything that's

being said by Democrats at this table could easily be said by Republicans and by people who support President Bush because the one targeted wage tax cut proposal that was presented by the Keystone Research Center, a very fine group of research people, wasn't even discussed, apparently, by your body. You didn't think it was worth your time because nobody's going to be able to make a lot of money on it? Is that why? And you're not interested in worker income?

MR. MILLER: Are you ready for the response, Councilman Cohen?

COUNCILMAN COHEN: For those of you who are members of the Tax Reform Commission, I address that question. And to those who are not, I address the question, shouldn't that be where the focus is, what's going to mean more income for the folks in the neighborhood, the ordinary worker?

MR. MILLER: I will say to you that at least this morning, certainly in my comments and certainly in Reverend Edwards' comments, who represents the Urban Leadership

Council, that the perspective of those who are non-business owners certainly reflected an attitude of why tax reform had an impact on people in the communities. And over our 10,000 hours on the Tax Commission of deliberating the issue of tax reform, we had countless testimonies from people in the community because we took many of our hearings to the community. The Greater Philadelphia Urban Affairs Coalition is part of this coalition to speak directly to the issues of the benefits of tax reform for people who are non-business owners. We've discussed part of that this morning. We had formed a citizens' advocacy group called Philadelphia Forward, of which the Urban Leadership Council, the Greater Philadelphia Urban Affairs Council, many other community-based organizations are also working to advocate for tax reform. And through those deliberations, many people have discussed quite fervently perspectives that you've just put on the table.

I think that it will take a great deal of time and a lot more patience on all of

our part to recognize just from the first panel that you've seen today the enormity of tax reform, how tax reform is intrinsically linked to a broader economic development strategy which, in effect, people in this City, those who are actually leaving who don't own businesses have to feel that an equitable system's put in place that will address their needs as well.

So I think that we've been extremely sensitive. One of the successes, I think, of the Tax Reform Commission was that a broad, diverse group of people came together to look at taxes in the essence of tax and tax structure and its impact on all aspects of life in Philadelphia, and I think we did that.

COUNCILMAN COHEN: Well, could you explain to me within that framework why it was that this bill that would add as much as $900 a year to the family income of, say, a woman with a child, and which sought to apply the same standards as were applied at federal and state levels to entitled people to refunds is not followed by the City? And if you know of

any actions protesting that situation, I'd like to hear it. Because I haven't heard any.

MR. MILLER: Councilman Cohen, in fairness to the next panel that's coming forward and as I was just told, Commissioner Mel Jackson, Madam President, will replace me on the next panel. They will fully be prepared to discuss that and perhaps correct some of the misassumptions about those issues.

COUNCILMAN COHEN: Well, I'll be patient. I've been patient a long time to hear of a targeted tax program.

Philadelphia is a Democratic City, it's supposed to be a labor City as well, and yet it's way behind Harrisburg and Washington with respect to how it carries out its tax policy. All my bill did was to ask that the same standards that applied to income at the federal and state level be applied at the City level. Why should somebody pay a wage tax here if at the state and the federal levels they're exempt from paying a form of income tax? But couldn't get much of a hearing before the Tax Reform Commission because you

weren't interested in that.

I'm talking to the Commission as a whole, I'm not talking about the body individually. That's why I've been unable to join with Councilman Nutter in expressing joy and happiness of what the Tax Reform Commission did, because I think they deserted the people of Philadelphia.

I'm willing to wait. I'll wait even to last panel to get some answers to that question.

MR. MILLER: Well, the next panel coming will probably have some answers to that, and hopefully we're all going to be patient and try to have a meaningful exchange around those and other issues.

COUNCILMAN COHEN: Because one can take, Bill, a simple problem and make it very complex. This was an easy matter. All that's needed is to say the same level of policy -- I'm talking about the income of individuals -- should be employed by the City so that people who are eligible for refunds from the state and federal taxes ought to be eligible. If

they fit those income categories, they should be eligible for a wage tax refund. That's simple. You don't have to have much policy on that. If the Republicans feel it's fair, I don't understand why Democrats feel that people have to be taxed, if even a Republican in a rare case admits that working people are entitled to some relief.

MR. MILLER: Councilman Cohen, the reason the Tax Reform Commission -- I'm sorry, Madam President. The reason we were successful in the Tax Reform Commission in giving a real good body of works is because we're very disciplined, and I'm going to defer those questions to the next panel.

COUNCIL PRESIDENT VERNA: Thank you very much. Thank you gentlemen.

MR. MILLER: Thank you.

COUNCIL PRESIDENT VERNA: Again thank you for all your work.

The next panel will be...

MR. MCPHERSON: Commissioner Jackson, Commissioner Schwartz, Vice Chair Al Taubenberger, Andrew VandenBrul, and

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Commissioner Brett Mandel.

COUNCIL PRESIDENT VERNA: Can one of the Sergeant-at-Arms please distribute the testimony?

Good morning.

MR. SCHWARTZ: Good morning, President Verna. My name is Ed Schwartz. Usually I testify here on behalf of the Institute for the Study of Civic Values, which I suppose I'm doing as well, but I'm here primarily as the Chairman of the Tax Reform Commission. What I'd like to do here is to lay out, not only what we did, but why we did it.

I was an appointment of this Council to the Commission, and I feel some special obligation to you. And I don't know whether I will be eternally grateful or I will never forgive you for this. Depends on what day, but I'm here. And I'm also conscious that part of the skepticism about whether the Commission would yield any result of consequence had to do with deep divisions that may have existed at the beginning. Some of it

was targeted at me. The Daily News said -- I guess the Philadelphia Magazine referred to me as a tax fiend. The Daily News editorial initially was, "Ed Schwartz is a smart guy, but he's the wrong guy to Chair the Commission."

So like Nixon going to China, I guess, I feel that the astonishment that has been greeted by what we did really deserves explanation.

You've heard a lot and will continue to hear a lot about the core recommendations. In bold relief they are significant reduction in the wage tax over a 10-year period, down to about 3.2 percent; changes in the business tax leading ultimately to the elimination of the business privilege tax; significant immediate reforms proposed in the assessment procedures governing our real estate taxes along with the gradual implementation of a land tax. Others here will go into greater detail on those proposals, but those are the outlines.

But I think it's important to understand why we are recommending what we are

recommending, one of the core assumptions behind what we've done.

When I started as Chair, I did say to everybody that we had our positions that we brought to the table, but it was time to step back from those and to listen with an open mind to the research and the testimony that we would hear and permit ourselves the ability to come to, perhaps, a different conclusion, because otherwise, why would we meet? And every member of the Commission really took that really seriously. And I know I did.

So let me go through some basic points about what we did, addressing why we did it.

First, it's important to point out that the Charter amendment that this Council drafted and that was supported by 80 percent of the public asked us to look at the tax system as a system. That's why we were created. We were created at a moment or recommended by this Council at a moment in which there were lots of different tax proposals on the table and enormously

outlandish, I would call them at the time, suggestions about how much money we could take out of the City budget. There were proposals that moved in opposite directions. And then even after all of that around the wage tax, then in the summer another upheaval relating to real estate tax assessments. And so what this Charter amendment asked us to do was to step back from all of these individual proposals, evaluate them to be sure, but within the framework of a tax system.

Some editorial writers and others who have heard members of the Commission who are now advocating for what we've done have been a little taken aback when we say, we're proposing this as a system and not as a group of 27 recommendations that you take from a tree like apples and decide which ones you like. That's because what we did indicates that if you change one part of the system without making concomitant changes in the other parts, you're going to end up with as many problems, maybe more problems, than you had before.

Now, the details of that will grow out of the testimony that we provide for you. But I'm merely saying that when we come forward and say we want you to look at this as a system, it's not just feeling that we were on Mt. Sinai and somebody handed us the 28 recommendations for tax reform from a tablet. It is because we have looked at the tax structure as a system and we think it needs to be reformed as a system.

Secondly, the overriding consideration in reviewing particularly the business and wage taxes was the impact of these taxes on the City's ability to preserve jobs by expanding local businesses and attracting new businesses and new jobs into the City. In the end, jobs loomed the highest of our concerns.

One can argue that when an individual resident moves in or out of Philadelphia, they may have all sorts of reasons to do that; crime, schools, all kinds of reasons to move in and out of Philadelphia as families and individuals. But having

listened over the course of 10 months to hundreds of business owners, having listened to the people on the Commission who represented business organizations, having listened to the people who have tried to promote economic development for the City of Philadelphia who say that whatever they try to do, in the end the tax system makes it almost impossible; it was, in fact, impossible to conclude that we could survive and continue to grow as a City unless we did something serious about the tax system, that that in this case was the huge elephant in the room, if you will, that was preventing our economic growth despite the other advantages that Philadelphia does have to offer.

We're asked here, why do we focus so much on the business taxes? Because we have them and most other cities don't. Why do we focus so much on companies? Because they're paying prices here that they don't pay elsewhere. If the objective over the years was to create a business tax structure that socked it to them, we have succeeded

brilliantly in that effort. But the result is that the 2 or 3,000 welfare recipients whom the Institute for the Study of Civic Values supports in community service jobs over the course of a year can't find jobs because businesses are the ones who create jobs, and they simply aren't here.

Beyond that, there was a debate internal to the Commission over which the real culprit was, the wage tax or the business tax. And in the end, the conclusion was both, particularly, if you look at what kinds of businesses we're talking about. Obviously, for a large employer, 4 or 500 people working for them or more, the wage tax will loom as a bigger and bigger problem because there are more people who have to pay it. But we haven't changed much since when Walter DeLessio (ph) 20 years ago when I was sitting over there used to say that Philadelphia was a City of businesses with 50 or fewer employers. And during that period of time, we had Dave Birch (ph) issue a very interesting study, that I carried around, that the engine of

growth for American economy was small business.

And so it was really impossible once I became much more familiar with how the business tax system in this City works, it was impossible for me to understand why any business would want to locate here. It was so complicated, there were so many incentives not to locate here, and they didn't have to put up with this every place else.

So from the standpoint of the businesses that you've heard today in terms of the African American Chamber of Commerce and some of the others, it affects all small businesses. And the businesses that we're talking about within the City by and large are small and, yes, we do believe that there needs to be as a critical component of our economic development strategy support for the existing businesses here that will enable them to grow, that it can't all simply be done by attracting some other business from some other place. In fact, if we provide the proper kind of support for local businesses, then maybe we'll also be

making it attractive for other businesses.

When I was here, we fought over the Convention Center. A handful of people met from the business and political establishment of the City and said that if we were going to become a world class tourist center, we had to have a new Convention Center. And in fact, if we were going to maximize the impact of that Convention Center, it needed to be located in an area of Center City Philadelphia where there are 330 businesses that have to be moved out and all kinds of other disruption. And it took us about a decade from the time that proposal first came to City Council and the time when then Mayor Rendell got a chance to cut the ribbon for us to put that across. And maybe we never would have. It was difficult. But the point is that as long as we failed to do that, we would not be a tourist center. The City of Philadelphia with Independence Hall and the Constitution and all that would not be a tourist center.

We come here with a similar perspective. We all recognize how difficult

this may be, particularly over the period of years. But until we solve our problems, we will not, in fact, grow our economy. That much is clear to me, having spent a year in which I was skeptical about that proposition.

Even the issue of the workforce, which I've raised here, is related essentially to this problem. If we look at the potential workforce simply as graduates of the Philadelphia Public Schools, well, they got a little ways to go, as is the case in all urban school districts. But if the workforce also includes the thousands of graduates from superb colleges that are located both within and just around Philadelphia at least equal to the college graduates in the Boston area, then they leave because there are no jobs for them. And why are there no jobs for them? Because businesses cannot cope with the tax system. So the fastest way to build our workforce, as has happened in Oregon and Seattle and a lot of other cities, is to create an environment in which they can work. And if they can't find jobs, they're going to leave and our

workforce suffers accordingly.

The reforms that we recommend in the real estate tax system become critical to offset some of the problems that will be created for some people by economic development and rising property values. I found this a kind of interesting situation. For years as Housing Director, I would talk about the virtues of affordable housing that existed in Philadelphia. Now, in the last years what we called affordable housing has become depressed property values. But there's no question that $68,000 is the median sales price for a house in the year 2000, and $168,000 is the median sales for everything around us. But economic growth that will occur as a result of tax reduction, we believe, can spike property values. We saw it in Center City. And so at that point, it becomes critical that the people living in their homes be able to afford the increases and not have to take home equity loans in order to pay their taxes.

So we make a lot of suggestions,

recommendations, about the importance of moving toward an assessment system which is clear in understanding. We proposed buffering significant increases in taxes over a three-year period so people can absorb them within their income. And we believe that the land tax, which was controversial and still is, is another way, that we'll get into in more detail, to lower the burden on homeowners, particularly homeowners who make improvements, of real estate taxes and put the burden on those who continue to sit on the top of vacant land and do really nothing about it.

As was said this morning, we were enjoined not to talk about spending. And we did manage as part of our charge to come up with some recommendations about revenues. But the greatest, if you will, acknowledgment of the charge that we be fiscally and socially responsible was the 10-year timetable that we established for the full range of reforms to take effect. The reduction in the wage tax, the reduction in business taxes, and the gradual implementation of a land tax are all

recommended over a 10-year period.

We know that this will cost the City some revenue, particularly in the early years. It will cause less revenue if we spread it around over a 10-year period. We're also hopeful -- believe really that as we move through that 10-year period, the economic development benefits that tax reform and tax reduction of this kind will bring will create revenues that we are not even anticipating in our own financial projections. We have taken the discipline of a city's Finance Director in the economic and revenue projections that we provide to you, because that's what you've got to do right now. But we do believe that if we reduce taxes -- Econsult gave us some statistics that went into the thousands, 40, 50,000 new jobs -- that that will begin to offset the lower revenues. It won't happen right away.

And finally, the 10-year timetable also gives the City an opportunity to keep evaluating what you're doing. You don't lock yourself in. It becomes incremental. And if

it's not working the way we think it ought to be working, you can make changes as opposed to dramatic steps that you then have to retreat from.

The first year of our recommendations, which becomes relevant to the considerations that this Council will have to have in the City budget that the Mayor will present on March 18th, I believe, is $17 million. Now, I put that number on the table now because, obviously, over a five-year period, the number grows. And there is a tendency now in this world to five-year plans to talk only about the money over a five-year period and not to see what it means in an individual year. Now, I don't argue that $17 million is a trivial amount of money, but it is far less than 34 million, 50 or 60 million. And even in the context of a deficit facing the City, $17 million is something at least that you can get your arms around. And I would make two points about revenue and one about spending.

