COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, November 17, 2005
2:30 p.m.

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PRESENT:
COUNCIL PRESIDENT ANNA C. VERNA
COUNCILWOMAN JANNIE BLACKWELL
COUNCILMAN DARRELL L. CLARKE
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN JACK KELLY
COUNCILMAN JAMES F. KENNEY
COUNCILWOMAN DONNA REED MILLER
COUNCILMAN MICHAEL A. NUTTER
COUNCILMAN BRIAN J. O'NEILL
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILWOMAN MARIAN TASCO

BILLS 050669, 040776, 051063, 051064 and 051065

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COUNCIL PRESIDENT VERNA: Good afternoon, everyone. This is the public hearing of the Committee of the Whole regarding Bill Nos. 050669, 040776, 051063, 051064 and 051065.

I would ask Mr. McPherson to please read the titles of the bills.

MR. McPHERSON: Bill No. 050669, an ordinance amending Section 19-2604 of The Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions.

Bill No. 040776, an ordinance amending Section 19-2604 of The Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions.

Bill No. 051063, an ordinance amending Section 19-2604 of The

Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions.

Bill No. 051064, an ordinance amending Section 19-2604 of The Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions; and

Bill No. 051063, an ordinance amending Section 19-2604 of The Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you,

Madam Chair.

Madam Chair, before we get started, I wanted to ask -- and I'm aware of at least one other possibly similar situation. I'd like to put forward an amendment to my bill or at least the bill I introduced, 050669, prior to the start of the hearing so that it's in a form that can be more fully discussed before this body.

Of course, in order to do that, I'd like to both circulate the amendment and then ask if we might be able to go into a public meeting in order to have the amendment addressed and then come back into the public hearing.

COUNCIL PRESIDENT VERNA: Are the amendments being circulated as you speak?

COUNCILMAN NUTTER: Not as we speak, but it could be.

COUNCIL PRESIDENT VERNA: Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Before

I came in, I was thinking about the process we've had for the last, I guess, couple years. I believe, unless my memory doesn't serve me correctly, that we've had the Mayor present a budget so we know what our kind of bills are before the Committee of the Whole voted on tax relief.

Is that the process that we're following this time? Do we intend on voting bills out, or what are our goals for today?

I believe in past years we have dealt with tax bills as a whole at one time. Now some are being produced, some are being considered today. I'm just curious as to what our plans are.

COUNCIL PRESIDENT VERNA: I think that the sponsors of the bills that are before us could certainly respond to your question.

COUNCILWOMAN BLACKWELL: I believe, though, as a body we agreed to deal with them all at one time in previous years. If that is our plan, to deal with them all at one time --

COUNCIL PRESIDENT VERNA: That was because we considered them as part of the budget.

COUNCILWOMAN BLACKWELL: Is that our plan this time or are we not considering --

COUNCIL PRESIDENT VERNA: No. I think that we could hear testimony today and decide whether we're going to report them out of Committee with a favorable recommendation or not vote on them at all.

COUNCILWOMAN BLACKWELL: So in other words, then we won't be considering this part of the budget as we have done in previous years?

COUNCIL PRESIDENT VERNA: Essentially they will be. They will certainly be considered as part of the budget, but not at the same time, as has happened in the past.

COUNCILWOMAN BLACKWELL: Thank

you.

COUNCIL PRESIDENT VERNA: Okay. I believe, Councilman Nutter, you were speaking.

COUNCILMAN NUTTER: Yes, Madam Chair.

COUNCIL PRESIDENT VERNA: Excuse me. I think there are two other lights on, and I'm getting some sort of a nod from Councilman Clarke, and I know that Councilman Goode has his light on.

Did you want Councilman Nutter to complete his proposal first?

COUNCILMAN CLARKE: Yes.

COUNCIL PRESIDENT VERNA: Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair. I'll be brief.

As I was saying, I wanted to circulate this amendment in the course of this process in order to make an adjustment to Bill 050669 so that in the discussion that we'll have on the record in the public hearing, the bill is in a form that is more favorable to the bill and to the discussion that we'll have here today as opposed to talking about the bill in the form that it was introduced and then subsequently trying to do something.

So my request was, and I've circulated the amendment, it's just a request of the sponsor to make an adjustment to the bill in a public meeting prior to testimony in the public hearing, and I just thought it best to try to do that prior to testimony so that anyone talking about the bill would have it in its most current form.

COUNCIL PRESIDENT VERNA: Very well.

Councilman Goode, it's my understanding that you may possibly have an amendment to your bill also?

COUNCILMAN GOODE: Yes. I have circulated an amendment to my bill, which I'd like to be considered in a public meeting before the public hearing starts as well, but I would not be asking for a vote on my bill today.

COUNCIL PRESIDENT VERNA: Very well.

Do we have a copy of your amendment, sir? Was it circulated today or previous?

COUNCILMAN GOODE: I think I put it on the desk and there are other copies on the desk.

COUNCILMAN NUTTER: I think it was circulated yesterday.

COUNCILMAN GOODE: I also e-mailed it.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

I just wanted to get some clarity on two issue. One with respect to Councilwoman Blackwell's question as it relates to the budget process that will happen in early next year and, two, with respect to the request to have the public meeting prior to the public hearing. Is that something that requires a rules suspension or is that at the purview of the Chair?

COUNCIL PRESIDENT VERNA: No. I think it will require a rules suspension, and I believe Councilman Nutter indicated that.

COUNCILMAN CLARKE: I didn't hear him ask for a rules suspension.

COUNCIL PRESIDENT VERNA: Councilman, did you --

COUNCILMAN NUTTER: I didn't ask for a rules suspension because in any hearing, the Chair is in control of the Committee and I'm not aware that we have to have a rules suspension to move into a public meeting in order to then go back into a public hearing. Usually the Chair just says, We're going into a public meeting, do whatever you do in the public meeting and then go back to the hearing portion.

COUNCIL PRESIDENT VERNA: I

thought I heard you ask for a suspension.

COUNCILMAN NUTTER: No.

COUNCIL PRESIDENT VERNA: That's okay.

And I still don't have Councilman Goode's amendments. They're making copies, and they will BE distributed.

Councilman Nutter, would you please --

COUNCILMAN CLARKE: Madam President.

COUNCIL PRESIDENT VERNA: Yes, sir.

COUNCILMAN CLARKE: I asked you the question. Is there required to be a rules suspension? If it's no, it's no.

COUNCIL PRESIDENT VERNA: I am being told there is no requirement for a suspension.

COUNCILMAN CLARKE: Okay. Thank you.

COUNCIL PRESIDENT VERNA: So at this point, I would ask Councilman

Nutter.

Councilman Nutter, would you make your motion.

COUNCILMAN NUTTER: Sure. Thank you, Madam Chair. Madam Chair, I would just move that the proposed amendments to Bill 0506 --

COUNCIL PRESIDENT VERNA: I'm sorry.

COUNCILMAN KENNEY: I just have a point of order, I guess it is. Did you formally recess the hearing?

COUNCIL PRESIDENT VERNA: No, I did not.

COUNCILMAN KENNEY: I just wanted to make sure that the record was clear. Thank you.

COUNCIL PRESIDENT VERNA: At the request of Councilman Nutter, we will go from our -- we will actually continue our public hearing and go into our public meeting. Okay?

COUNCILMAN CLARKE: I have a question.

COUNCIL PRESIDENT VERNA: Oh, okay. Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President. I'm more than likely fully prepared to support the Councilman's amendment, because I believe that Councilpersons had an opportunity to have the bill structured in a way that is advantageous to its passage, but if the Councilman could do so for me personally, I can't speak for anybody else, if he can briefly explain the amendment prior to myself personally voting on the amendment, if he can just summarize what the intent is, it will be very helpful to me.

COUNCIL PRESIDENT VERNA: I'm sure he would have no objection to that.

Councilman Nutter.

COUNCILMAN NUTTER: No, Madam Chair. I'd be pleased to do that. Thank you.

Madam Chair, the primary purpose of the amendment is to make some rate adjustments from the original bill that was introduced back on June 16th and to accelerate some of the reductions in both the gross receipts portion of the business privilege tax as well as the net income rate as well. So it's a rate adjustment amendment to the bill.

It maintains the first five years as guaranteed reductions in the business privilege tax and then requires that any subsequent reductions would, of course, need a vote of City Council. That's what the proposed amendment does.

COUNCILMAN CLARKE: Thank you. One question as it relates to that. Councilman, please correct me if I'm wrong. The prior or the current legislation in terms of dollars over the first five years was approximately 22 million. I'm not sure of the exact number.

COUNCILMAN NUTTER: Apparently, Councilman, depending on who you talk to, it's somewhere in the $19, $20, $21 million range, yes.

COUNCILMAN CLARKE: What would be the potential impact on this particular reduction?

COUNCILMAN NUTTER: Say that again.

COUNCILMAN CLARKE: What would be the projected --

COUNCILMAN NUTTER: By the amendment?

COUNCILMAN CLARKE: Yes.

COUNCILMAN NUTTER: A little over $38 million.

COUNCILMAN CLARKE: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Any other questions or comments from members of the Committee?

(No response.)

COUNCILMAN NUTTER: Madam Chair.

COUNCIL PRESIDENT VERNA: Yes, sir.

COUNCILMAN NUTTER: I'm sorry. Just a more direct answer to Councilman Clarke's question, the amendment that I circulated, the amendment itself is stapled and then there's a single sheet that's attached by paperclip. It has a revenue impact or cost analysis for the proposed amendments.

COUNCIL PRESIDENT VERNA: I'm sure everyone has a copy.

COUNCILMAN NUTTER: Madam Chair, if there are, at this moment at least, if there are no other questions, I would move the adoption of the amendment.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that the amendment be adopted.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

(No response.)

COUNCIL PRESIDENT VERNA: The ayes have it and the amendment is adopted.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President. I would also like to amend Bill No. 040776. The schedule has not changed at all. It would still eliminate the gross receipts portion of the business privilege tax by 2010. The amendment seeks to require approval by ordinance on an annual basis, and I move the adoption of the amendment.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and seconded that the amendment submitted by Councilman Goode regarding Bill No. 040776 be adopted.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

(No response.)

COUNCIL PRESIDENT VERNA: The ayes have it and the amendment is adopted.

This concludes our public meeting. We will now go into our public --

COUNCILMAN KENNEY: Point of order.

COUNCIL PRESIDENT VERNA: Yes.

COUNCILMAN KENNEY: Do you want to recess the public meeting so we go back? I don't want the record to indicate it's been concluded, because it sounds like the public meeting is over. Do we need to do other business in the public meeting?

COUNCIL PRESIDENT VERNA: We could always go back to the public --

COUNCILMAN KENNEY: Because I know once the hearing is adjourned, if a hearing is adjourned, you have to reschedule it.

COUNCIL PRESIDENT VERNA:

Right.

COUNCILMAN KENNEY: So I want to make sure the public meeting can be reconvened. I just don't want any technical flaws.

COUNCIL PRESIDENT VERNA: So we are now back into the public hearing, and at this time, I would ask Mr. McPherson to please call upon our first witness to testify.

MR. McPHERSON: The first panel is Mark Schweiker, President, Greater Philadelphia Chamber of Commerce. With him is Paul Levy, President and CEO of the Central City District, and David Thornburgh, Director of the Pennsylvania Economy League.

COUNCIL PRESIDENT VERNA: Good afternoon, gentlemen. I am told that we have two Councilmembers that would like to be acknowledged before you speak, so if you'll bear with me a minute.

The Chair would like to recognize Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

Madam President, I would have asked a similar question that I asked Councilman Nutter about the bill of Councilman Goode, but we didn't get a chance because we went into the public hearing, but I would just like to ask Councilman Goode a similar question in terms of the financial impact over the period of time with the amended version of the bill as opposed to the original version.

COUNCILMAN GOODE: I didn't change anything in terms of the schedules. If my bill was enacted, it would cost $6 million in the next fiscal year budget. It would cost $85 million over the five-year period from '06 to '10, and it would cost 162 million over the five-year period from '07 to '11.

COUNCILMAN CLARKE: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA:

You're welcome.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam President. I too have remarks with regards to pending testimony today I'd like to put on the record.

In many ways, this feels like Groundhog Day where the same thing happened to Bill Murray over and over again.

I stated last week that our City in a good way is facing an increased fund balance, which indeed puts our City's health, fiscal health, in moderately better position than anticipated, and we know that now for a number of years, beginning in the Rendell Administration, this City has seen substantial business privilege tax reductions for our local businesses. In fact, the facts are we have invested more than $1 billion in tax reductions to date, and that number grows to more than

1.3 billion when combined with the efforts that were started under the Rendell years.

Recent reports of the increased fund balance is a sign that our City's fiscal health is better and indeed should move members of this Council to do more, because the record should reflect again all of us have felt from square one that there needs to be business privilege tax reductions.

Given the fund balance, and I repeat, given the fund balance, I introduced three business privilege tax bills last week, along with a schedule for outgoing years to give our members of the business community an opportunity to have some level of comfort with those changes, and indeed I hold my position that I do not believe we should be making decisions about our City's fiscal health in out years.

Responsible tax reductions are what we should be concerned about. And I look forward to the continuing dialogue and debate with members of the business community and a greater understanding and hopeful acceptance of the proposal put forth where we would want to consider reducing business privilege taxes on a pay-as-we-go basis on a year-by-year basis, because at the end of the day, that indeed works best for our City.

So I put that on the record so that now we have options of business privilege tax bills to look at and consider, and at the end of the day, the hope is that all of us come up with a compromise that puts our business community in a better standing.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

Gentlemen, thank you for your patience.

Mr. Governor, I assume you're going to lead off.

MR. SCHWEIKER: Yes, I am.

Thank you, Madam President, and Stu Weintraub is with me, certainly a respected tax attorney, and David Thornburgh of PEL and Paul Levy of the Center City District. Certainly all of them have a pretty good feel for what is at stake here pertaining to what we discuss. So thank you so much for the opportunity to visit. And to the Committee of the Whole, thank you for the opportunity to visit.