Last night on Action News, WPVI,

they did an expose of the number of people who don't pay their real estate taxes and still owe them. Hall Watch had produced a list, and we as a Commission looked at that and all the other uncollected taxes. The Revenue Department said to us that we collect only 95 percent of the taxes that we are potentially owed and that doesn't count the unreported taxes from other states and whatever. And so we found that appalling. If you and I have to pay taxes, other people need to fess up to that responsibility. And what we saw last night on the television news was like a video of our report. These folks were going to the homes of people who owed hundreds of thousands of dollars in back real estate taxes, with the usual "I don't want to talk about it." We need to get on top of that. If we followed our recommendation, if the City was able to do that, of increasing the collection of revenues by one percent, not even a hundred percent, that would be $20 million. That covers all of the first years. It's simple arithmetic. We collect $2 billion in wage, business, and real

taxes, so you do 1 percent, it's $20 million.

Let me add to that on the revenue side something that has not yet come out -- but I am spending much of my own time on these since they are going to be the make or break arguments for this system -- we have 117,000 building code violations that are listed on a database that exists at the University of Pennsylvania, 117,000 code violations. Now, we need to get to the bottom of that. Each of those code violations, what do they represent?

I looked at the neighborhoods where they were located. Everyone says, "Well, they're in these neighborhoods you can't collect." Well, there were 65,000 of them that were in neighborhoods where houses are selling for more than $30,000, and about 45,000 of them in neighborhoods which homes were selling for $60,000. So these are not valueless neighborhoods. We learned that the CLIP Program has both improved the quality of life in these neighborhoods but yielded some money. That's going to be expanded. I don't know what the dollars are here, and there are

some big issues about how the courts fine and all of that, but it's $300 a fine. You do the arithmetic.

And these two areas, revenues and code violations by themselves in this first year could more than offset the recommendations that we're making.

On the spending side, I'm not going to say anything more about this than what I'm about to say, but I will just bring to your attention, it was certainly on my mind when I agreed to become chairman, looking at spending. The budget for the Police Department and prisons rose $183 million between FY '98 and last year; $183 million. When I was in Council, there were 4500 people in the Philadelphia Prison, and the budget was roughly $63 million. Ten years ago, there were about 6500 people in the Philadelphia Prison, and the budget was about $110 million. The prison census is between 7500 and 8,000, the budget is $180 million. That's the prison budget. We need to look carefully. We can't do it between now and this budget, which is

why I'm pointing to uncollected taxes and code enforcements that would be available to us this year. But we need to spend the next few years looking really carefully about the cost of crime in Philadelphia at every level because that is where our money is going. That's what we're spending it on. All these other discussions, when you look at the budget carefully, are really trivial compared to what's happened there.

Finally, we did look at a lot of different recommendations. It's not like we just focussed on a handful of them and chose to ignore the rest. And in our report, we go through all of the recommendations that were made. Let me say that the criteria for us in terms of benefiting the working people and low income residents of Philadelphia, I would add, for whom I have fought for the past 40 years, was whether there would be jobs here, and in the context of creating jobs, whether the City services that are needed to preserve our quality of life and to protect neighborhoods could remain intact while we moved forward

with whatever proposal we were advancing. That's the criteria. This is not Harrisburg and it is not Washington. We cannot deficit spend here. We don't have the revenue base. They don't have the business tax problem that we've got. So if a proposal did not meet one of those two tests, that in fact it had an obvious impact on economic development and growth and the creation of jobs, and that it would not in fact unduly threaten the revenues of the City and thereby undermine City services, we would not support the proposals that failed to meet that test, all of them. And there were a number that we looked at with great interest at some point. But at some point it failed to meet the test, that's why it wasn't there.

So we give you a system which was what we were asked to do. We were asked to give you a blueprint, and we've done it. And over the 10-month period that we've worked, we worked hard to come up with something that was fiscally and socially responsible.

My colleagues will go into greater

detail as to what the individual proposals are, but I appreciate the opportunity that you gave all of us to make this contribution to the City of Philadelphia, and we will be available to you and to others in the City for information about what we've done as this debate unfolds. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: I'm struck by the fact that the Chairman of the Commission does not in any way talk about the jobs paying a living wage of any kind, even though that is a major problem. In addition to the lack of jobs, that when jobs have been created under the philosophy of the Tax Reform Commission, because I find no difference between its approach and President Bush's approach, no attention is paid to the ability to have an income that carries medical expenses, that provides a living wage, that provides for health insurance. I didn't hear a word about --

032404 - WHOLE - RES. 040076

COUNCIL PRESIDENT VERNA:

Councilman, I believe that Commissioner Jackson would like to respond or make a statement relevant to your question.

MR. JACKSON: Thank you, Madam President. Just briefly, personally, I take offense to a person sitting here saying we are not, quote, good Democrats because we happen to disagree with a particular person's approach. The discussion within the Commission was, and what Councilman Cohen is talking about and Jonathan Stein who, from Community Legal Service, advocated very strongly for that position, is to give to exempt people at the lowest income from paying wage tax. Now, a couple things happened in terms of that. Number 1, it would have cost $78 million which would have had to be made up elsewhere. Number 2, our plan was we wanted to look at how we could bring revenue into the City and working with Sharmain Matlock over at Greater Philadelphia Urban Affairs, we want to work with people who are eligible to get earned income tax credits and which are not

presently getting them. That is, we believe, in terms of the Commission, a better of way of approaching the question.

And Councilman Cohen is wrong. It was not $900, it was $123 if we exempt people at the lowest income level in terms of paying wage tax.

But I do resent trying to use the work in the forum in which we have worked to develop, to have a debate about a living wage and all of other things that we have nothing to do with. If you have issues you want to take with your colleagues, then take them with your colleagues, not with us.

COUNCILMAN COHEN: Well, I disagree totally with you. I think your job was to create a fair and equitable policy, and I think you failed in doing that because like the President's policies, you ignore the problems of working people.

MR. JACKSON: We can disagree, Councilman Cohen. But I have a few comments I'd like to make. And I apologize, I have to leave. I have a 1 o'clock meeting.

032404 - WHOLE - RES. 040076

Let me say first, my name is Melvin Jackson, I'm Executive Vice President for At Home Health/Geri-Perk and we are a 10-year-old business and we grew this business here in the City of Philadelphia. Presently, we have 45 employees and some contractors and we're located at 40th and Market in the heart of the area where some people are talking about. And many of our people are people which come off of, quote/unquote, welfare in terms of our aides and in terms of many of our office staff. So we take a back seat to nobody in terms of our commitment to the City of Philadelphia.

We pay close a million dollars between our City, State, and federal taxes. I'd like to echo what my Chairman, Bruce Crawley said. You have a problem here. The problem is that you have a shrinking tax base, and you're not going to expand and develop that tax base until you take into account from a structural standpoint the 56 percent of the people who are citizens of the City of Philadelphia which are non-white.

And Councilman Nutter asked a question about how do you go about doing that. If you look -- and people which are entrepreneurs read Inc Magazine. If you read Inc magazine, you will find out that Atlanta, Georgia, is rated the top City in the country in terms of business development. The City of Philadelphia is rated the 10th worst City in the country for business development. And what Inc Magazine said in relationship to that was that Atlanta is an inclusive environment in terms of business. Atlanta has had black mayors for the last, what, 25 years? And it's been able to grow and develop its black entrepreneur class. It's been able to grow and develop and expand the pie where black entrepreneurs and black business people are included. And until this political leadership and until this business leadership in this City of Philadelphia takes a similar tact, we are never going to be able to be in a position, you're always going to have the conundrum, cutting the wage tax or cutting services. And that's the situation. And the

way to get out of that is to expand the pie. But to expand the pie, you have to include minorities at the fundamental level.

Let me give you an example. Comcast is coming into this Council right now wanting to talk about getting $20 million for some little area over there to assist them in terms of putting up a new building. At the same that Comcast is doing that, Comcast is talking about eliminating its cable contractors and contracting it out to somebody else across the country. And the ones which they're talking about eliminating, the vast majority are the minority cable contractors. We work at cross-purposes.

That great president of the Greater Philadelphia Chamber of Commerce who just left, Charlie Pizzi, when he went over there to Tastykake, one of the first things he did was send his ad budget to New York and cut out the local company who was doing the ad work. And that's our problem. We don't have a concept in terms of what we need to do in terms of growing the City and growing the

region. And the only way to do that is to include not just minority businesses but all businesses. I'm sure Al will agree with that. We have many businesses here in the City of Philadelphia who can do this work, and they take it -- you guys, the business and political leadership here takes this all over the world.

Tenet, when they got ready to do their ambulance services, they combined them and then sent them to a company out in Ohio rather than using local ambulance companies who could do the work just as well. That takes jobs from there. That takes wage tax revenue from here. That takes business tax revenue from here. And we have a failed and flawed policy in terms of how do we go about revitalizing the City of Philadelphia.

And one last point. If you look back in the '50s, those companies which grew and developed in the needle trades and the garments stuff, those were not businesses that recruited from Montgomery County. Those were homegrown businesses.

032404 - WHOLE - RES. 040076

We are in a situation now where we have to do homegrown businesses again, and we have a tremendous opportunity here to be able to do that. What we need to do, though, is develop a strategy of how we're going to grow local businesses.

Thank you. I apologize I have to go.

COUNCIL PRESIDENT VERNA: If you don't know, Commissioner. I know that Councilman Goode did want to be recognized. I don't know whether he wants to ask you a question or Mr. Schwartz.

COUNCILMAN GOODE: Mr. Schwartz.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Excuse me.

Commissioner Jackson, I don't know if Councilman Nutter has a statement or question of you.

COUNCILMAN NUTTER: This a question for Mr. Jackson, but I think Councilman Goode may have been in the cue ahead of me. I can ask my question as he's leaving.

COUNCILMAN GOODE: Mr. Jackson has

to leave, so Councilman Nutter can go ahead

COUNCILMAN NUTTER: I'll be quick.

Mr. Jackson, two things. One, if you could provide for us a copy through the Chair of the article that you made reference to from Inc. Magazine --

MR. JACKSON: I'll fax it down to your office, sir.

COUNCILMAN NUTTER: I'd like to have a copy of that. And I know you have to go and I'm cutting across a member, but the example that you relate with regard to Atlanta, and Atlanta's mentioned often and you talked about some of the leadership down there and the things that they have done. What has hampered our efforts here in Philadelphia to do the same kinds of things?

MR. JACKSON: Lack of political will.

COUNCILMAN NUTTER: I'm sorry?

MR. JACKSON: Lack of political will. Our political leadership historically and business leadership has not wanted to address the fundamental question. It's not a

question of any set-asides. It is not some little gift that you're giving to black people or that you're giving to Hispanics, and until we understand that point, it's good for the City. And there has not been the political will here for the political leadership or the business leadership to step up to the plate and say --

Bruce talked about the fact that we're at 2.2 percent right now in terms of all the business that developed here. If you went 6.6 percent, that's 35,000 jobs, that's over $50 million in terms of wage taxes, that's $8 million in terms of business privilege tax. That solves your problem. But there's not the political will here to step -- and that includes the media. You have a lot of people here in the media, and that's print and television, which want to hold on to the past. The past is when -- you know I'm not as eloquent as Bruce. The past has been when white folk controlled everything in the City of Philadelphia. And until that philosophy and that thought process changes, there's not

going to be any change and Philly is not going to grow.

Did I answer your question, Councilman Nutter?

COUNCILMAN NUTTER: Well, it was responsive. So it's the political will and -- I mean, we can have a longer discussion. I know you have to go, and actually I have to go as well. I'd love to have two or three examples of the kinds of things that we're talking about here.

MR. JACKSON: When Maynard Jackson took over as Mayor in Atlanta, they were getting ready to build an international airport. He brought the white business leadership in there and said, "I want minorities included in terms of this construction and all the contracts."

They said, "We're not going to do this."

Maynard said, "Well, the ground will sit vacant."

If you go down there now, and Shirley Franklin from here, they have the same

kind of situation down there because they're building schools. Atlanta has more black millionaires than any City in the country. And it's not important to be a millionaire, but what is important is the number of jobs that can be created from the construction companies, from all the different kinds of businesses in terms of spinoff.

If the political leadership in this City stepped to the private business leadership -- because you have a lot of power. People come in here wanting all kinds of variances, they want tax breaks, they want this, and they want that. If you step to the private business leadership and say -- all these offices buildings you guys keep talking about, not a one of them has black contractors on their rotation for that day-to-day services that are provided. And that's the meat of a contractors work. Not a one of them has a black contractor.

COUNCILMAN NUTTER: You made reference to the airport example in Atlanta which is certainly a very well known story.

And I would -- I don't know exactly what they did in Atlanta, but certainly it may be a model to replicate.

In the current context, I'm not necessarily sure that we want to have a whole lot of discussion about Philadelphia International Airport as a model that anyone would want to pursue. But certainly there have been opportunities down there, and I made reference to this when Mr. Crawley was up. Was there any outreach to entrepreneurs in West Philadelphia, South Philadelphia, north, northwest, the northeast who were not some of the known people around to have any of those concession operations down there?

MR. JACKSON: There's been significant progress out to the airport, but we get 2.2 percent of the business in this City. The fundamental point is, you can't grow and have a growing tax base as long as minority businesses are going to get 2.2 percent. It ain't going to happen. I mean, the math states it.

COUNCILMAN NUTTER: I understand. I

like math.

MR. JACKSON: Thank you.

COUNCILMAN NUTTER: Thank you.

COUNCIL PRESIDENT VERNA: At this time, the Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Before we get on testimony from other Commission members I wanted to actually question the Chairman about some comments he made. I don't take issue with those comments, I want some clarification. Particularly base upon your history within this body and your role within the Tax Reform Commission, you stated on the record, I believe, that 20 years ago you were in this body and you were just beginning to learn about the correlation between tax structure and economic development and that 20 years later you believe that you see more clearly that without tax reform there can be no significant economic growth. Was that your statement?

MR. SCHWARTZ: Yes. Well, yes, I wouldn't -- I think the taxes were somewhat

different and lower 20 years ago than they are now, but yes.