For the record, I'm Mark Schweiker, President and CEO of the Greater Philadelphia Chamber of Commerce. I'm happy to come before you again today to urge your support for reducing the business privilege tax. Our members have always felt that the business privilege tax stands out as one of the biggest points of contention they faced in doing business here in Philadelphia. It is a tax that hampers small businesses from growing and often causes other businesses to set up shop in suburban locations.

I know that it sounds redundant, but I must remind you, and that's what the charts off to your left, Madam President, are all about, I must remind you that the City -- and this is a painful reference -- the City has lost 250,000 jobs since 1970. We believe strongly that by reducing this tax, you will help create a more level playing field, certainly with neighboring jurisdictions, and generate new jobs in the City again. More jobs obviously equals more revenue for the City.

According to the U.S. Department of Labor, the unemployment rate in Philadelphia for August of 2005 was 6.7 percent compared to 4.9 percent regionally for the same time. This two-point difference must be reduced. For this to occur, we must establish a business tax structure that serves to create more jobs within the City.

As we conduct our outreach campaign to members and businesses in the

City, let me pause and provide you a few comments we've received thus far from those who have moved out of the City due to the height of business taxes, and I'll do this very quickly, but I do think it's important.

This is from the President of a printing company with 250 jobs. "As a business owner in Southwest Philadelphia that is responsible for over 250 jobs, I urge you to support the reduction in the business privilege tax. It is an onerous tax that helps make Philadelphia a non-friendly business environment. We've expanded rapidly and are considering a move in a year or two. We have been actively looking in New Jersey, and the tax situation in Philadelphia is a big reason why."

Very quickly from a one-person business, "I own and operate a one-person business. You can imagine how onerous I find the business profits tax. Please do not support its continuance. Thank you."

This is now from El Hong, who is President of a marketing firm on Chestnut Street. "I am writing to you to show my support for reducing the business privilege tax. As a small business owner, the privilege tax in its current status causes me to seriously consider moving my business outside of the City. I know of many businesses, small and large, that have decided to do business outside of the City, in large part because of the taxation situation in Philadelphia."

And, finally, as I reference three businesses contemplating their future and where they'll do business. This is from a company that's already moved. "It's too late for some of us. Because of the tax situation and lack of responsiveness from City Hall to many of our business issues, we have been forced to leave the City after 20 years. Our new address is in Moorestown, New Jersey, less rent for the same space, no use and occupancy tax, free parking. We were paying approximately 250,000 a month," and so on and so on, and this is from an individual who used to be the President of the Greater Philadelphia Chapter of the National Association of Women Business Owners, and finishes by saying, "Good luck to you as you try to get things changed."

I guess the point I'm making, for all Councilmembers, is certainly with the right action, ultimately we send the right message to those who are thinking about leaving the City that we are committed to tax reform and improving the City's tax model in a way that makes it more affordable. But they are from actual business operators here in the City and one that's already left.

Having said that, we all know that the business community has been singing the same song for three consecutive years now in the business privilege tax. What makes this year's campaign different from past years, you may ask. I'd like to respectfully tell you why, and I think each of the folks to my left and right will underscore this as well. The ten-year real estate tax abatements will be coming off starting in 2009 and the projected revenue is 25.8 million, according to the Board of Revision of Taxes. The current revenues are running almost 140 million ahead of projection. The City has hired a consultant to help collect back real estate taxes, which carries an estimate of 253 million. The City's own recently released gaming report projects at least 26 to 30 million in new revenues and perhaps 7,000 to 12,000 new jobs. And, finally, the City may implement a tax amnesty program that would yield millions of dollars in back taxes.

Let me mention here before I move on to the balance of my remarks, the City has not had an amnesty program in over 20 years. In fact, on Saturday, November 12th, the Mayor announced a new conditional forgiveness policy for paying property taxes between now and May 1 of 2006. This is very much in the same spirit as a tax amnesty program and hopefully will yield millions of new revenue dollars for the City.

Given the above, one would be hardpressed to believe that the revenue is not there for tax reform. Remember, the bill that was vetoed last summer had a small first year price tag of $600,000 within a $3.4 billion budget. Over the next five years, the City's budgets will total approximately 18 billion. I would suggest that over the same time period, $40 to $50 million in business tax reductions is now doable and not just wishful thinking.

The good news is that there are a host of bills being considered today that would reduce and even phase out the business privilege tax. It means more people recognize the need to cut the tax and in a way that is predictable. I would publicly like to thank each and every one of the sponsors of the bills being considered this afternoon.

Let me be very clear on the desires of the Philadelphia Chamber of Commerce on the business privilege tax. We support legislation that significantly reduces both sides of the tax over a fixed schedule of years with the eventual phase-out of the tax.

While the Chamber remains pleased with the apparent fiscal health of the City, due largely to the boom in the Center City real estate market, I am keenly aware that we are in competition for those excess revenue dollars. However, the Pennsylvania Intergovernmental Cooperation Authority recommended that the revenue be used to fund a rainy-day account, which the Chamber has supported in the past, which will reduce the City's debt service and cut business taxes.

On the subject of debt service, in a report issued by the state's Department of Community and Economic Development in 2002, the debt per capita in Philadelphia was $3,212. This is a burden which our citizens are forced to bear, and this amount per capita is among the highest combined county/municipal rates in the five-county region.

Now, I'm not here to suggest to you that the Administration is turning a deaf here to the business community on this matter. Nothing could be further from the truth. In fact, GPCC's Chairman, Steve Steinour, and I met personally with the Mayor and members of his cabinet to discuss and identify common ground on what is a priority issue for the Chamber and the business community at large. We have also had meaningful discussions with most Councilmembers, many of whom have already commented today, who did not support us on this issue last year but want to be helpful this time around. I will tell you that the business community is encouraged by such actions, but is far from convinced.

Several of the bills being considered today only address one aspect of the tax. The Chamber will only support a bill that reduces both sides of the tax. A bill that does not address the net income side of the equation is not real tax reform, because as you know, that tax is at 6.5 percent.

Let me remind you that there are gross receipts taxes, some call it mercantile, leveled in neighboring suburban communities. For the record, in 2004, there were 19 communities in Delaware County, 18 in Montgomery, 10 in Bucks and one in Chester County with some form of business privilege or mercantile tax. None of these jurisdictions imposes a BPT on net income. That tax at 6.5 percent is higher than the wage tax, and each of you know well the damaging effect that the wage tax alone has had on the City's economy.

At 6.5 percent, the business privilege tax keeps the City at a major disadvantage. Therefore, it is our belief that by reducing both portions of the business privilege tax and by seeking its eventual elimination, jobs ultimately will be created both downtown and in the neighborhoods.

Again, I applaud the sponsors and hope that we can work out a compromise measure so that a meaningful business privilege tax bill can be passed by 16 votes before the new year begins. I am here today to pledge the Chamber's support in working out that compromise in any way that you deem appropriate.

Before closing, I would like to share the content of an article with you that appeared in the New York Times just recently. "By embracing globalization and implementing the right domestic policies, Ireland today is the richest country in the European Union only after Luxembourg. This is remarkable in that, in the mid 1980s, Ireland was going broke after going on a borrowing, spending and taxing spree which nearly drove them under. And it was because they nearly went under that dynamically led to the intentions and political courage to change."

Ireland's leaders slashed corporate taxes to 12.5 percent, far below the rest of Europe. Michael Dell, the founder of Dell computers, set up in Ireland in 1990. What attracted him to Ireland? As he emphasized, good universities producing a very attractive workforce, a good public transportation system to move people around easily and affordably, and a tax policy that is consistently very supportive of businesses.

Esteemed members of the Committee, in Philadelphia we are missing only one of those ingredients, and if we are successful in passing an appropriate business privilege tax bill, it will demonstrate that you too have the courage for sensible change. The Philadelphia economy will change for the better, and businesses, workers and residents will benefit tremendously as a result.

I want to thank you for the opportunity to offer these remarks.

(Applause.)

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good afternoon, Governor.

MR. SCHWEIKER: Mr. Councilman.

COUNCILMAN GOODE: One simple question. If the next Council does not approve the business tax rate reductions starting in Fiscal Year '11, would you still consider that to be tax reform?

MR. SCHWEIKER: Well, in and of itself, you're changing the tax model, but I think when it comes to just the lowdown mathematics of it and, most importantly, how business owners would react, waiting until 2011, I don't think it's tax reform.

COUNCILMAN GOODE: My question is related to the 669 legislation before us, which calls for fixed cuts up until Fiscal Year '11. At that point, Council has to approve it by ordinance. If Council does not approve the business tax reductions by ordinance in any year after that, they stay locked in at Fiscal Year '10, would you then still consider this bill to be a tax reform bill?

MR. SCHWEIKER: If I understand you correctly, get it done for the next five, commit it to that; is that what you're saying?

COUNCILMAN GOODE: And nothing happens after that. Would it still be a tax reform bill?

MR. SCHWEIKER: That would be one hell of a start.

COUNCILMAN GOODE: But would it

still be tax reform?

Throughout your testimony, you use the terms like "what is tax reform, what's not tax reform, what's appropriate tax form."

MR. SCHWEIKER: Councilman Goode, I think if we can come away with a collective effort of this Council to eliminate --

COUNCILMAN GOODE: My question, sir, with all due respect, my question is a very specific question. Is it still a tax reform bill if no tax rate reductions are approved as of Fiscal Year '11 when they have to be approved by ordinance?

MR. SCHWEIKER: And then on?

COUNCILMAN GOODE: And then on.

MR. SCHWEIKER: Yeah, I think it's still tax reform.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

Thank you for your testimony, Mr. Governor.

To your knowledge, are there any other major cities, major urban areas in the country, that are currently pursuing business privilege tax reductions the way Philadelphia is currently?

MR. SCHWEIKER: Well, there may be different names, but I do think there are a number of bigger jurisdictions that are acting on tax reduction efforts. I think New York City is probably in its fifth or sixth year. I know San Francisco is -- it sounds like San Francisco is on the verge of some dramatic reductions, and mind you, that as I mentioned San Francisco -- and this really is an eye-opener -- we're probably higher than San Francisco by 65 percent in sum.

So to some extent, when you

compare tax rates, it kind of confirms to you why we're not in the hunt to economically and land some of these companies and jobs, but to answer your question point blank, I think the City ought to be credited for the programmatic type effort to cut taxes, but we're coming from far behind in the pack and we've got our work cut out for us.

COUNCILWOMAN BROWN: So currently Philadelphia is the leader in this country when it comes to Philadelphia business privilege tax activity?

MR. SCHWEIKER: Well, I think they're coming from behind, yeah. If that's compared to the folks who are in the back of the pack, we're probably running along at a nice clip, but it ain't enough if you really want to juice up the economy and generate company starts and new job creation, witness the fact that we're now over the 250,000 mark in jobs lost. It's rather an infamous position.

COUNCILWOMAN BROWN: Do you know --

MR. WEINTRAUB: Councilwoman, if I could add to the Governor's response?

COUNCILWOMAN BROWN: Please.

MR. WEINTRAUB: Philadelphia is probably, other than New York, the most heaviest taxing city in the country. If not the heaviest outside of New York, one of the heaviest outside of New York.

COUNCIL PRESIDENT VERNA: Excuse me. For the record, would you identify yourself.

MR. WEINTRAUB: I'm sorry, Madam President. My name is Stewart Weintraub. I'm with Schnader Harrison Segal & Lewis, and I am Co-Chair of the Chamber of Commerce State and Local Tax Committee.

When you are cutting taxes from the level that Philadelphia has been cutting taxes, to say that they are leading the pack is really not reflective of what is going on in the rest of the country, because if your rate is at six and a half percent and you cut it to six percent, that's a big cut, but if your rate is 0.1 percent and you cut it to 0.09 percent, that's not a lot of cut, but it's still significant. It's a question of a degree.

So to say that we are making substantial benefits, yes, we have made substantial gains, but as far as the Governor said, as far behind as we have been, we're still not even close to catching up to the other cities in this country.

MR. SCHWEIKER: Most of that probably is wage tax related.

COUNCILWOMAN BROWN: Of the cities that you mentioned, do you know if they are making reductions on a case-by-case pay-as-you-go basis or locked in rates?

MR. SCHWEIKER: It's both.

It's both. I think the point is that those legislative bodies realize that the world and the economy is moving in hyper speed and you just got to get it done.

MR. WEINTRAUB: Again, Councilwoman, they don't have as far to go to get to where they want to be, so they don't need to take it out over multiple years.

I would also point out it's not local, it's state level. Pennsylvania enacted a phase-out of the capital stock foreign franchise tax about eight years ago, seven years ago that was a ten-year phase-out locked in, and on two different occasions when the state's economy had a problem, the legislature stepped in and froze the reduction for one year and then restarted it again. Now a tax that was supposed to phase-out in around 2009 is phasing out in 2011, but, again, it was locked in.

COUNCILWOMAN BROWN: Locked in; however, there were triggers?

MR. WEINTRAUB: No. No.

MR. SCHWEIKER: Well, the legislature is able to weigh in, if need be. I was there in 2002, and it was because of a weakened economy, a sensible reaction. But you're able to create the predictability that business planners need, and if you've got real problems down the road, the legislature can react in kind, as Stu was trying to make clear.

MR. WEINTRAUB: What the point I was making about the trigger, Councilwoman Brown, is that the legislature did not have to step in to reenact the decreases. They stepped in to stop the decrease. There was no trigger to continue the decreases.

COUNCILWOMAN BROWN: Am I hearing also then, however, that there were mechanisms in the language or in the legislation to respond to the existing economic climate?

MR. WEINTRAUB: No. It wasn't in that legislation. They responded on their own. The Pennsylvania General Assembly saw the need because of the state's economy at the time that the need -- that the ability to reduce that year was not there, so the legislature came in and amended the original reduction to freeze it for another year.

COUNCILWOMAN BROWN: To a different topic, oftentimes comparisons are made between Philadelphia County and surrounding counties, and I think we should be cautious not to get into a "we" "them" kind of dialogue.

Would you agree or disagree that Philadelphia is indeed, for a number of reasons, different from surrounding counties and our needs, therefore, our service delivery requirements follow that they're different?