COUNCILMAN GOODE: Actually, that's not necessarily correct. And particularly what I wanted to question you on, in July of 1983, the wage tax at the end of the Green Administration was raised from roughly 4.3 percent to 4.96 percent. And the three years following that in 1984 and 1985 and 1986, we actually saw the unemployment rate drop from 9.3 percent to 6.2 percent. We also saw a net gain of over 33,000 jobs. So how do you reconcile that fact that six months after the wage tax was raised from 4.3 to 4.96 that in the following three years you saw the unemployment rate drop drastically and a net gain of tens of thousands of jobs?

MR. SCHWARTZ: Well, there was a massive amount of public investment during that period, which of course I favor entirely, to build a new Convention Center. The investment tax credit that in fact existed at that time was what spirited the construction at the private sector of all the Center City

office buildings. And so that a good part of the increase at that point was in those taxes.

I don't say that, you know, you pass a tax and within a given year necessarily you get something that countervails against other economic circumstances.

Moreover, let me say that, you know, if we had a different kind of federal government with massive amounts of public investment that existed prior to the Reagan Administration, we might be in a very different circumstances.

COUNCILMAN GOODE: Mr. Chairman, the Reagan Administration came in in what year?

MR. SCHWARTZ: 1980, but the --

COUNCILMAN GOODE: And we're talking about 1984, 1985, 1986.

MR. SCHWARTZ: You asked me for the reason, and I gave it to you. We had massive locally and State-induced public investment in the Convention Center and other matters. Under the Reagan Administration there was in fact an investment tax credit which was responsible for the office boom that we

experienced in the mid-'80s. Once that investment tax credit was eliminated, then the office boom ended and we went through yet another period of significant tax increase after that in which I was the Housing Director that in fact put us at the beginning of the '90s in a terrible position.

COUNCILMAN GOODE: Mr. Chairman, I'm actually not taking issue with your response. I agree with your response.

My follow-up question really is simply, so it's not just a matter of tax structure? And when you talk about significant economic growth, I don't know if there's another period in the recent past where there's been more economic growth than that net gain of 33,000 jobs over those three years, 1984, 1985, and 1986 or when you had a significant drop in unemployment like you had from 9.3 to 6.2, which is significantly lower than the current unemployment rate.

MR. SCHWARTZ: Do I believe that other things might contribute to the economy than taxes? Of course. Obviously, they do

do.

During the 1990s, during the Rendell Administration, part of made his initiatives possible was an additional billion dollars over a few year period from the federal government. If we're going to bring a billion dollars of new federal money into the City, of course that will have an impact.

On the other hand, what I have concluded is that for a person to start a business in Philadelphia, leave aside incentives, deals that larger companies can cut and the rest of it, just do something like my father did, create a business, a publishing business in this case. I don't see why they would do that in Philadelphia based on the business tax structure. And I do believe that at this moment, the people who are negotiating deals now, not in 1984 or '87 when I was doing this here, but now, who are trying to hold companies into Philadelphia and get new ones come in -- now this is where the wage tax -- are all saying that the tax system now is the major impediment to what we're doing. And we

do not have billions of dollars coming in from federal government; quite the opposite. If the Bush budget that is just proposed for FY '05 comes into play, we're going to see exactly the opposite in federal contribution to the City over the next five years.

COUNCILMAN GOODE: Mr. Chairman, I was not taking issue with your statement at all. Simply -- except for the fact that, one, the period of most significant economic and job growth happened after the wage tax was increased. Two, more specifically, I'm asking the question -- your statement really was without a change in tax structure or tax reform there can be significant economic growth, that is not necessarily true.

I support significant tax reform in terms of the wage tax and business privilege tax. I will support it particularly in light of I think it's the best way to take advantage of national job growth that expect to happen over the next few years. So it's not that I'm not supportive of it, I just don't believe that tax reform in and of itself leads to

economic growth and there's nothing to prove that it does.

MR. SCHWARTZ: Well, interesting enough thought, in all of the period of time we're talking about, whenever we have wanted a business to be here, there been some kind of a break, tax break. I mean, part of what I want to say is that the City will either spend the money to reduce everybody's taxes, business taxes, and will get jobs, or we'll do it the way it's being proposed now. You'll give up another $30 million for a couple of sweetheart deals in Center City and then there will be some other thing that comes along. We'll pay it one way or the other. Somehow these businesses seem to think that lower taxes is relevant to their ability to stay here.

I agree with you. If we had a responsive national Administration or for that matter if some of the initiatives that the Governor former Mayor wants to provide begin to benefit Philadelphia, that could help. But I come back to saying -- we're talking business taxes as much as the wage tax here --

that it was hard to listen to an entire year of everyone who is involved in this economy or representing it saying that they just cannot function properly as long as the tax system, in particular the business tax system, is in effect. It's hard to hear that for a year and not to conclude that they really are trying to tell you something.

And the fact is that whatever happens in the mid-'80s right after, which is countervailed by some other things, whatever happened in the late '90s, the overall trend over the last 20 years has been down with occasional bumps up; that's been the trend. And you look at the trend into the future, and unless we take some steps now to deal with this, it will continue to be down, barring some major investment that will turn it around. I don't know where that's coming from.

COUNCILMAN GOODE: Let me finish this exchange with this. First, I'll remind you in terms of talking about national policy, that we are in a presidential election year.

And so there may be a major shift in policy as of next year.

Secondly, if we were able to lower the unemployment rate to 6.2 and able to create a net job gain of over 30,000 jobs over the next few years, would it be simply because of tax reform?

MR. SCHWARTZ: Well, there are two things that have to happen. One is you've got to be able to do it, Number 1. And Number 2, we've got to do it in a way that does not undermine City services. But this is where the research that we commissioned was relevant. The research said that if we do what you're describing, we would end up with 43,000 jobs over the next two or three years.

Can anybody say, quote, for sure? No. It's also based on that wonderful phrase of economists, "All other things being equal." They never are. So don't really know ultimately what's going to happen, but they've done a pretty decent job of trying to evaluate the tax impact, all other things being equal. And that's what they're saying to us.

032404 - WHOLE - RES. 040076

Now, I wouldn't be out here advocating this if I didn't see ways to deal with the revenue and spending side that would make this possible, but I do. And, therefore, I think based on what we've heard over the course of the year, I think it's important for us to try to move ahead on this.

Does that mean there are other things that need to be done? You bet. That's not what we're here to talk about.

COUNCILMAN GOODE: The question is whether tax reform can be done in isolation in terms of economic growth strategy and whether just doing tax reform is going to get you the same type of drop that you had in the '80s without tax reform.

MR. SCHWARTZ: Well, I think that interesting enough we do have -- at this, point it's uneven and there are plenty of things that need to be added, but there are a number of people who are trying to do economic development in Philadelphia, Center City, small businesses, everything else. So it's not like nothing is happening, we're all just

sitting around saying "The economy is fine and we're not doing anything." There are a lot of people who are doing things. And they're the ones who came to us with the greatest insistence that their ability to accomplish their objectives is completely impeded by the tax system.

So what a Paul Levy is saying in Center City is, we have made as a result of all these public investments that you're describing and that I supported, huge project here, we cannot go forward. And then we have small business people saying "Yeah, we have some support throughout NTI for commercial strips and whatever, but we cannot get small businesses to stay here because of the way the business taxes are."

So what I'm saying is that there is an economic development strategy. Do I think it's enough? No. That's not the discussion here.

COUNCILMAN GOODE: That there is an economic development strategy?

MR. SCHWARTZ: There is at least -

yes, I think that there are economic development strategies that represent the legacy of what we created 20 years about, frankly. They continue to move forward in Center City. They're not all government driven either. They're private sector economic development strategies. Do we need to do more? Yes.

But what we have been told is that even attempting to do these things will, in fact, not yield the result we want because the tax system is making that impossible. It's precondition for this success of some of the other things we're trying to do.

COUNCILMAN GOODE: I agree with that, but it goes both ways. If you tax reform without a comprehensive strategy of economic growth, then it doesn't get you what you want either.

MR. SCHWARTZ: Do I favor a much more ample strategy for economic growth and development than we have now? Yeah, I do. And I have some ideas about it, as you might imagine, but I'm not getting into any of those

here because that's not the purpose of the hearings. I do know that some of the things that I personally favor, given what I know now, would be hard to implement if a company just took a look at the City of Philadelphia and said, "I'm not going to go there. I'm not going to pay those taxes." And that's what they're doing.

COUNCILMAN GOODE: I believe that we actually are here to talk about economic growth strategies because otherwise it's a discussion about cutting taxes, and everyone wants lower taxes. Unless it's going to give us economic growth, there's no need for discussion of tax reform.

Thank you, Mr. Chairman.

MR. SCHWARTZ: Just to end on a positive note, I do agree with that. We need to do both. I'm merely saying that we need to do both. And I think that the belief in the past was that the economic growth and development strategy by itself would overcome these other obstacles, and I don't think that's the case anymore. I think that we've

got to do both.

COUNCILMAN GOODE: Thank you.

MR. SCHWARTZ: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: In view of the Chairman's view that taxes could be some form of an economic development program, isn't it true that with domestic spending being the main element of the development of the gross national product that the targeted wage tax cut for working people would put money into the communities, into the neighborhoods where the money would be spent directly for products produced here in the neighborhoods or sold in the neighborhoods?

Why isn't there the real form of economic development?

The only tax reform that would produce any economic development would be to put more money into workers' pockets. Yet that's the thing your group refuses to recognize because you're not interested,

apparently, in domestic spending despite all the statistics which show that the gross national product depends on domestic spending.

Don't you agree that the money that would go to workers as a result of the targeted wage tax cut would be spent in the neighborhoods? Retail business --

MR. SCHWARTZ: Councilman, I really need to say three things.

COUNCILMAN COHEN: -- which are not able to exist in neighborhoods because there's been inadequate income there?

I mean, I just can't make it the slightest bit of sense out of a policy which ignores the fact that the best wage tax cut that you could make from the point of view of having an economic to tax reform would be to put the money in the hands of workers. Yet that's the one think you stay away from.

MR. SCHWARTZ: As a matter of fact, reduction over a 10-year period affects every worker, low income, upper income. What you favor or your bill represents is an effort to single out the lowest income people and give

them a --

COUNCILMAN COHEN: The targeted tax cut, not the Bush overall tax cuts.

MR. SCHWARTZ: -- tax relief.

Yes, we have a regressive State Constitution. I once walked to Harrisburg in the middle of the 1970s as part of a tax reform group to try to get that State Constitutional amendment changed. I don't notice anyone who has fought over that, so we've loss that one.

Let me also add that it became clear to us as we examined this that there are state and federal tax breaks available to the population you're describing that are not being used. And they, unlike the City's, represent monies from other parts of the country, from Pennsylvania and Washington, that would come into the City. And so right now, the Daily News and other groups, the Urban Affairs Coalition, is spearheading this, is leading a fight that low income people, working poor take full advantage and get full advantage of the earned income tax credit.

The same with the State. So we favored at a time when most low income workers were not taking advantage of the existing subsidies, it made more sense to us to recommend a serious public support and effort behind those things which bring money into the City than it does to add another incentive which will, in fact, cost the City budget $75 million with no discernable economic effect.

To go back to the question that you raised, the businesses that are alongside of where I live in Mount Airy are nice businesses, but they depend upon my income. They don't make things that are exported elsewhere. They don't attract new people to the City of Philadelphia. They're businesses that in fact take advantage of and are dependent upon the fact that I earn money that I'm able to spend at the Wawa or in a restaurant or at various local places. That's the derivative economy.

You're describing a situation in which we remove $75 million from the public budget that is supporting security and other

things, in fact, and having people in the neighborhood go shop for the same set of shoe stores? Not really. It doesn't work Councilman. Doesn't work economically.

This is not the Democratic Convention. It is discussing the economic results of actions. And you can assert that it works, but it doesn't.

COUNCIL PRESIDENT VERNA: And I believe in the report on Page 117, Volume I, Appendix 1 --

COUNCILMAN COHEN: In a little appendix they try to --

COUNCIL PRESIDENT VERNA: Well, I think there are several pages of tax exemptions for low income Philadelphians. I don't know if you saw that, Councilman.

COUNCILMAN COHEN: It doesn't deal with this question at all. It was as an afterthought.

MR. SCHWARTZ: Wait. Is the important point that your bill get passed or that we find a way to provide income into the pockets of low income workers?

032404 - WHOLE - RES. 040076

COUNCILMAN COHEN: Yes.

MR. SCHWARTZ: The important point is that we find ways to provide income in the pockets of low income workers. That's what we've recommended.

How much time have you spent advocating or fighting for the existing campaign which will mean millions of dollars into the pockets of low income workers? Have you spent any of your time? Have you made any speeches about that? Has your indignation apply that all to the fact that the State and federal --

COUNCILMAN COHEN: Sure, my indignation as a partisan Democratic, I'm ashamed of the Democratic Party because the Democratic Party in this Council --

MR. SCHWARTZ: You're not answering my question.

COUNCILMAN COHEN: -- refuses to give the workers of Philadelphia the same benefits that the Republicans do at the State and federal level. I'm ashamed of being a Democrat under those circumstances.

032404 - WHOLE - RES. 040076

MR. SCHWARTZ: I'm asking you a question. How much time have you spent -- there's a campaign, the Daily News is running editorials every three days in support --

COUNCILMAN COHEN: I'm probably the only ward in the City that had Lance Haver to a meeting of the Committee men in the ward to explain to the Committee people how they are to help their neighbors and constituents get that money. But that's no excuse for the City refusing to make that money available.

MR. SCHWARTZ: All right. I'd like to call --

COUNCIL PRESIDENT VERNA: Just a moment, please. I believe Councilman Goode would like to be recognized.

COUNCILMAN GOODE: Thank you, Madam President. Just a couple of other broad overview questions.

Chairman Schwartz, how many pieces of legislation has the Commission recommended?

MR. SCHWARTZ: Thirteen.

COUNCILMAN GOODE: Of the 13 bills, how many have significant revenue

implications?

MR. SCHWARTZ: Let me just say that I think the bills that would obviously relate to the reduction of tax breaks -- I don't know how many there are, Councilman -- you know, wage tax, business taxes obviously would have revenue implications. The bills that may call for procedural structural changes in the way we do things, you know, like some of the assessment reform recommendations and those would have a different kind maybe of revenue impact, but not the kind you're talking about.

COUNCILMAN GOODE: Is your testimony that all 13 of those bills work together?

MR. SCHWARTZ: Yes.