MR. SCHWEIKER: I think that's a fair observation, and at least I can tell you that the folks who affiliate with many of our organizations are sensitive to that as well, and so -- and also when it comes to the regional perspective, I think every one of us and our constituencies realize that we've got to be attune to something, that the region will go as the City will go. And we want certainly the outlying counties to fare well economically, but we're greatly concerned and willing to do what we've got to do to see to it that the core, this great City, does well economically and socially and civically on civic terms as well. That's why we're here.

I think we can fashion an approach and a policy that inures to the benefit of all. Right now it's very difficult to -- as someone involved with an organization that is trying to promote greater Philadelphia and certainly the cities and the City of Philadelphia, the reality is, is we try to cord some of these site selection experts that kind of drive company location/relocation actions, is that there just isn't a real good commercial out there about the City. It's almost as if, to some extent, aside from all of the complexities associated with tax talk and public budgeting, and all that's important, is, we need something, anything to be able to tout and talk about improved business and economic conditions in the City. And there are smaller things, but I think if we can say, Hey, look at the City, it's becoming more affordable as far as taxes, that's a pretty compelling commercial.

That's why I wanted to mention those smaller companies, by the way. This is about sending the right message to resident companies that we want you to stay here.

And I do believe that I think much too much is made, if I may, Councilwoman, about downtown versus the neighborhoods, that this discussion, I think -- the conversation has already changed. We're talking about how far we go as opposed to whether or not we should even touch the business privilege tax. I think that's a sign of progress in the dialogue, but --

COUNCILWOMAN BROWN: I would add to that that was always the conversation and discussion, on how far we go. It's been stated repeatedly in these chambers that all of us believed and agreed that additional business privilege tax reductions were in order. The conversation, dialogue and debate has always been "and how far we go," and where we ended up six months ago was clearly an indication that many of us felt that particular piece of only legislation in front of us was simply too far.

MR. SCHWEIKER: I hope so. Maybe I'm more optimistic than some of our constituent members, but I think with all the greatest respect for the Councilwoman, I think that when last spring -- last June ended and with the inability to adopt a model where it was a measly $600,000 in year one, zero in year two and $600,000 in year three, there wasn't a whole lot of belief that there was resolve on the part of the City Council to bring about business privilege tax reduction. And I don't mean to get into a snit here, but that's just their handicapping.

COUNCILWOMAN BROWN: Indeed.

MR. SCHWEIKER: But just to finish the point, that half of our members -- let me say I think 88 percent of our members have employee counts of 99 and below.

COUNCILWOMAN BROWN: Repeat that, please.

MR. SCHWEIKER: 88 percent of our members have employee counts of 99 and below. 45 percent of our members have employee counts of six and below, and these folks are out there working every day. And I run into them every day, and they will often say, You know, this business privilege tax, you get it down to a point or two, I can hire another person. That ethnic supermarket that may have four employees, maybe get another part-timer or maybe you get a full-timer, but that's out in the neighborhoods. That's not Center City. They're not big businesses talking. These are people who are trying to make ends meet, at least in a business and solvency sense, and love to give somebody a job as a packer, and they just don't feel the -- they don't have the confidence to give it a go because they don't sense that the tax reform is around the corner for these small businesses in the neighborhoods.

COUNCILWOMAN BROWN: Okay. My final question would be, for those of us who believe in business privilege tax reform, when is enough enough?

MR. SCHWEIKER: When it's all gone.

(Applause.)

COUNCILWOMAN BROWN: We know

that for the record. And so moving to a place where we want to be on balance with cushioning City services that we believe are required and giving members of the business community also what's due them, I think the bigger challenge is moving to a place that's on balance between those two worlds.

Thank you for your testimony.

MR. SCHWEIKER: Point made. I tried that one three years ago, so I'm steering clear in terms of the balancing thing.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chair.

Thank you for your testimony, gentlemen.

Since you mentioned it in your

testimony, I wanted to let you know that I will be, either next week or the week after, reintroducing the rainy-day fund again. I think that the effort we had last time was not successful. I think it's a very important element to have within our City financial structure. I know it does better for us with our bond ratings, which save us money in the long run, and that's why I think it's important to have these tax rates locked in, whether it's five years or ten years or longer, because then those cuts become institutional in the budget process, so there's no arguments between fire houses, rec centers and the like and libraries, which make people crazy, and we get used to having these deductions, reductions every year, in addition to the stabilization of the rainy-day fund to help us with our financial picture. I think it's very important.

And in respect to Councilmember Brown's comment relative to Philadelphia being different than the surrounding counties, I really do think we are different, and the big difference is, we have more unemployed people than the counties do.

This should not become an argument between the business community and the regular people in the neighborhoods, because if we can get that two percent down and employ more people and have a better employment situation than the suburbs even as a goal, we have less need for services. We have less need to expend government resources to take care of people, because they're taking care of themselves. They are buying groceries in their neighborhood. They are buying homes in their neighborhood. They are employed, they're paying taxes.

So this whole issue of we need to make sure we have enough money for services, yes, we do, but the more we get people back to work and employed, the less services we're ever going to need. And that's why I think that this is an important step we need to take and to move forward as quickly as possible.

But I thank you for coming out. I'm going to look for your help and advice and counsel on the rainy-day fund also as we move forward.

MR. SCHWEIKER: Well, those outside rating agencies are important as far as your ability to borrow at affordable levels, and they act as a monitor about certain trends, and I do think that with an ample rainy-day account, as well as the fact that this legislative body says, We're so serious about what dynamically leads to job creation; that is, reducing the business privilege tax, they will see it and they will affirm it, and it helps a lot of ends, not just debt reduction.

COUNCILMAN KENNEY: The problem of poverty is solved by employment.

MR. SCHWEIKER: I would agree.

COUNCIL PRESIDENT VERNA: Thank you, Councilman.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam President.

Councilman Kenney just actually said everything I was going to say. I had all these notes here about why the jobs are important, because the needs, as Councilwoman Blondell Reynolds Brown was talking about, we're able to address those needs of our citizens by the fact that we have more people employed, which translates into more taxes, even though we are lowering the rates. But outside of that, I think Councilman Kenney covered everything I was going to speak on for the moment.

Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

Do we have any other questions of the Governor?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Levy, welcome.

MR. LEVY: Good afternoon, Madam President. Thank you very much for this opportunity to testify, and other members of Council. I put together a presentation. I will just highlight some of the key points.

For some time, the Center City District has been working in partnership with the Department of Revenue of the City to really answer two questions, what type of jobs do Philadelphia residents hold and where do they work, and I think that's directly relevant to today's discussion, because this discussion to me is about how you can better provide opportunities and services to the constituents in every one of your neighborhoods.

And I'll just walk through this very quickly, but on Page 1, I simply noted that Philadelphia residents in Philadelphia earn $7.6 billion a year in salaries. 46 percent of that is earned in Center City, 36 percent is earned outside, and only 17 is earned by people going out to the suburbs.

The second page, we spend a lot of time talking about jobs. I think it's important to understand in the private sector, which is where 84 percent of all jobs are in the City, 61 percent of those jobs are either in education and healthcare or in the office buildings here in Center City. Those are two primary sources of employment.

If you jump over to Page 3, I want to talk about the office sector first. Obviously in the downtown, 44 percent of all jobs here are in the office sector. And while you may have an image of the office sector being filled with just high-paid attorneys and janitors, the picture is actually much different. 61 percent of all jobs in downtown office buildings in Philadelphia pay between $20,000 and $59,000 a year, and on the top of Page 4, it lists those jobs. These are good, working-class and middle-class jobs which are available to everyone within the City.

If you jump forward all the way to Page 6, and I want to -- something the Governor just said before. All of this is made possible by a transit system that we obviously need to improve upon, but the bottom of Page 6, virtually every section of this City, the majority location where people are working, is in the downtown. And where it is not the case, it's in the hospitals and universities in the surrounding neighborhoods.

On Pages 7, 8, 9, I've simply broken the City into different sections. So, for example, on Page 7, in South Philadelphia, 243 million is earned in Center City, 113 million earned outside. I fully believe the importance of small neighborhood jobs. I just simply wanted to underscore the importance that the downtown economy is the employment base for the neighborhoods of the City of Philadelphia.

Jumping ahead, in the interest of time, to Page 13, this becomes the core of, I think, what we're discussing. Our largest sector of employment in this City is healthcare and education. That's not only the universities and hospitals here in Center City and University City, but in the Northeast and North Philadelphia, throughout the City. This has been an extraordinarily successful sector for the City. Between 1990 and 2004, we grew jobs in that sector by 34 percent.

I need remind everyone here that all of those large healthcare institutions and educational institutions are non-profits who are exempt from both the property tax and the business privilege tax. The really good news since 2000 is, those employers have done better than the suburbs in healthcare and education.

But if you turn to Page 14, this is where the less than good news begins, because in the downtown office buildings and in office buildings across the City, since 1990, we have lost 15 percent of our jobs, and it isn't simply that these jobs have left the region. If you look at the bottom of Page 14, while we were busy losing 15 percent of our jobs, the surrounding suburbs in the office sector were adding 18 percent.

At the top of Page 15 is a very disturbing chart, in my judgment. In 1990, we had more office space in Center City that was in the western suburbs. We have gone sideways and downward since 1990 in terms of office jobs, and I remind you these are jobs which are the primary source of employment for most Philadelphia residents.

As we have seen business leave

the City, the suburbs have grown dramatically. Now, you might say, Well, gee, this is part of a trend everywhere. If you look at the graph on the bottom of Page 15, and this goes to one of the questions that was just asked, in 1993, 41 percent of the region's office space was here in the downtown. Today it is 28 percent. The national average is 34 percent. We are six points below the national average. We are looking a lot more like sprawling Atlanta and Houston than like New York or Chicago. And the key point here is, we are moving those jobs out beyond the roots of public transit, out beyond the regional rail. These jobs are moving beyond the reach of most of the constituents and most of the people who live within Philadelphia neighborhoods.

And so the core of my argument and my suggestion to you at the bottom of Page 16 is that hospitals and education institutions are large land owners, they can't simply pick up and go. They are property tax exempt and BPT exempt, and they obviously pay a huge amount of wage tax and generate a lot of jobs. The commercial office tenants are far more mobile. They're going to go where the costs are most competitive, and they will do just what manufacturing did when this City ceased to be competitive, they will simply leave.

If you look on the top of Page 17, this is a calculation done this June for office space in Center City and in the Pennsylvania suburbs. The rents were almost dead even, but if you add in our use and occupancy tax and then our business privilege tax, which falls on the employer, it costs $4.76 more per square foot to be in Center City. For a 100,000-square-foot tenant, that's almost a half a million dollars a year they can save when their lease ends and they move to the suburbs.

When you look at the bigger

firms, the large law firms, financial services firms, accounting firms, they pay far more business privilege tax. For them, it's as high as $12 a square foot. So a 100,000-square-foot tenant in financial services, a law firm could be saving three-quarters of a million -- excuse me; 775,000 to 1.2 million by moving to the suburbs.

If you look at the top of Page 18, you'll see what's happened. Those firms, at the rate of 34 percent, we lost them from the City. They have moved outside the City, beyond the reach of public transit, beyond the reach of neighborhood residents.

I know it's a sore point here, but what was granted to the Cira Centre, the BPT savings there per year now is 4.8 million. That is significantly more than what was vetoed last year in just four firms, what is not being granted to 6,000 firms across the City.

The challenge I think we face

is really very simple, on Page 19. We have at this moment 5.5 million square feet of office space that's vacant in the downtown. That's nearly double what we had in 2000. Now, that's a big number. We don't pay much attention to that, so what is 5.5 million square feet? Right across the street to my right is Two Penn Center Plaza. That's a half-million-square-foot building. The equivalent of 11 of those are vacant in Center City. Or to bring it back home to neighborhoods, that's the equivalent in square footage of 2,750 vacant townhouses.

Imagine simply 11 of those buildings sitting empty, no one working in them, not paying taxes. You don't see it because it's spread through 38 million square feet of office space.

Now, why does cutting the business privilege tax matter? It makes the downtown competitive, it makes neighborhoods competitive. And we just went through a simple calculation based on real wages paid based on analysis of all downtown firms. A half a million square foot building, that's Two Penn Center, 1515, or shown here in the picture, Four Penn Center, you fill up a building of that size, it's equal to 2,000 jobs. Based on the salaries paid within office buildings, that's $51 million of new salaries. And based on how salaries are allocated based on where people live, you fill up a half a million square foot office building, that's 7.8 million in new wages paid to North Philadelphia residents, 7.4 paid to people in South and West Philadelphia.

This point was just made, I believe, by Councilman Kenney, but that building filled up will generate $11.1 million in wage, real estate, business and U&O taxes, and based on the Mayor's report on City services, 11 million a year can buy you 257 new case workers in the Health Department, it can help pay the salaries of 198 fire fighters or 186 police officers.

It is a false choice to pose business tax cutting and providing services. If we make this a competitive environment, we will have the resources to provide services, but, more importantly, we'll create the job opportunities.

If you look at the chart on the bottom of Page 20, if we simply got back to the occupancy levels we had here in downtown office buildings in 2000, you would have $76 million in new tax revenues to devote to City services.

So I will end simply with a statement that we need all of us. This is not just business community versus neighborhood services. This is not downtown versus constituents who live in our communities. The downtown, the hospitals, the universities are the employment base of this City. Clearly, those people who are BPT exempt and the growth of hospitals and universities is a great strength. We are losing far more office jobs than New York, Chicago, San Francisco, because we've had a tax structure that has driven jobs away from where people live. Cutting the business privilege tax, paired with the reductions that can happen in the wage tax because of gaming, can make this a competitive environment, an opportunity environment, a place where we not only have everyone working, but those who are not, you have adequate resources for services.

Thanks very much for this opportunity.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you. As usual, your testimony is very informative.

At this time, the Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam President.

Good afternoon again,

gentlemen, and thank you, Mr. Levy.

In the past four, five years, downtown has seen a significant interest in new folks moving into the City. We're repopulating our downtown. It's starting to spread out into a number of the neighborhoods, both north and south Center City, and that's a good thing. And a lot of the folks who are moving in are empty-nesters, as we refer to them, people who either are retired or getting close to retirement, may be professional people, may not be professional people, but as far as the job future for them, they're not really that concerned.