COUNCILMAN GOODE: So if Harrisburg comes up with a different plan to provide the City with revenue to change what's going to happen in terms of the wage tax is able to do more dramatic sooner, does that change the equation?

MR. SCHWARTZ: Well, that's actually -- that's taken into account in our recommendations. In fact, I worked very hard

in the middle of last summer to get the Commission, which we did, to support the Governor's proposals.

The point is that we have a schedule that it takes into account the Governor's recommendations and that doesn't. And we have a different schedule for what we think the City ought to do if the Governor's plan comes into effect, which is pretty much the same as it was last year, than if it doesn't.

COUNCILMAN GOODE: We're not just talking about the Governor's plan, and I would say that I'm not sure you want to suggest that Harrisburg is going to follow the Philadelphia Tax Reform Commission's proposals. What I'm suggesting is that if Harrisburg does whatever it wants to do, cut the wage tax to 3.8, to 3.7, to whatever next year, does it or does it not change the equation?

MR. SCHWARTZ: Well, I'm saying that the equation that you're talking about is considered in the recommendations that we made. That was before us last year --

COUNCILMAN GOODE: Mr. Chairman,

you're not responding to my questions. I'm asking you if Harrisburg actually decides to implement a different plan, does it not or does it not change the equation?

MR. SCHWARTZ: If it decides to implement a different plan --

COUNCILMAN GOODE: A different plan, does it change the equation?

MR. SCHWARTZ: It probably will, yes. It's impossible to deal with something that you have no idea what they're going to do.

COUNCILMAN GOODE: So if the equation changes, the 13 bills work together a different way, and, in fact, one bill may be out?

MR. SCHWARTZ: I think that what we're talking about is not the number of bills.

COUNCILMAN GOODE: I'm not asking what you're talking about. I'm asking you to respond to my question.

MR. SCHWARTZ: First of all, we didn't introduced bills; they were introduced

here. And they reflected the core of the system --

COUNCILMAN GOODE: And I cosponsored half of them. I'm just asking you to respond to the questions. I'm not even taking issue with your answers other than it being nonresponsive.

I'm asking you, does the equation change if Harrisburg does something different with regard to wage tax relief?

MR. SCHWARTZ: Than what they said last year?

COUNCILMAN GOODE: Yes.

MR. SCHWARTZ: Yes, of course.

COUNCILMAN GOODE: So if Harrisburg does something more dramatic at a quicker pace, does that allow us to also do something more dramatic in terms of the business privilege tax?

MR. SCHWARTZ: It might, depending on where the City budget was in the process.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions of Mr. Schwartz?

032404 - WHOLE - RES. 040076

COUNCIL PRESIDENT VERNA: Thank you.

MR. SCHWARTZ: I'd like to call on Al Taubenberger, the Vice Chair of the Commission.

COUNCIL PRESIDENT VERNA: Thank you.

MR. TAUBENBERGER: Thank you all very much. Madam President, thank you for calling these hearings.

Good afternoon I am Al Taubenberger, I'm President of the Northeast Philadelphia Chamber of Commerce. It's a private business association of nearly 1,000 members, the greater, greater majority of which, 85 percent or higher, are small employers, 1 to 5 or single shop owners, very much middle class.

I'm very honored, as well, to be elected Vice Chairman by this Commission.

While most of you already know and supported the creation of the Philadelphia Tax Reform Commission, I want to provide a brief statement on our mission and operations for the public record.

The Commission was established as an independent public body of the City by the

032404 - WHOLE - RES. 040076

Home Rule Charter amendment with over 80 percent of the voters supporting our creation. We were made up of 15 members, 4 appointed by the Mayor, 4 appointed by the City Council President, 1 appointed by the City Controller, and 6 appointed by business and community organizations. Our work was guided by a 23-member Advisory Committee of educational institutions and nonprofit and community organizations. We held approximately 150 hours of public hearings, round tables, town meetings, Commission and working group meetings to reach our conclusions, testimony and Commissions' research for over 30 experts in government, the nonprofit and private sectors of academia directed our work.

To effectively sort through the massive amounts of research material and policy options presented to us, we created small working groups to focus on specific areas of taxation. These groups were the real estate working group, the business working group, wage tax working group, revenue and spending working groups. All of these groups

032404 - WHOLE - RES. 040076

presented recommendations and rationales for their recommendations to the entire Commission for consideration in August, 2003. These recommendations were reviewed, debated, and in some cases amended presented to the entire Commission again in October as an interim report that was adopted 14 to 1.

We have Chairs from each group who will go over specific recommendations and take questions. And I thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Mr. Chairman, I understand just by your report that there was a descending vote?

MR. TAUBENBERGER: Yes, there was.

COUNCILMAN RIZZO: Who was that?

MR. TAUBENBERGER: That was Jonathan Stein.

COUNCIL PRESIDENT VERNA: Who is scheduled to come in tomorrow to testify.

COUNCILMAN RIZZO: Thank you,

MR. VANDENBRUL: Good afternoon,

032404 - WHOLE - RES. 040076

Madam President and Members of Council. I'm Andrew VandenBrul, a proud member of the Philadelphia Tax Reform Commission. I served on the Commission's business tax working group, and it's in that capacity that I am here before these now six members of the Committee of the Whole today. I'd like to thank you for your interest in the Tax Reform Commission's proposals and also encourage you to share our comments and commentary and dialog with your colleagues.

Currently, Philadelphia's business taxes do a number of things but, first, they chase jobs and residents from the City. Secondly, they discourage employers from locating in and families from coming to Philadelphia, and also they leave scars of decay on every neighborhood of the City.

Philadelphia's leadership now has before it a well-reasoned and achievable plan to fix what is wrong with our current tax system. This comprehensive and unified tax package provides both City Council and the Mayor with an historical opportunity to

dramatically reduce the wage and net profits tax, gradually phase out the business privilege tax, including the onerous gross receipts tax, insure that real estate taxes are levied in a way that is understandable and fair, promote business growth and increase residency throughout the City and create jobs throughout the City and increase investment in each community.

Having worked tirelessly with my fellow Commissioners and Advisory Committee Members to craft a package of fiscally and socially responsible tax reform recommendations, I ask you to pass the Commission's entire package because Philadelphia, quite simply, cannot afford to allow the current structure to further debilitate this vibrant City.

It is uncontested that Philadelphia's tax burden is higher than that of any of its competing jurisdictions. We tax what others do not tax. What we tax, we tax higher than others. And what we tax, we tax unfairly. It should, therefore, not come as a

surprise that the City has difficulty competing for and retaining residents businesses and jobs. Substantial evidence from econometric analysis, surveys, and abundant anecdotal evidence indicates that the City's high tax burden has significantly reduced the size of it's economy.

Philadelphia's unusual high reliance on business and personal income taxes is far more damaging to the economy than more traditional revenue structures. For example, in 1997 personally income taxes or wage taxes accounted for 33.3 percent of total tax revenues in Philadelphia compared to an average of 8.5 percent for the 10 largest US cities. Business income tax revenues contributed 12.4 percent to Philadelphia's tax revenues versus an average of only 5.3 percent elsewhere. The gross receipts portion of the business privilege tax which has received much criticism is higher than the average southeastern Pennsylvania suburb. Only three of the nation's largest 20 cities tax the net income of corporations, and one of those is

now phasing out the tax. So we're finding ourselves standing alone with this onerous and outdated tax structure.

Recommendations for business changes in the Commission's final report include changes to the net income portion of the business privilege tax. The first of those is to adopt what is called single sales factor apportionment. This recommendation takes the current apportionment methodology which includes components of property, payroll, and sales, and eliminates the property and payroll components. The results is full reliance on the sales factor to determine what portion of the business' income is subject to the Philadelphia business privilege tax. This takes away the bias towards reducing your Philadelphia taxes by reducing your property and payroll in Philadelphia, as those are no longer factors. For most Philadelphia-based businesses, this change to single sales factor would result in an immediate reduction of their business privilege tax on net income. Conversely, however, net income tax on

out-of-City business would likely increase for those that are already taking advantage of the City's market for goods and services, thus defraying at least a portion of the cost. So this recommendation is immediately, at least partially, self-funding. And we've talked about other aspects of funding and we can get into those a little further.

The second recommendation on the net income portion of the business privilege tax is to grant un-incorporated business -- and these are partnerships, limited liability companies, and sole proprietorships which, again, tend to be the smaller businesses. These would grant those un-incorporated business a deduction for payments made to their partners, members, or sole proprietors when they calculate the business privilege tax.

The object of this recommendation is to level the playing field between incorporated businesses and un-incorporated businesses. Right now, incorporated business are allowed a deduction for the salaries that

they pay to their employees. However, un-incorporated business who pay income out to their partners and their members are not allowed that deduction.

The recommendation is to initially allow a 50 percent deduction for such payments and further increase the limit by 10 percentage points in each subsequent year until we get a hundred percent deduction allowed. And the results of this recommendation is to tax un-incorporated business owners similar to other employees by deducting compensation from the business privilege tax and instead subjecting them to the net profits/wage tax. Importantly, by phasing in the deductions, the Commission retains its commitment to a fiscally responsible approach to tax reform. Further, the fiscal impact of this recommendation is narrowed by other complimentary recommendations such as the phase out of the business privilege tax in its entirety, which I will touch on in a moment.

The third recommendation for the net

income portion of the business privilege tax is to lengthen the net operating loss carry-forward period. Right now, companies that lose money in one year are allowed to carry those losses for it for up to three years. Obviously, in this downturn in the economy, we've seen the effects this can have on businesses that made money a few years ago and maybe losing now and certainly have high hopes of making money again in future. They should be entitled to those net operating losses to smooth out their income over a longer period of time. Currently, the City's carry-forward period is only three years, at which point those losses expire. These losses are especially important to cyclical businesses but also to start-up technology, biotech businesses, those businesses that the City through its other economic development efforts are actively trying to recruit and develop in the City. Right now, Philadelphia's three-year NOL carry-forward period leaves it far behind nearly every other jurisdiction, including Pennsylvania,

Delaware, and New York who all have a 20-year carry-forward period, and even New Jersey which now has a seven-year carry-forward period. Extending the carry-forward period from 3 to just 10 years would remove one barrier for attracting and retaining these vital start-up and technology business, many of which emanate from the City's great research universities. Further, the 10-year carry-forward period does coincide with eventual phase out of the business tax, as we've proposed it.

There are a couple of administrative reform recommendations that touch on the issue of fairness and equity. One is to change the current payment structure, to move from one estimated payment -- on April 15 right now companies have to pay for next year's tax, a hundred percent of it right now -- and move to a two-payment system. Obviously, this is a cash flow issue, not only for the City, but for the businesses that have to pay for the privilege of being in Philadelphia and then pay ahead of time when they could otherwise

use that cash.

The second one is to unify the statutory refund and assessment periods. This, again, is a fairness and equity issue. Right now, the Department of Revenue has six years to sue for collections of unpaid taxes, and none of us dispute the need for those who have taxes properly due to pay those. However, the Department has six years to sue for back taxes; taxpayers only have three years to seek refunds. Now, this is as much a perception issue as anything else. This certainly creates a perception of a business unfriendly atmosphere when the City has three more years than the taxpayer to resolve these issues. The Commission is proposing to unify the assessment and refund period of three years -- and again, this does not in any way infringe on the Department's ability to sue for collection of taxes that were properly determined to be due, it just have not been paid.

And here's the big recommendation on the business privilege tax that I've been

alluding to and you've seen in the report. And that is the incremental -- I stress incremental -- elimination of the business privilege tax over 10 years. The Commission is proposing to gradually eliminate both the gross receipts portion of the tax and the net income portion of the tax. And all the specifics are laid out in the report issued to Members of Council. The Commission agreed with the projected reductions in the gross receipts taxes that are currently laid out in the Five Year Plan and have followed on by suggesting that we continue to reduce the gross tax beyond that until it is eventually phased out over 10 years. What is completely new to this debate and had not been proposed before is the phase out of the net income portion of the tax as well, which is currently at 6 and a half percent, so it would be equal incremental reductions of 6.5 percent over the next 10 years.

The combination of the business privilege tax's high rate and the imposition of the tax on both net income and gross

receipts make it unique among local business taxes and clearly a significant competitive disadvantage when attracting or retaining businesses to Philadelphia. To put Philadelphia on equal or, hopefully, better footing with is suburban neighbors as well as neighboring states, we feel this tax must be eliminated.

The Commission's proposal, again, uses a phased approach to remain fiscally responsible and to allow the anticipated economic forces of business and employment growth to take hold as sources of supplemental revenue.

By enacting these business tax changes in conjunction with other components of the Commission's overall tax package, we believe that Philadelphia will grow, will create jobs, and retain more businesses in the City. Econometric analyses indicate that enacted these recommendations as part of a comprehensive tax reform package will create more than 47,000 jobs in Philadelphia by 2010. And I believe we have some experts that will

continue on this line of testimony today.

By enacting these recommendations, we can stem of tied of business loss in Philadelphia and once again open the City business growth, job creation, retention and vital new investment in neighborhoods throughout the City.

Again, I appreciate everybody's attention and will be happy to respond to questions.

COUNCIL PRESIDENT VERNA: Thank you. The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Commissioner, the Commission proposes to phase out the business privilege tax over a 10-year period up until 2015. By phasing out both the gross receipts and the net income portion both gradually over that period. What would be the financial and economic implications of phasing out one portion before the other? In other words, phasing out the gross receipts portion over a five-year period and then phasing out the net

income portion.

MR. VANDENBRUL: Well, I believe that through the research that we had performed by Econsult, they had taken a look at the mix of proposed reductions, whether it's on the gross receipts tax, the net income tax, the wage tax, and the proper mix. I don't know that the report, as issued, anticipates one versus the other.

COUNCILMAN GOODE: I didn't say one versus the other. I said one before the other.

MR. VANDENBRUL: It certainly have an impact we did not address in the report.

COUNCILMAN GOODE: The question is, what are the financial and economic implications of phasing out the gross receipts portion and then the net income portion? Gross receipts over five years and then net income over the following five years?

MR. VANDENBRUL: I don't know. It's certainly something that we can address. The issue, I guess, would be the effect that -- this is econometric analysis. I wish I could

do this. The next panel is clearly going to discuss this. I think that it's right for us to respond to this. I just think that we have the economists who can speak to that issue.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Any other questions?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

MR. MANDEL: Good afternoon. My name is Brett Mandel, and I chaired the Tax Reform Commission's Real Estate Tax Working Group, and I will summarize its recommendations here that deal with real estate.

The assessment system reform recommendations dominate our real estate tax recommendations. Recommendation one would separate the property assessment and appeals process. To address citizens' concerns about the impartiality of appeals, we would create a seven-member Property Assessment Appeals Board of which qualified individuals appointed by

the Mayor would be separated from the Board of Revision of Taxes. The current system of Court of Common Pleas judges appointing the BRT would continue.

Recommendation No. 2, we would establish a taxpayers advocate. This would be a new position in the government, nominated by the Mayor and approved by City Council to advocate for property owners and appeals, improve the public understanding of the assessment and appeals process, monitor the quality of the assessment process, and review both the BRT assessment practice principles and the Appeals Board's practices and procedures.

Recommendation No. 3, we would establish accurate land structure values for all property parcels. As real estate assessments are integrated to an equitable and well-functioning local tax system, we would establish accurate land and structure values for all property parcels in Philadelphia through more comprehensive and accurate data collection. This effort could funded by the

City's Productivity Bank, other savings related to proposed changes in the real estate tax or through a one-time sir charge on real estate tax bills.

In recommendation No. 4, we would adopt a set of assessment practice principles that the BRT should adopt, publicize and annually update. It would include a requirement that all assessors be state certified, a commitment not to create or preserve inequalities by artificially capping assessments, a commitment to annually reassess all properties to reflect every increase or decrease in value, a commitment to continually improve the quality of the data collected about the condition of each property, a commitment to increase reliance on computer modeling and information management systems, a commitment to incorporate advanced regression technics, computer calculated neighborhood indices, GIS mapping, and computer-assisted mass appraisal products, and finally a commitment to provide more information about how assessments are performed when assessment

notices are sent out.

Recommendation No. 5, we would eliminate fractional assessments. The BRT should assess properties at 100 percent of market value instead of the current goal of 70 percent, removing an extra layer of complexity from the process and making it easier for property owners to evaluate accuracy of their assessments. Other proposed changes to the property tax system would guard against unreasonable increases in property tax bills as a result of this step.

For example, Recommendation No. 6, we would implement the property tax buffering program to allow for gradual adjustment to any future changes in a property's assessed value, the Commission rejects all types of phasing caps and freezes in favor of recommending a three-year averaging program wherein the real estate tax is levied on the average of the assessed property value from the past three years. We would then adopt a budget-based property tax system. It will be a system of budget-based property taxes beginning in

Fiscal Year 2006 where we would shift from a assessment-driven system to a budget-based system.

The Commission recommends creating a system of budget-based property taxation by legislatively obligating the Mayor and City Council to determine all annual real estate tax rates after setting the budget and reviewing, thereby maintaining a steady revenue stream under control of local government.

This system would end of revenue windfall that currently occurs when property assessment rise and the real estate tax produces more than originally projected in the budget. This recommendation will be effective beginning in FY '06.

We favor the phasing in of land value taxation in Philadelphia. Land value taxation should be phased in until at the end of 10 years, 50 percent of all real estate tax revenues are generated from a tax on the value of land, which would be an increase from the current 22 and a half percent, and 50 percent

of revenues from a tax on the value of structures, a decrease from the current 77.5 percent. To achieve this target, the tax imposed upon structures would gradually be reduced and the tax on land would be gradually increased.

The Commissioner reviewed extensive research and testimony demonstrating that land value taxation maximized the economic development goals when implemented in conjunction with other types of tax and policy reform. Therefore, land value taxation complemented by the other recommendations of this Commission would be consistent with the Commission's mission to improve the City's competitiveness in a fiscally and socially responsible way.

The Commissioner also confirmed the practicality of accurately assessing land values and determined that the issue of tax delinquency would not threaten attempts to impose land value taxation in a revenue neutral manner. Land value taxation which encourages maximizing land's potential, will

encourage private investment in the City and help reduce blight and abandonment.

We also recommend a series of property tax relief recommendations. For example, we would expand the efforts to address property tax ability to pay. Although the net worth of all property owners increases when values rise, those living on fixed incomes often find the corresponding increase in property taxes difficult to afford. Therefore, the Commission developed this following recommendation to address this concern.

First, we would implement a quarterly payment system, allow homeowners to pay in four installments for the fiscal year instead of one lump sum. This system would save the City millions of dollars in borrowing costs as a result of tax revenues starting to be collected at the beginning of the fiscal year. This savings, incidentally, is not countered in any of our estimates of the cost of the Tax Reform Commission's, so take this off the top.

032404 - WHOLE - RES. 040076

Additionally, we would apply tax payments to the City's current year of tax liability. Applying any payments received to this year's liability would help low-income, elderly residents qualify for the State's property tax rebate program even if they have outstanding tax delinquencies from past years.

Finally, in this recommendation, we would consider developing a low-income property tax relief program similar to what we have in the Water Department, the water relief assistance program, to freeze delinquent tax, real estate bills of low income homeowners and provide a tax credit or incentive to remain current in their bills.

We would also advocate for increased property tax relief from the Commonwealth of Pennsylvania. We would advocate that the Commonwealth should join 31 other states in providing low income property owners with an income tax credit calculated as a percentage of their property taxes paid in excess of a certain percentage of household gross income. That's referred to as a circuit breaker

program.

Additionally, we would hope that the State would raise the maximum eligibility requirements for participation in low income property tax relieve programs. We would complement all of this by increasing awareness about the tax relieve programs that we do have. Right now, we found that certain taxpayers don't know about the programs that we do offer, so we would expand informational property tax outreach programs and provide additional counseling for low income tax delinquent property owners.

In terms of the split between residential and commercial rates, right now the Pennsylvania Constitution obliges us to tax uniformly. We would suggest that we should advocate for a change in the Pennsylvania Constitution to allow for variable real estate rates, which would mean that we could tax real estate for commercial purposes more or less than real estate for residential purposes.

Consultant research requested by the

Commission indicated that commercial and industrial land owners are less sensitive to increases in the real estate tax than to other types of business taxes. Therefore, other business taxes could be more quickly reduced if a higher tax on commercial or industrial real estate was levied.

With regard to the real estate transfer tax, while we recognize it is one of the highest in the country, in the current economic climate, we recommend that other taxes receive priority for scarce resources available for tax reduction and therefore recommend that we do not reduce the real estate transfer tax at this time. Although we do recommend technical changes to the real estate transfer tax. We recommend that the changes would restrict a taxpayer's ability to structure real estate transactions to avoid being subject to the tax, most specifically.

And finally, with regard to real estate, we would eliminate the real estate non-utilization tax. This tax, which is designed to penalize the owners of unused,

deteriorating property has never been collected. In fact, after its adoption, its Constitutionality was quickly challenged and the Court barred the City from collecting the taxes. Rather than allowing this uncollectible tax to remain on the City's books, the Commission would recommend eliminating and relying on the implementation of land value taxation and increased enforcement efforts by the Department of L&I to achieve the goal of placing pressure on owners of under-utilized and deteriorating real estate property to improve their properties.

The Chair of our working group on wage tax was not able to be with us; that's Ray Jones. So with your permission I will summarize our wage tax recommendations as well.

COUNCIL PRESIDENT VERNA: Please do.

MR. MANDEL: To begin with on the wage tax, we would adjust the wage tax and earnings tax rates on January 1st. To promote greater tax system simplicity, the Commission

recommends that the City adjusts these rates the first of the Calendar year instead of the first of the fiscal year. This current timing has resulted in an undue compliance burden for businesses that are required to file annual wage tax reconciliation forms with the Department of Revenue and for individuals who are required to file annual earnings tax reconciliation forms. The change in effective date of the rate reductions will ensure that the requirements to file wage tax and earnings tax forms imposes no significant additional reporting burdens on individual business.

The big recommendation with wage tax would be to accelerate local income-based tax reductions. The Commission recommends that City accelerate its program of incremental reductions in the local income-based taxes, the wage tax, the earnings tax and then profits tax, to more rapidly improve the competitiveness of the City's tax structure. The Commission recommends that without any Commonwealth assistance, by 2014, the rates will be reduced to an equal rate of 3.25 for

residents and 3.25 percent for non-residents.

However -- and this apropos of Councilman's Goode's question -- if the City does receive support from Harrisburg for additional wage tax relieve, we would have adopted a more aggressive program that would cut the resident rate to 3.0 percent in 2014 and the non-resident rate for 2.5 percent. That would reflect the fact that if were getting assistance from the Commonwealth, we should help City residents and suburban residents at the same rate. If we are not getting assistance from the Commonwealth, we would help residents more quickly than non-residents.

With regard to low income tax relieve, as Commissioner Schwartz mentioned in his conversations with Councilman Cohen, we did lot of discussion about low income relieve and determined that the best we could do locally was, one, provide jobs for low income residents, so that's why most of our recommendations are geared to create job growth.

032404 - WHOLE - RES. 040076

Additionally, the Commission recommends that the City support expanded efforts to promote participation by low income Philadelphians in federal and state programs designed to reduce the tax burden on low income households, including the federal earned income tax credit and the tax forgiveness program under the Pennsylvania personal income tax. Specifically, the Commission recommends that City invest at least a million dollars per year in the campaign for working families to support additional outreach to low income households, free and low cost tax preparation services, a new focus on expanding participation in tax forgiveness programs at the State level.

As a final recommendation, we do note the other taxes of the City that we decided not to touch. And specifically, the Commission recommends that the sales tax, the parking tax, the amusement tax, the vehicle rental tax, the hotel room rental tax, the liquor sales tax, the mechanical amusement device tax and the hotel use and occupancy

taxes rates not be reduced at this time. We concluded that if the comprehensive analysis of all taxes imposed in Philadelphia, the Commission has reserved our scarce resources for the taxes that are really hurting the City. These taxes, while not so many people love them, should receive a secondary priority.

Those are the recommendations of the real estate tax group and the wage tax group. I'm more than happy to answer any questions you might have.

COUNCIL PRESIDENT VERNA: Are there any questions from Members of the Committee?

(No response.)

MR. SCHWARTZ: Let me, on behalf of my colleagues here, thank you, Council President Verna and the Councilmembers who are here, for joining us in this initial presentation. There's, obviously, a lot here. There are issues involving, for example, the land tax that we didn't get into. Let me suggest that as you need information, we need to structure sessions like this in which some

of the more complicated proposals that we have can be given a full airing. We have a reasonable amount of time between now and the end of nay when the final budget is passed. We do hope that that budget reflects the first year of the recommendations that we are making to you today. Thank you again.

COUNCIL PRESIDENT VERNA: I believe there are two other panels to testify.

Thank you very much, Mr. Schwartz.

Mr. Dwyer, are you going to be the first to testify?

Please identify yourself for the record and proceed with your testimony.

MR. DWYER: Good afternoon, Madam President and Members of City Council. Thank you for the opportunity to appear before you today. My name is Christopher Dwyer. And for the past, year I was Executive Director of the Philadelphia Tax Reform Commission. In that capacity, I recruited professional staff, volunteers and consultants whose research, with support with academia, the business community and government, supported the

Commission's deliberations.

Under my direction, our staff prepared the Commission's findings and recommendations, drafted implementing regulations and legislation and reviewed the consultant research included in the Commission's final report. Today, I will discuss the Commission's research with specific attention to tax reform's fiscal impact, its expected economic benefits and potential strategies for lessening the plan's impact upon the City's finances.

Although the Home Rule Charter prohibited the Commission from recommending spending reductions, cost savings, or service reductions, the Commissioners took seriously the Charter's mandate to shape fiscally and socially responsible tax policy. They considered the budget impact every step of the way and supplemented their 28 core proposals with suggestions for financing tax reform and other ideas that would complement the tax reduction package.

COUNCILWOMAN TASCO: (Inaudible)

032404 - WHOLE - RES. 040076

MR. DWYER: I'll step back. Yes, the Home Rule Charter amendment that created the Commission, that specific language stating that the Commission shouldn't recommend spending reductions, cost savings or service reductions to finance tax reform -- because the Commissioners considered the fiscally and socially responsible aspect of the Charter so important, they did consider the budget impact in ever scenario that they looked at. So the budget numbers were always factor in considering different scenarios. And aside from the tax reform recommendations, we have sections of our report that include financing ideas that policymakers could grapple with and also complementary recommendations that the City might use to work together with tax reform. So they're not part of the formal tax reform recommendations, but we did submit ideas for your consideration.

I wanted to mention the three major pieces of original research that the staff either performed or commissioned during the past year. These three research projects were

done in the context of a thorough review of existing economic literature, quantitative analysis done by the staff, and input from experts, government officials, and citizens.

The three research projects were, one, staff survey with the assistance of the City Revenue Department where we looked at a random sample of mostly small and medium-sized businesses in neighborhoods throughout the City. We wanted to provide an independent look at the concerns of smaller businesses outside Center City to ensure that they were given equal weight with those of larger downtown firms. We supplemented that study with some focus group research by Dr. Alexis McGill, visiting instructor in African American Studies at Wesleyan University to ensure that the voices of the smallest businesses and minority-owned businesses were heard as well.

Among the most notable findings of this survey were that for profound and substantially equal anger about both the business privilege tax and the wage tax, and

that included both the gross receipts and net income portions of the business privilege tax. Both were widely seen and about equally seen as creating a high burden, as unfair, and as too complicated. All three of the questions that we asked. Those two taxes or three taxes, if you think of the business tax as having two parts, those were the ones of most concern. To quote from the survey results, one respondent said, "I am seriously considering moving both of my companies outside the City to avoid the City wage tax and gross receipts tax."

Another said, "The high amount and number of taxes are contributing to my decision of whether to stay in business."

And dramatically we found that just a fraction, 12 percent, of the businesses we surveyed indicated they would increase activity in Philadelphia in the future. And 23 percent told us they were planning to decrease or eliminate activity here. So again, these were neighborhood businesses in a variety of industries throughout the City, not

just central business district.

Our two other most significant research projects, and these were both commissioned research projects by consultants to the Commission, are Econsult Corporation's report on choosing the best mix of taxes for Philadelphia. This is how we responded to the requirement of doing an econometric or economic impact analysis of the tax reductions. And Richard Voith from Econsult Corporation joins us today and he'll talk about this in more detail.