But my question is, and hopefully I can articulate this, do we see anything in these surveys that would indicate that less people may move into the City because of the job market that may not be able to produce the kinds of jobs for the folks that would be moving into Philadelphia in general, not just Center City but generally speaking?

We know there is a high unemployment rate in the City of Philadelphia, and we want to see about creating jobs for those folks, but is there anything that you see that may not encourage or may discourage people from wanting to move into the City because the future of jobs is not looking that good for them, the future of jobs for them does not look as good?

MR. LEVY: Councilman, I'd say there are two sources of demand that is really driving the downtown housing market. One is clearly the returning empty-nesters, and the other are young professionals.

The overwhelming majority of empty-nesters who are moving back to Center City are not people who are moving here to get a job. They already have their job here. They've been living in the western suburbs. They're sick and tired of spending 35 to 40 minutes on the Schuylkill Expressway. Their kids are off in college. They've gotten tired of the lawn mower. They're moving back to be downtown.

So you can get, and we are getting, significant return of existing employees who are already here. We are also having strong growth, as I said, in healthcare and education, and that's a clear source.

Where I think the real risk is is that today one-third of Center City's population is age 25 to 34, and 79 percent of that group have college degrees. It's what every employer wants. And as those people enter the job market and as their jobs are moving to the suburbs, we're going to lose a very, very talented group of people.

We're extraordinarily successful in Center City today with young, well-educated professionals, people who can start businesses, but if the job opportunities aren't here or, as we saw out at the Cira Center when businesses have been incubated in the Cira Center want to open, they go to the western suburbs to avoid taxes, then we lose that creativity.

So I think on the empty-nester side, we're not as vulnerable as we are on people in their 20's and 30's.

COUNCILMAN DICICCO: And those are the businesses or the employers that leave primarily because of the high cost of doing business in the City of Philadelphia?

MR. LEVY: We have spent the last three or four years working with the Commerce Department and PIDC visiting more than 80 firms here in Center City as part of a whole retention effort, and we have been extremely successful in partnership with the City in getting people to stay.

The story beneath the surface there is, many of those firms keep a presence in the downtown and move more and more of their jobs to their suburban offices. And what's happening is particularly -- again, what may not be as clear is, architects and people like myself are paying the wage tax. The attorneys, the people in financial services who are part of partnerships, those are the people who are paying the business privilege. They are not paying the Philadelphia wage tax. That is hitting directly in their pocket. They are the decision-makers, and they are simply moving their firms out beyond the limits of the BPT. It's happening very clearly.

COUNCILMAN DICICCO: For me, it's never been a difficult decision. I think it's a no-brainer, and the proof, as they say, is in the pudding. Wherever we have created tax-free zones, KOZs, abatements, whatever, we have seen the positive results of that. So I don't understand why there's such a debate that if you reduce the cost of certain things, whether it's real estate taxes and/or business taxes and wage taxes, we have already seen the benefits of those reductions in those KOZ zones in creating more jobs and keeping those businesses either in the City or attracting new businesses.

I just wonder sometimes why we even have these debates, but I guess that's just me. And the late Councilman, my dear friend and colleague, Councilman Cohen, used to the lean over to me and say, You know, you're still a republican, when it comes to financial issues anyway, and I guess he was probably right in that respect.

MR. LEVY: Councilman, let me speak with my Center City District hat on. I am a taxing authority who provides services. I fully respect when Council says they need to make sure there are adequate revenues to provide services. That's absolutely key. I think what the data shows, however, is that the tax structure we have has driven out businesses which could provide the revenue.

So the purpose is not to cut taxes to let the business community go free. The purpose to cut the taxes is to make us competitive with other cities and surrounding environment so we capture the entrepreneurial energy and the job growth to create employment opportunities. This is not an either/or choice. And when we grow the economy of North Philadelphia or Center City, we grow opportunity for our residents.

COUNCILMAN DICICCO: I think that is the crux of this whole issue, is how we convince people that it's not welfare for the rich, we're not just giving big business tax breaks for the benefit of putting more money in their pockets. This is the opportunity to create more jobs so that more people are employed. And I guess depending on one's philosophical issues in terms of financing in business versus the working person, somewhere in the middle is the answer, and I think we never -- the problem is getting to the middle ground, and hopefully we can get there now.

Thank you.

MR. SCHWEIKER: Councilman, I would tell you too for some of these business people, small businesses, if you had this hearing at night, you'd see them face to face. They'd tell you themselves, but they're small businesses and they're cranking every hour. They can't get here during the day.

COUNCILMAN DICICCO: Well, I think all of us, especially District Councilpeople, no disrespect to the At-Large, we have in all of our districts a number of small businesses and we know the struggle that they're going through. I'm involved with the Port Richmond Enterprise Zone, which we established a few years ago. We're having a big round-table meeting, I think, in a couple of weeks to talk about how do we keep those jobs in Port Richmond, probably a couple thousand jobs all told between the different entities.

So I think we're all aware of that. We appreciate that and understand it. It's just convincing some folks that this is in everyone's best interest. It's not just giving big tax breaks to big business and wealthy employers.

Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Mr. Levy, let me just ask you one quick question. You were an early, if not, maybe one of the earliest, proponents of the tax abatements to encourage growth in both the residential and converted office building to residential or rehab, which Councilman

DiCicco took up that leadership and I think has either created or expanded virtually just about every tax abatement that we offer.

From your perspective, I would assume that's been quite successful.

MR. LEVY: In Center City alone, there's 8,200 units of housing that wasn't here before in buildings that largely were vacant and non-performing. So, yes, it's been extraordinarily successful. We're working with others on getting the numbers for what's happened across the whole City, which we don't have at this point.

COUNCILMAN NUTTER: And when the builder or the owner or the investor sought to make a decision with regard to whether to pursue that, is it your opinion that knowing that you had a ten-year tax abatement to then market your property was an advantage?

MR. LEVY: I think very clearly at the beginning, '97, it was hugely important in signaling when this Council passed that abatement that you were serious about encouraging residential investment in the City, and it sent a signal, and developers, first slowly and then very quickly, started flocking here, and now we have national developers, whose names you only used to read in the suburbs, who are building major developments within the City. I think that's a huge sign of success.

COUNCILMAN NUTTER: Just by way of example, what do you think the market reaction would have been if we had proposed a ten-year tax abatement, but you had to get approval on a year-by-year basis in order to get the abatement?

MR. LEVY: I think clearly anyone in their personal life or in business life needs predictability. You can't go into a business environment, you can't buy your own home unless you have some sense of predictability, and, clearly, the ten-year abatement was a very powerful signal, and I think that level of certainty encouraged a lot of people and I think it's still encouraging many people to come to the City.

COUNCILMAN NUTTER: And I know there's been some discussions within this body, whether private or quietly public, about tax abatement programs, and certainly for another session of this body, that issue may get taken up. As we've made progress, as we've seen growth, we should always at least be willing to reevaluate what we do and how we do it, but for the moment, those abatements are in place and people continue to take advantage of them.