And the third significant research project, also commissioned by us, was by University of Pennsylvania doctoral student Kevin Gillen who's also with us today, called Challenges and Solutions to Real Property Assessment Uniformity in Philadelphia. It was a hard look at the real estate assessment system in the City. And indicated that property assessments here incorrect and unfair compared to other cities and with the rest of the region.

So just to summarize our principle

research findings before I turn it over to our consultants, first of all, on the fiscal impact which the Charter asked us to assess, the fiscal impact on the City budget, in other words, the revenue impact is as the Chair stated earlier just over $17 million in fiscal year 2005. But I should note that because of the wage tax cuts that were introduced earlier this year under Councilman Mariano's bill, those were already going to cost about $5 million. So that $17 million impact is already reduced to 12. And then I would also say that on the business privilege tax, we used the most conservative assumptions possible. So, in fact, we probably are about $4 million over on that side of the equation. So conservatively, it's 17.1 million in the first year. In fact, it might only be about 8. Those impacts rise to about 35 million in '06 on an annual basis; 56 million in '07; 84 million in '08. And if we assume that the City would have made no change to the current reduction program, we would be looking at a fiscal impact of 142 million in 2009.

032404 - WHOLE - RES. 040076

In terms of the economic impact, which we were also asked to look at by Charter, we were able to measure quantitatively what might occur from wage tax and the gross receipts portion of the business privilege tax cuts. That's what we were able to measure. And we found that growth in the private economy would lead to new tax revenues through 2009 of an estimated $450 million. The important caveat there is that that's the total tax impact. A hundred thirty-seven million of that would constitute new monies for the School District, not the General Fund. But the overall number is 450 million. And this is a conservative and limited estimate because it doesn't incorporate the expected positive impact of single factor apportionment, equalizing the playing field for partnerships and, in fact, the reduction in the net income portion of the business privilege tax.

But all the non-econometric evidence indicates those would have positive impact as well. So, you weigh that against the fact

that the 450 million is just an estimate. The 47,000 new jobs is just an estimate as well. But in many ways it can be seen as conservative.

And as I said, economic forecasts are only estimates and, as a result, the Commission did research strategies policymakers could consider to cope with fiscal impact not addressed by growth in the private economy. These included both recurring and one-time options, both local and regional. They're discussed in detail in a section of the report called Financing Tax Reform, and they include maximizing revenue from existing taxes, fines, negotiated agreements and new sources, while at the same time minimizing operating and debt service expenditures to the extent possible. And of course, we also discussed state-wide and regional tax and funding reform options that either have already floated or could be considered.

As a last resort, the Commission acknowledges that the City could consider

increasing the revenue it receives from certain smaller, less economically harmful taxes and shift some of the tax burden from taxes on personal and business income to the property tax base.

The Commission found that in the context of the elimination of the major local business taxes and dramatic wage tax reductions and a strong property tax equity and relief program, such changes might be appropriate and manageable.

I appreciate the opportunity to speak with you today. I would be happy to either answer your questions at this time or move on to the researchers.

COUNCIL PRESIDENT VERNA: Thank you very much.

Are there any questions of Mr. Dwyer at this time?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you.

Please identify yourself for the record.

MR. VOITH: I'm Richard Voith, I'm

032404 - WHOLE - RES. 040076

Senior Vice President and Principal of Econsult Corporation, a small firm based in University City.

Good morning, Madam President and Members of City Council. Thank you for the opportunity to discuss the issue of Philadelphia's tax structure.

Last year Econsult was retained by the Philadelphia Tax Reform Commission to conduct an econometric study of the likely impacts of potential changes in tax rates of the City of Philadelphia. Econsult's report on that study was published as a supporting document when the Tax Reform Commission released their report.

The dominant view among policy analysts regarding the effect of inter-jurisdictional differences in taxes and services is that businesses, population, property values all decline in areas offering unattractive mixes of taxes and services. That is, businesses and populations will vote with their feet when confronted with a tax structure and service levels that are not

competitive with surrounding areas.

As a result of this phenomenon, the relationship between changing local tax rates and local tax revenue may not be represented by a simple formula where one multiplies the new rate times the old tax base. When a tax falls by X percent, the tax revenue may not necessarily fall by X percent. Rather, most economists believe that tax revenue is likely to fall by less than X percent.

For example, a decrease in a local wage tax is expected to result in more jobs and more wages and salaries. Economists refer to such a phenomenon as the supply side effect. Now, there's a lot of debate, read skepticism among economists of whether federal taxes have supply side effects. There's really widespread agreement that local taxes do have supply side effects, and it's for the simple reason it's much easier for an employer to leave a City or a person to leave a City than it is to leave a country.

Now, while economic theory clearly establishes the direction of the impact of

lower local tax rates on tax bases, it really doesn't establish the size of the effect. When a tax rate falls by 50 percent, for example, its corresponding base should increase, but by how much? If the base increases by a hundred percent, the tax revenue would be unchanged. If the base increases by less than a hundred percent, tax revenue is going to fall.

So the purpose of our study, really, was to shed some light on this issue by conducting an econometric analysis of historic data to estimate the size of the supply side effect, if any, relating to changes in Philadelphia's wage tax, property tax, and gross receipts tax rates. We then used those estimates as the basis for a simulation model that we could use to assess the likely impacts of tax changes.

Now, our econometric evidence really yielded consistent evidence that reduction in tax rates expand the base of the particular tax being reduced. If you cut the wage tax, wages and salaries in the City tended to rise.

Changes in wage taxes and gross receipts tax rates also have cross base effects. That is, that when you reduce the wage tax rate or, let's say, you reduce gross receipts tax rate, it generates greater wage and salary growth so the wage tax base actually gross in response to a cut in the gross receipts tax.

Finally, reductions in both the wage and gross receipts taxes significantly increase employment in the City of Philadelphia. We analyzed the implication of the Tax Reform Commission's proposed phase reductions of the wage and gross receipts tax rates and found that together, by 2010, they resulted in additional 47,000 jobs, increased total wages and salaries generated in the City by 9 percent beyond the currently expected level, increased property values for commercial and homeowners alike by 11 percent beyond the currently expected level, and they reduced the cumulative tax revenues available to the City, this is again in 2010 accumulatively, by $164 million.

These results suggest that there are

large private gains associated with reduced tax rates. They also suggest that the City will need to be able to find $164 million in savings over the next five years to finance the tax cuts while keeping City services at least in their current level. Our work has an implicit assumption that the service levels in the City of Philadelphia are unchanged, despite the change in tax rates.

I strong encourage City Council to find ways to improve efficiency of the City government so that you actually can get the private gains associated with the tax reductions.

Finally, I'd like to encourage City Council to support Governor Rendell's efforts to reform taxes at the state level. Our analysis shows that the Tax Reform Commission's proposed combination of state and local tax reforms would produce even more jobs, more growth in wages and salaries and more property value increases basically with no reduction in total City revenues. That is, state tax reform would provide enough extra

dollars to cover the reduced collections of local taxes.

With or without state tax reform, I urge the Council to implement the recommendations of the TRC. And thank you very much for the opportunity to speak with you on this issue. If you have any questions, I'll be happy to entertain them.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Mr. Voith, I want to ask the same question I asked the last panel that they actually deferred to you on the matter of reducing or phasing out the business privilege tax over 10 years and phasing both the gross receipts and the net income portion at the same time versus the financial and economic implications of phasing out the gross receipts portion over the first five years and then the net income portion over the next five years.

MR. VOITH: Okay. I'll take a stab at it.

032404 - WHOLE - RES. 040076

The gross receipts tax and the net income tax do affect somewhat different businesses so that those businesses that are most adversely affected by the gross receipts tax would obviously be better off.

COUNCILMAN GOODE: Mr. Voith, but my question is really actually the financial implications. And I don't actually need an answer today. You can take a stab at it. I'm not necessarily asking what business would be benefited by it. I'm really interested in if you actually looked at Bill 040023 that introduced into City Council that would phase out the gross receipts portion over five years; and then if you look at the second five years and phased out in that income portion equal graduations, what would be the difference in terms of financial and economic implications?

MR. VOITH: I'll give half an answer. We actually in our work for the Tax Reform Commission never looked at the net income tax from an econometric point of view, so I can't give you a good answer there. But

with respect to the five-year phase out of the gross receipts tax, we could do easily and would be happy to do a simulation and provide you with that number.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: The jobs would be as a result of cut, what areas, what kind of job growth are you looking at? What kind of businesses? Is this an increase in the number of employees in existing businesses or businesses coming back into the City? How did you calculate the 47,000 jobs.

MR. VOITH: We don't have a good answer to that question. We do know a little bit about what industries those jobs would more than likely come in. They would show, we believe, disproportionately in the service economy and to some extent the fire insurance and real estate sector. We believe, although we do not have econometric evidence on this, is that a lot of those jobs would be resulting

from two things: One is that less incentive for existing businesses to leave, Number One; and Two, for existing businesses to grow internally within the City. It doesn't all have to come from new firms moving in.

And lastly, the 47,000 jobs is a number that's relative to what we would expect in the future. And remember our expectation about the future employment levels in the City of Philadelphia is given our current trends are somewhat of a decline, so we'd expect in 2010, which the numbers we're speaking to -- and I can give you an exact perhaps -- for employment to have declined by 15 or 20,000 jobs by then. So that we would expect that our 47,000 number to be above that projected decline by 47, though the total increase in the number of jobs in the City is not 47,000 more than there are today, but rather 47,000 more than we would have expected it to be five years future, if that's a help.

One of the aspects of our econometric analysis basically that falls out of it was basically what the actual trend in

employment levels in the City is. And it is a slight downward trend. We are continuously losing jobs. So our 47,000 growth is against where we would be five years from now giving that declining trend.

COUNCILWOMAN TASCO: I'm not an economist, so I can't figure it out.

Wilson, figure that out for me.

It seems like so we wouldn't be getting 47,000, we would be retaining some and cutting the loss of some of the those jobs.

MR. VOITH: A certain amount would be growth but, in fact, if we do nothing now with the econometric analysis says is that we're going to continue on with our relatively modest slight decline. If we do the tax reform, what our analysis suggests is that we're going to get growth and we're going to get an additional 47,000 jobs from what we thought we would have been in the future. It's not going to be 47,000 more than we are now, it's going to be some number somewhat less than that.

COUNCIL PRESIDENT VERNA: How many

of them are net new jobs?

I'm sorry, Councilwoman. I would just like to get to how you're getting 47,000. How many net new jobs?

MR. VOITH: I can't tell you that number off the top of my head, but let me see if I -- it's probably 38,000 net new over where we stand right now. I can get you that number precisely. Something on that order.

COUNCILWOMAN TASCO: I think we would be interested in how to you get to the 47,000.

MR. VOITH: I can get you that.

COUNCILWOMAN TASCO: And are you assuming that the savings in the cut of the City wage tax or the business taxes would go to grow the company and, as Councilman Cohen asked, would it go into the pockets of workers?

I know the worker would have a benefit because the wage tax they pay, the portion of the employer pays, what would happen -- are you assuming that that would go into the pocket of the worker or would it be

used to grow the business?

MR. VOITH: There are two ways of reducing the taxes actually and affecting people. One is that in the case of wage taxes, they have to pay less out of their pocket so you get a little bit more. It's not a big number.

The bigger way that I believe tax reform affects workers incomes is by making an incentives for firms and households not to leave the City and, hence, creating a demand of labor so it keep their wages higher. And I think that's the bigger effect. It keeps wages higher and it creates more jobs, and that's the bigger effect rather than just the money left in their pocket because you've lowered the rate. Because if you look at the lowering rate, it doesn't put that much money in their pocket. The big incentive is to keeping the jobs in the area. That should be very helpful for modest income working residents of Philadelphia because it's going to raise the demand for their services.

COUNCILWOMAN TASCO: I had another

question I didn't write it down.

You can go to Michael. I'll come back. I couldn't think of my other question.

COUNCIL PRESIDENT VERNA: Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. Just a couple questions.

As we move through this process and you listen to some of the comments that are made, there seems to be almost two voices coming from within the same government; that on the one hand, we have to change our tax structure, make the City more competitive, reform the crazy array of taxes that we have and reduce the overall tax burden. That was, obviously, the charge of the Tax Reform Commission. On the other hand, it all gets obliterated by, "Well, we can't afford to do this."

Can you comment on the "We can't afford to do this," and then I have possibly a further request. I know the Commission itself may technically be somewhat disbanded, but I know the staff is still around and the

Commission members have I think in the positive sense ignored that particular provision of the Charter amendment.

But to the first question, what's your reaction to the "We can't afford to do this" statement.

MR. VOITH: Councilman, one of the key things about understanding tax reform is what we're actually measuring it against. And what concerns me about not implementing some form of tax reform in the City of Philadelphia is that the City of Philadelphia is systematically losing residents and losing businesses. That's the trend. And it's not a terrible trend. We're not doing terribly. It's just that we're slightly off. We're continually declining.

If you don't do tax reform, the outcome isn't being where we are now, it's being behind where we were. So it is my belief that if you invest -- and I'm using the term investment -- if you invest in rationalizing the tax structure and lowering rates and invest in a slightly more efficient

government, then you can actually put the City in a position where it will grow.

One thing, we tend to take the current as where we're going to be five years from now, and that would be a very bad decision if we had done that 20 years ago. We're, in fact, much more worse off than we are now because we've had subsequent years of relatively small declines that accumulate to be relatively large. But I think that the key to tax reform is changing the trend and ultimately, down the road, I think it will payoff economically for the private sector and ultimately economically for the public sector.

COUNCILMAN NUTTER: But can we afford it?

MR. VOITH: It strike me -- and I am not the budget expert that you really need to consult, but if we're talking about a deficit of -- a loss and accumulative of 164 million over the years through 2010, that is a relatively modest amount of money relative to the overall cumulative size of the City budget over five years, which has to be over

$16 billion. So I would think that we should be able to find those resources.

And the other aspect is that the phase-in of the program should really help the ability to forward it, Number One, and take risk away in case you need to make adjustment midstream.

COUNCILMAN NUTTER: Let me ask Mr. Dwyer and then I want to come back to Mr. Voith.

Mr. Dwyer, through the three volumes of the report, and I've looked through each, is there a -- did the Tax Reform Commission -- and I know the numbers are always moving on us so it's difficult at any one point in time. But even if it were against the current fiscal year budget and the remaining, I guess, four years what we passed last year as a five-year plan, have you looked to put on -- I guess it would be a very large spread sheet over -- I mean, some of the proposals have us still taking certain action, say, in 10 years. If you looked at projected revenues, projected expenses, costs of various tax cuts

anticipated if we're going to look at supply side effects, I mean, have you taken all of the numbers and tried to reduce them to a spreadsheet that shows what we have, what we would do, and what the bottom, bottom line would be on a year-by-year basis over the next 5 to 10 years? If we did the whole -- I mean, the general call maybe from a third voice within the government or outside of the government, do all 13. So in an all-13 package, all the bills go through, has anyone taken pen to paper or computer to circuit board or whatever and tried to look the total impact of the 13-bill package over the next 10 years on a year-by-year basis?

MR. DWYER: We're done it over the five years of the Five Year Plan that we're living under now, plus taking it out one more year even though the Mayor's plan hasn't been submitted, using the assumption that the same tax reduction program would continue. But we did the fiscal impact and the economic impact separately. We were asked to do both. On Page 65, we did the fiscal impact, that's Line

032404 - WHOLE - RES. 040076

1; Line 1, Page 65, I believe a figure of 5.5.

COUNCILMAN NUTTER: I like a guy that knows where his stuff is in his own report. A man after my own heart.

MR. DWYER: That's where we added up the fiscal impact numbers. And then we did a pretty lengthy appendix that described how we got there. Because, as I mentioned, right from Day One, the Commissioners wanted to consider different scenarios, fiscal responsibility, so everything they looked at, particularly on the business privilege tax side, went to the Department of Revenue for some analysis on their part, further analysis on our part. So given the Five Year Plan we have now, it's the four or five numbers I mentioned earlier that begins with 17.1 million in 2005. And then 34.9; 56.4 --

COUNCILMAN NUTTER: I got that. That's a small chart on Page 65. What I'm asking you --

MR. DWYER: Yes, but it's based on a big one. It's based on one that essentially measured -- our assumption or our finding

after a lot of research was that the real estate tax recommendations, many though they are, should be revenue neutral. So in the end when we talk about fiscal impact, it's a combination of wage cuts BPT cuts and a corresponding net profits rise because some who are paying BPT on net profits will now only be paying net profits. So there is an underlying spreadsheet. The reason it only goes out for five years on a ten-year program was, in part, because of the Five Year Plan and in part because our economists advised us that really to go even five years out is to some degree speculative. And to go 10 years out, it might be illustrative, but so many things may change that it wouldn't be appropriate to put a lot of stock in numbers beyond 2008, 2009. So, yes, we did the big spreadsheet and we aggregated it and we described it in the appendix, but we didn't formally -- although we ran scenarios, we didn't formally present anything past 2009.

COUNCILMAN NUTTER: Could you attempt to do something like that and get it

to the Chair? I think we're probably going to be talking about these issues at least one more time so...

MR. DWYER: Well, certainly, I can provide you the spreadsheet that we did that goes out to 2014-15. I do have to say, the reserve staff and in fact myself are no longer on the staff, but we will] get you the information and continue to be responsive.

COUNCILMAN NUTTER: I appreciate it.

One last question, which will take you into slightly dangerous territory. The page after the chart which starts Part 6, Page 67, talking about financing tax reform. Mr. Voith talked about the Governor's proposal for property tax reform or reductions in 66 counties and then wage tax reduction in Philadelphia County. I know the number is supposed to on the resident side at least, I think, go to three eight something. Do you recall what the total dollar amount we're anticipating under the latest version of the Governor's plan? Does anybody recall what that number is?

032404 - WHOLE - RES. 040076

MR. DWYER: When we were doing our research that was $170 million, but I can't be sure if that's still the number. That was the first year. And the numbers after the first year were not actually provided at that time. There was an assumption that there would be growth because of the rate having gone down, but that was the only number -- that's the only year for which I remember having a number.

COUNCILMAN NUTTER: Three would be growth because of what?

MR. DWYER: Well, the --

COUNCILMAN NUTTER: Growth and the number coming to us from the Commonwealth?

I guess I assumed that number would stay the same.

MR. DWYER: My impression was that there was going to be -- we used a constant $170 million number, I've been told, in doing our analysis.

And anyway, the two scenarios, the two wage tax scenarios with and without the Governor's plan, we outlined those rates on

032404 - WHOLE - RES. 040076

Page 63 and 64.

COUNCILMAN NUTTER: With regard to those dollars, if the number is still 170 -- and we know obviously things change a fair amount in Harrisburg or at times the Governor has to make other decisions and might have to, for whatever reason, possibly reduce the number. But for today's discussion, let's agree that it's $170 million. Did the Commission give any thought to or any consideration to the prospect of taking $170 million and not immediately dumping it -- I don't mean to characterize it that way -- placing it in the General Fund and then get the immediate rate reduction, which I'm sure when the final bill is done we'll be required to reduce the rates to the commensurate level, otherwise you probably won't get the money. But again, when I loot at your section here, 6, and you talk financing tax reform and there's another section in one of the other volumes that talks about a variety of ways of financing tax reform, did you give any analysis to taking the $170 million and using

that as a steady income stream and generating what is probably a fairly significant amount of bond proceeds and using those dollars to even more dramatically lower the wage tax?

MR. DWYER: We did review the spreadsheet your office prepared that you discussed with us at our public hearing in May. Separately from that we commissioned Public Financial Management to look at the possibility of borrowing two finance tax reduction. And we simply used three different borrowing scenarios of 100, 200 and 300 million dollars. In the end, the Commissioners -- at a certain point, the Commissioner decided not to continue to research a bond financing approach. And so we didn't really marry those two at any point in our research because by then, after having reviewed the spreadsheet, your spreadsheet, and reviewed PFM's analysis and deliberated, they had decided not to go as bond financing. But had they not, I think that certainly it's something we would have pursued further. So we looked at bond financing, but not the

particular scenario you mentioned.

COUNCILMAN NUTTER: I understand. Is that a viable scenario or is it inappropriate or something that we shouldn't look at or consider without locking ourselves into anything while we're in a discussion?

MR. DWYER: I think Richard Voith wants to add what I said and maybe answer this portion.

MR. VOITH: The $170 million that comes from the State, if it was used to immediately lower wage taxes and then we put the Reform Commission's reductions layered on top of that, what we see when you do is that for the entire horizon the City is in surplus over what it would have been otherwise because of the economic growth. That notion suggests that there is room to lower wage tax further if the supply side estimates are correct. Without further beyond what's in the report for the Rendell scenario, even without even thinking about bond financing --

COUNCILMAN NUTTER: But what you're suggesting is, if I'm hearing it right, you

take the Commonwealth money first.

MR. VOITH: Right.

COUNCILMAN NUTTER: Get your new rate.

MR. VOITH: Right.

COUNCILMAN NUTTER: And then base your further cuts in the wage tax on the new rate subsequent to the first drop.

MR. VOITH: Right. And when we did that, we found that the City revenue structure was always greater than under the current scenario of no change in state and local taxes. So that suggested there is room for steeper cuts. We did not assess that. And whether you want to do that by somehow fixing the income stream through bonding might be appropriate. It might not. It would have to be, I think, more seriously considered.

COUNCILMAN NUTTER: Right. I mean, obviously the danger is if create that pool of dollars and live on those dollars over some period of time based on an even dramatic reduction, whenever that pool -- whenever the bond proceeds run out, you've got to make sure

that all the other things that you think may happen catch up to you or you end up with a problem five, six, seven years down the road.

MR. VOITH: That's exactly true. That's one of the good things about the way the Commission has structure its reform, is it allows you to actually see how you're going on.

One caveat about everything here is that the City economy doesn't function in a vacuum. There was a long discussion earlier about sort of growth and jobs in the City has been declining but it does grow sometimes. And it typically grows the most when the nation as a whole is growing the fastest.

COUNCILMAN NUTTER: Right. Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: You began your discussion a lot of your analysis has been done in comparison to counties around Philadelphia in terms of taxes and the tax

rates being lower and some of the taxes that we charge business privilege and taxes are not levied in some of the surrounding counties. Given the fact that these counties are increasing in their growth, where do you project they may be in the future in comparison to Philadelphia? Because they have to now provide services that they had not previously provided. How do you think we'll look in comparison to them in a few years?

MR. VOITH: Two things. Most of our analysis wasn't really concerned with suburban rates. But what you've raised is a really good point, and I think it's a real opportunity for the City because you are absolutely correct in that the tax burden as reflected in the earnings taxes that are being imposed have been increasing in the suburbs, and that's narrowing our gap between the two. And I think that's really the key. So it's a good thing for the City, and I think it makes the chances of the City's economy and the City's residents prospering better. I think that given the kind of analysis that we've

done, we have not really incorporated explicitly into our econometric analysis the changing -- which is actually a really a recent phenomenon of the changing earnings tax profile of suburban counties. So that's not really directly in our work.

COUNCILWOMAN TASCO: But wouldn't it be helpful to us as we deliberate to have some comparison to the surrounding counties? Because that's where we're losing our businesses and our people to the industrial sites outside of Philly and the growth and businesses outside of the City, what impact does that growth have on tax bases there and so it becomes a selling point for Philadelphia for companies to stay in the City.

MR. VOITH: As I said, we specifically in our analysis didn't, but there have been analysis that show the changing tax patterns between City and suburbs. And in fact, the suburbs are -- and the gap between the City and the suburban tax rate has been declining, both because of they've had rising taxes and we've had a good improvement,

somewhat of an improvement in taxes in the City. We've been doing the right thing. I think that's all working in our favor and I think the Tax Reform Commission just furthers that. But I agree with your point that it becomes a selling point if they have to raise their taxes more. The gap is still very large, though. It's basically 4 percent earnings tax versus 1. That's a big gap.

COUNCILWOMAN TASCO: Right, but then there are other taxes, their property taxes. Looking at their taxes, total tax burden and not just the wage tax, what is the cost of doing business in the suburbs as opposed to doing business in Philadelphia and also the ability to workforce at your hands as opposed to people trying to go get to the suburban areas to go to work because of the lack of transportation? So a lot of that comes into play when you -- particularly for Philadelphia when we're trying to sell us as the place to come and do business, all of those things could be taken into consideration.

MR. VOITH: I completely agree.

There are many, many factors that are affecting the overall competitiveness of the City and the City has real advantages. I live and work in the City. I agree with you completely.

COUNCILWOMAN TASCO: So we're not really doing a good job of selling Philadelphia.

MR. VOITH: That's part of it, but we do have a tax structure problem, too.

COUNCILWOMAN TASCO: Well, I agree with that, too. But as Bruce said earlier, there are many factors involving why people don't stay, why they leave, and all of that a part of looking at the tax reform and looking at all the other factors are very important. It's not one isolated thing.

MR. VOITH: We were just asked to focus on one, but that's absolutely right.

COUNCILWOMAN TASCO: I understand. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions?

Mr. Kevin Gillen.

032404 - WHOLE - RES. 040076

MR. GILLEN: Good afternoon to Madam President and Members of City Council. Thank you for the opportunity to appear before you today and share the results of my research with you.

Last year, I was asked by the Philadelphia Tax Reform Commission to update the results of some existing research I had performed while a graduate student at Wharton. The specific question that the Commission asked me to answer is, "How accurate and fair is Philadelphia's system of property assessments?"

There are good reasons why among the array of taxes levied by this City, the administration of the property tax in Philadelphia deserves special attention. Unlike wage, sales, or business receipts taxes, the property tax is not a function of directly observable variables. For every taxable parcel in the City, an explicit value must be assigned by the assessing authority. This is a particular challenge in a city like Philadelphia. Not only must City assessors

estimate values for an old and very heterogeneous stock of real estate, but the low turnover rate of this stock combined with the lack of arm's length prices in many areas of the City means that these assessors must perform this task for a very large number of properties and with few sales comparables to guide their task. The resulting lack of assessment uniformity can lead to substantial inequities at the household level and sub-optimal revenue collection at the City level.

To measure and characterize the degree of assessment uniformity in Philadelphia, my analysis utilized an extensive data set of home sales that were merged with the City's property roll data. With this data, I employed a set of statistical tools that are advocated by the International Association of Assessing Officers. The IAAO, as I will hereafter refer to it, is an international industry group that sets the guidelines for the accurate, fair, and uniform administration of property

assessments. For the purpose of my research, I followed their suggested targets for assessment uniformity.

In the interest of brevity, I will confine my testimony today to a summary of my results rather than an exposition of how I obtained them. Those parties who are interested in greater detail may download my full report from the Tax Reform Commission's web site. That said, my findings are as follows:

First, Philadelphia fails to meet acceptable industry standards of appraisal accuracy for every category of property, from single family housing to vacant land. In Table 1, I compare overall assessment error in Philadelphia to industry guidelines. Column 2 of the table states the average assessment error for each category of property which is measured by a statistic called the coefficient of dispersion. Column 3 in the table gives the suggested target of accuracy for that category. And the last column states the percent of Philadelphia properties that meet

these targeted guidelines.

For example, examining Row 1, we find that the average single family home in Philadelphia is either over or under assessed by approximately 34 percent of its value. The IAAO suggests that the average assessment error for older urban areas like Philadelphia should be no more than 15 percent of value. By this guideline, just a little over 50 percent of all Philadelphia homes meet acceptable industry standards of appraisal accuracy. And the same is roughly true in the second row for multi-family properties like hotels and apartment buildings.

The results only get more austere after that. For commercial, retail, and industrial properties in the City, only a third are valued within satisfactory professional standards of error. And although vacant land is typically considered the most difficult type of real estate to value and thus has a more relaxed standard of accuracy, it has the highest overall level of assessment error of any category of property in

Philadelphia. Only 26 percent of all land parcels in this City are assessed within acceptable industry levels of accuracy.

I understand that these are very dramatic claims and, as such, I sought feedback on them from academic colleagues as well as City officials. They suggested to me that even among older US cities with a varied and heterogeneous stock of real estate, Philadelphia was especially so and therefore should not be held to as high a standard.

To examine if this was true or not, I collected similar data on assessment uniformity from other municipalities. The next chart displays this information and compares overall assessment error from comparable US cities to Philadelphia. From left to right, this chart ranks each city for which recent data was available in descending order. The red bar represents Philadelphia's position in this ranking. The only city which surpasses Philadelphia with a higher overall level of assessment error is Buffalo, New York, and even then by only a slight margin.

It should be noted that Buffalo is an de-industrialized city that has suffered decades of population loss and a so-called brain drain of young educated professionals. This past year its fiscal condition became so dire that the State of New York imposed a control board with veto power over all city contracts. Perhaps that situation sounds familiar.

Moving from left to right across the chart, we can see that New York City has a slightly less level of assessment error, followed by our neighbor of Camden, New Jersey. But after that, the remaining cities all meet and even exceed the same international guidelines for property assessment uniformity. Even comparable cities like Pittsburgh, Baltimore, Chicago, and Boston, which share many similarities with Philadelphia in terms of a distressed and aging housing stock, managed to more than surpass the suggested assessment accuracy target of 20 percent.

It was also suggested to me that

even these cities were not directly comparable to Philadelphia because our housing stock is on average one of the oldest in the country. But if this is true, it should also be true for the region as a whole. After all, the region's housing stock ranges from tenements of Chester City to the row homes of Norristown to the farmhouses of Bucks County to the gilded aged mansions of the main line. So to investigate regional variation in assessment accuracy, I collected transactions and property roll data for all suburban townships in the Delaware Valley and computed the same comparable statistics for each one as I did for Philadelphia. The results are displayed in the next chart.

This map color codes each township of the five-county area by the magnitude of its overall assessment error. The darker the shade of green, the greater is the average error in property assessments. Philadelphia can be readily observed as the dark green polygon in the lower right-hand corner.

From this map, it can be inferred

that some municipalities do indeed fail to meet the generally accepted guidelines for assessment uniformity. For example, the townships of Upper and Lower Darby, Tinicum and Chester City are among them.

In addition, some of the more rural areas of Bucks and Chester Counties have higher than average assessment errors. However, all those townships that fail to meet these targets do so by a much smaller margin than Philadelphia. And overall, Philadelphia still has the highest degree of assessment error of any municipal jurisdiction in the region.

It naturally follows from this analysis that there is a valid question of who are the possible winners and losers in this. If overall assessment error in Philadelphia is indeed high, then it is worth examining if they are also biased. In other words, we want to know if every single property in the City of Philadelphia has an equal probability of being over-assessed as being under-assessed. To determine if this is true or not, I

computed the relative degree of over or under-assessments for each submarket in the City and compared its value to the City-wide average. The results are displayed in the next chart.

This map color codes each census tract in Philadelphia by the degree to which it is on average over-assessed or under-assessed. Orange neighborhoods are over-assessed, while purple neighborhoods are on average under-assessed. The darker the shade of orange or purple, then the greater is the degree of over or under-assessment.

There is a very clear spacial pattern of assessment in Philadelphia. In the neighborhoods of North and West Philadelphia, the data state that many homes are assessed at several times their actual values. In Center City, the Northeast, Overbrook and the Northwest, homes on average are assessed at significantly smaller fractions of their actual values. When compared to industry guidelines, the magnitude of regressivity in Philadelphia is 6 times larger than what is

described as international standards of assessment uniformity. As such current assessments are redistributing wealth from the orange neighborhoods to the purple ones. Please allow me to repeat that. The current administration of the property tax in Philadelphia is redistributing wealth from orange neighborhoods of the City to the purple ones. Since we also know from the data, as well as from our own knowledge of the City's landscape that the neighborhoods of North and West Philadelphia are disproportionately populated by relatively lower income persons who occupy comparatively lower value dwellings. This suggests a very disconcerting conclusion. Not only are Philadelphia's property assessments erroneous, they are also inequitable.

In all fairness, it should be pointed out that although this may be undesirable, it is really not all that unusual for this to be the case for large cities. The reason for this result has to do with the dynamics of the housing market. For those

more affluent neighborhoods which are appreciating in value, the systematic nature of the reassessment process ensures that assessments will tend to lack actual home values. This growing gap between assessed values and market values results in these homes being assessed at lower fractions of their value. Conversely, the opposite dynamic is typically at work in those neighborhoods which are stagnating or declining in value. These areas of the City tend to have a lower overall level of home sales as owner occupants are locked into their current homes due to their shrinking equity margins.

Since assessments are usually adjusted upwards and only rarely downwards, the low turnover rate of housing in these neighborhoods leave appraisers with very few comparable sales to which then can calibrate their assessments. The net result of this process is that assessments lag market values in appreciating high priced neighborhoods and assessment remain persistently high in declining low-priced neighborhoods.

Consequently, the regressivity of the property tax can become more pronounced over time as these trends continue. But if this is indeed true for most US cities, then we may also ask how Philadelphia does in comparison to these cities.

Again, using recent data on comparable US cities for which it was available the next chart displays the degree of regressivity in the administration of the property tax for each city. As in the previous bar chart, cities are ranked from left to right by the magnitude of their regressivity with the red bar representing Philadelphia's position. Although assessment practices in each city for which data was available indicates that these cities are indeed regressive, none are as regressive as Philadelphia. Even the mismanaged and financially distressed cities of Buffalo and Pittsburgh still manage to do better by comparison. And those cities that do not meet industry guidelines still fail to do so by a much smaller margin than Philadelphia.

032404 - WHOLE - RES. 040076

In conclusion then, the results of my research found that the administration of the property tax in Philadelphia is neither accurate, uniform nor equitable. Not only are average assessments erroneous, they are biased against occupants of lower valued dwellings. Further research which is detailed in my full report found that one possible reason for this is that we fail to make full use of the technologies which are available to us and we also do not collect detailed property level data with which assessors can calibrate their valuations.

Since the release of my report several months ago, the Board of Revision of Taxes has announced they are taking active steps in this direction, and I believe they are to be commended for doing so.

The implications of these findings for the issue of tax reform being considered by the City are strong. Namely, they indicate that if current assessment practices in Philadelphia continue to prevail, then the City will fail to participate in the upside

gains of attracting new businesses and residents into the City.

The arguments being advanced by the Tax Reform Commission in favor or reducing other taxes in the City are implicitly and importantly dependent on the effective administration of property assessments. If a reduction in the overall tax burden does indeed attract households and businesses to relocate to Philadelphia, the fiscal benefits which are forecast to accrue to the City will be in the form of increase property tax revenues that result from rising property values. But it is absolutely necessary for accurate assessments to effectively capture these potential upside gains. If the projected increase in property tax revenue fails to materialize in order to offset the cuts in wage and business taxes, the budgetary consequences could indeed become calamitous. As such, I would encourage the Council to keep this in mind as it goes forward with the discussion of this very important set of issues.

032404 - WHOLE - RES. 040076

Thank you for the opportunity to share my work with you today, and I will be to take any questions at this time.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions of this witness?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you, gentlemen. Your testimony was very informative.

Our last panel, Mr. Jack Hunter and David Thornberg.

Good afternoon. Please identify yourself for the record and proceed with your testimony.

MR. HUNTER: My name is Jack Hunter, certified public accountant, office in Philadelphia, member of the Philadelphia Chapter, Pennsylvania Institute of CPAs.

COUNCIL PRESIDENT VERNA: Proceed with your testimony, please.

MR. HUNTER: Good afternoon. As an active member of the Advisory Committee to the Tax Reform Commission, I observed the hard

work and I think excellent results were produced for months of work. I became active as a representative from the Pennsylvania Institute of CPAs because a lot of my clients are located in Philadelphia. Over the years, I've heard discussions, complaints, not many good things to say about the tax structure in Philadelphia. So I thought this was a good opportunity for me to show my clients that I was active on their behalf in helping to devise a revised tax system.

I believe that the Tax Commission's proposals, taken as a whole, will be good for business and will, in fact, result in the suggested results of the Commission, that is, higher revenues despite lower rates. I urge the Council to consider this and act on it.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you Mr. Hunter.

Mr. Thornberg.

MR. THORNBERG: Good afternoon, Council President Verna, Members of Council, distinguished guests. I am David Thornberg.

I serve as Executive Director of the Pennsylvania Economy League here in southeastern Pennsylvania.

As you know, the Economy League is a private sector led civic organization designed to improving the region as a place live, work, and do business. Leaders from 68 of the region's leading companies and universities sit on PEL's Board.

While we may be best known to some of you as advocates for reducing the wage tax, the League has played a critical role in several other key efforts. Working with partners in the civic and economic development corporate, PEL has spearhead the Knowledge Industry Partnership, the nation's first and most ambitious effort to attract and retain our educated young people. Working with the Reinvestment Fund and 10,000 Friends of Pennsylvania, the League led the Metropolitan Philadelphia Policy Center which produced Flight Or Fight, a little book that serves as a clarion call to the region that brought into focus the twin challenges of urban blight and

suburban sprawl and how public policies like our tax structure have contributed to both.

Over the last few years, PEL sponsored a number of forum on issues such as attracting young people to the region, increasing our openness to immigrants and capitalizing on the economic power of its creative and cultural assets.

In all of these efforts, there's one constant: Philadelphia's tax burdens and tax structure stands as a significant barrier to the economic growth of the City, growth that would provide jobs for our college graduates, growth that would lessen the push on young families to leave the City for suburbs, growth that would create a new wave of entrepreneurial opportunity that opens up our City to best and brightest the world has to offer. Unless that system is changed and the City's tax burdens dramatically and fairly reduced, the City will continue to lose jobs and investment, lose population and become less competitive both within the region and against national and international

competitors.

In past testimony to this body, I would at this point dive into the numbers, into the analysis about the harm that our tax burdens and tax structure have brought to this City. I'm not going to go there today. That ground has been plowed and plowed and plowed again. Between the fine work of the City Controller's Office, the Tax Reform Commission, City Council staff, the Mayor's Office, independent researchers from the Federal Reserve, the Wharton School, the Center City District, Temple University, and yes, the Economy League, I think the harmful effects of our tax situation have been demonstrated way beyond any reasonable doubt. That debate, in my mind, is over.

Now it's time to look forward to a fresh set of ideas about taxes that we think could have a significant and positive impact on the City's economic future.

In November 2002, with their approval of the creation of a Tax Reform Commission, almost 80 percent of

Philadelphia's voters delivered a message loud and clear that the time had come for major tax reform in the City of Philadelphia. I will confess that some of us at PEL were skeptical at the time. Weren't blue ribbon commissions simply a tactic to make tough issues go away? Wouldn't the Commission's report simply take its place in the bone yard of dusty reports that have come before it? Wouldn't the panel produce a weak report with only a vague sense of what should or could be done?

I'm pleased, very pleased to say we that were wrong. The Tax Commission has done a remarkable job. The Commissioners have developed a comprehensive and physically responsible set of recommendations for reforming the City's tax system to better serve the City's residents and businesses.

A key reason for this success is that as much as any group that I have seen assembled, this group represented Philadelphia in all its diversity. Between the Commission and its Advisory Board, on which I was honored to serve, every major business, labor, civic,

advocacy and community organization that had an interest in taxes was represented. Furthermore, the Commissioners did an admirable job in reaching out to their fellow citizens through public meetings, surveys and through an active communications effort.

Over 10 months of sustained hard work and with the assistance of an able staff, the 15 members of the Commission rolled up their sleeves and went to work for the future of the City they all love. The Commission ordered reports by top experts to answer questions about the best mix of taxes for the City economy, how to fund tax cuts issues surrounding real estate tax uniformity, and the needs of the business community. The Commission held several well-attended public hearings as well as neighborhood meetings across the City and heard input and testimony from a broad and diverse group of citizens. Most important, Commission members spent literally over 10,000 hours on this effort, hours taken from their businesses and their families in pursuit of a proposal to change

their City for the better. And they succeeded.

The result of their efforts is a carefully thought-out plan to create for the City a tax system that better meets the needs of its residents and businesses and maintains a balanced budget and essential services.

The Commission's package will provide the City with a more equitable property tax system, help the City attract and maintain jobs, and bring prosperity to our City's neighborhoods by keeping well-paying office jobs within easy transit reach. Most important, by gradually eliminating business taxes, accelerating wage tax reductions and adopting a budget-based property tax system, it will bring Philadelphia back into line with our peers. Philadelphia will no longer be quite so different from the rest of Pennsylvania or other big cities or other locations within the region.

The program is balanced, incremental and responsible. And it comprehensively addresses all three of the charges given to

the Commission in the resolution approved by the voters. Decrease tax burdens, promote fairness and equity and improve competitiveness.

Those familiar with PEL will not be surprised to learn that we believe that Tax Reform Commission's recommendations could have gone further and could be implemented faster than recommended. Nonetheless, PEL and our Board of Directors stand fully behind the recommendations, as published. At its December 11, 2003 meeting, PEL's Board of Directors voted unanimously and enthusiastically to endorse the package in its entirety. We believe the Commission's 10 months of research and debate bolstered by over a half million dollars of City tax dollars for staff and research support has looked into the issues from all angles. We have no reason or inclination to advocate anything other than what the Commission recommends in their report.

PEL urges the Council to treat as a whole and pass as a package the 13 bills

before it that embody the recommendations of the Philadelphia Tax Reform Commission.

This is a rare moment of opportunity, the opportunity to reverse with a stroke of a pen the 75 years of well-intended but misguided tax policy, begun, you'll recall, when the wage tax was implemented as a temporary solution to the fiscal challenges of the great depression that has weakened and eroded this City's economy. The Tax Reform Commission's proposal is the best, most creative, most comprehensive, most thoughtful tax reform plan that has been advanced in anyone's memory. And I would urge you to give the City, its residents, its neighborhoods and its businesses a fresh start on the road to growth by making these proposals into law.

Thank you for the opportunity to speak with you. I'll be happy to answer your questions.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions Members of the Committee?

(No response.)

032404 - WHOLE - RES. 040076

COUNCIL PRESIDENT VERNA: Gentlemen, thank you very much.

Joyce Wilkerson was here earlier. I believe we all have a copy of her testimony. We will] give a copy of it to the stenographer so it will be made part of the record, since she was here twice and left. I don't see any need to read it into the record. I think we can just give the stenographer a copy and it will be made part of the record.

(Testimony attached.)

COUNCIL PRESIDENT VERNA: This Committee stand in recess until tomorrow at 10:00 a.m.

I would also like the record to reflect that Resolutions 040082, 040083, and 040084, which were scheduled for a public hearing this morning has been continued until the call of the Chair because we lacked a quorum. So that will be listed for another day with the hopes that we will have a quorum to consider the three resolutions. Thank you all very much for your patience. I thought the day was very interesting and very helpful.

032404 - WHOLE - RES. 040076

(Council adjourned at 2:30 p.m.)

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C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of February 24, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE OF THE WHOLE

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Lisa C. Bradley, RPR