MR. LEVY: I totally agree with it. It's very important for Council to review anything it passes such as that, and I think there's a lot of discussion that all of you are hearing from constituents, which is very real, which needs to be discussed and understood, and we need to respond appropriately. But I think as an action that this Council took in 1997 and then again in 2000, it has been extraordinarily successful.

COUNCILMAN NUTTER: So a sense of certainty over some reasonable period of time --

MR. LEVY: Absolutely.

COUNCILMAN NUTTER: -- sends the right message?

MR. LEVY: Very, very important.

MR. WEINTRAUB: Councilman, if I can also supplement Mr. Levy's answer to your question. Back in 1984 when this Council was debating the enactment of the business privilege tax, I think only two members of this Council today were members of that Council then -- three members, I'm sorry, three members of this Council. There were some restrictions that were being proposed in the business privilege tax back then that was a very hot button issue in the debate, and on the floor of this Council, one of the former members of this Council said with respect to predictability -- I'll quote from the transcript of that Council hearing -- "I believe that the predictability of taxes is important to business as much as what taxes are, and that doesn't sound strange to me. I think if a business person wants to plan their income over a period of time and has to build particularly a small business, a financial plan for themselves, not being able to tell from year to year whether this Council or any other is going to suddenly impose another financial cost that they didn't know about must be a terrible burden upon them. And so the effort of the business community to find a way to make a more predictable tax structure for themselves, one that at least puts them in a ballpark of prediction, I think that's understandable, given what a business person has to go through, particularly the kind of small businesses we are trying to develop here in Philadelphia." And this Councilmember closed by saying, "But I certainly think the objective is one that makes sense, not only for large businesses but for the very small ones, particularly for them."

And that was in the debate back in 1984 when this very tax was being enacted.

COUNCIL PRESIDENT VERNA: Would that have been --

COUNCILMAN NUTTER: That sounds like a very sound approach. Who was the member that made that quote?

MR. WEINTRAUB: Councilman Schwartz.

COUNCILMAN NUTTER: Very interesting.

Thank you, Madam President.

MR. LEVY: Councilman Ed Schwartz.

COUNCIL PRESIDENT VERNA: Oh, Ed Schwartz, okay.

The Chair recognizes Councilman

Kelly.

COUNCILMAN KELLY: Thank you, Madam Chair.

Thank you, gentlemen, for your testimony today. I think it was very, very helpful, but I just want to follow up on some of the comments that Councilman DiCicco said.

If you believe in supply-side economics and all of the programs over the years, the abatement program, whether it be the KOZs or even reduction of taxes, we're definitely going to see a surge in revenue throughout the City, and I think that Councilwoman Reynolds Brown made a comment that all of us in this Council are interested in reducing business taxes. I think the big debate is how much and how soon and how far-reaching it's going to be.

I can tell you that I think I would like to see a bill put through that's going to lock us in whatever decision we make, whatever rate we put in. I think it's very, very important to do that.

I'm also very appreciative of the comments that Councilman Kenney made, because he sounded certainly more like a republican than a lot of republicans. I think he must be hanging out with the Union League a hell of a lot more than I think.

COUNCILMAN KENNEY: Years ago I couldn't get in the union.

COUNCILMAN KELLY: Well, now you can.

COUNCILMAN O'NEILL: They still don't let him in.

COUNCILMAN KELLY: I'm still not allowed in, but that's all right.

But I just want to thank you, and I think that this Council is seriously going to work on this, and I hope we can come to some resolve and get it passed as soon as we can.

Thank you.

COUNCIL PRESIDENT VERNA:

You're welcome.

Are there any other questions or comments of this witness?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, the Chair recognizes David Thornburgh. Good afternoon.

MR. THORNBURGH: Good afternoon, Council President. I have copies of my testimony here.

COUNCIL PRESIDENT VERNA: We will have them circulated.

MR. THORNBURGH: Having just noted that, though, I have the advantage perhaps of listening to my colleagues' testimony and the questions from the floor, and if it's okay with you, I'll submit this as written testimony, but perhaps respond to a couple issues that have come up in the questions.

COUNCIL PRESIDENT VERNA: Your written testimony will be given to the stenographer. It will be transcribed in full.

MR. THORNBURGH: Thank you. I do that partly because I think, as we all recognize, this ground is very, very well-plowed. The questions of our tax is important, which ones, to whom, over what period of time. Certainly the Controller's office, the Tax Reform Commission, Council staff, the Mayor's office, both Mayor's transitions teams, independent researchers from the Fed, the Wharton School, the Center City District, Temple and some of our work have all documented those effects over time.

The question has come up today, though, about how far and how deep and over what period of time. I guess my comment on that question is that the world -- and here I mean businesses, small and large, that are making decisions -- are really less interested in how far we have come, but are very focused on where we need to be, because we are in a competitive world, block to block, neighborhood to neighborhood, county to county and certainly the rest of the country and the rest of the world.

In there, I would just pull a couple of numbers from the well-plowed ground and remind ourselves the numbers that we worked on a couple years ago. But on the household side, families that live and work in Philadelphia pay about 40 percent more in taxes than their peers in the suburbs, in the median suburbs.

On the business side, that premiums -- and I would argue that businesses are more sensitive to taxes than individuals. Individuals care about schools and crime and other things, but on the business side, by and large, businesses in Philadelphia pay about 20 percent more in taxes than their peers in the suburbs, which in a world that counts pennies, I would suggest that's a significant difference.

So my answer to the question of where we need to be is to drive both of those numbers down, recognizing also that there are advantages, real advantages, to having a business here in Philadelphia, and certainly we all know that. So I wouldn't suggest this needs to be on a parity to the tax burdens that need to be equal to those of the suburbs, but they need to be significantly lower.

And, finally, the question of how we're doing relative to other cities and other regions and as anybody else undertaking the same kinds of options and thinking about taxes, I think it's worth repeating what Governor Schweiker and Stu said earlier, that we are having this conversation much more persistently than many cities, because most other cities don't find themselves in the predicament that we're in. They don't have those 20 percent or 40 percent burdens that we do relative to the competition. So what that presents, I think, is a tremendous opportunity.

And I was with a site location consultant last week that does the kind of thing that Governor Schweiker and Tom Moore at Select Greater Philadelphia does, which is work with companies to help them find locations. And conversation turned to what kind of story you tell firms that are looking to relocate, and his advice was pretty straight-forward. You tell them the truth, because if you don't tell them the truth and if you try to mislead them, they're going to find it out anyway, and that makes you look foolish at least.

And the truth, I think, that we have to tell is that this is a City that has undertaken the most responsible and aggressive and long-term business tax reduction strategy of any city in the country because we need to, recognizing that we need to, and that the elements in this particular instance are as significant and responsible reductions on both sides of the business privilege tax, that it is over a long period of time for the reasons that we just talked about, and that it heads towards the eventual elimination of that tax.

And I think if that's the story -- if that's the truth that we're able to tell, I think that leaves us with a significant and honest and important committed advantage in growing the kinds of jobs that we need here in Philadelphia.

So, again, I hope those were helpful comments to fill in some of the gaps in the previous testimony. I'd be happy to answer any questions.

(Applause.)

COUNCIL PRESIDENT VERNA: Thank you very much.

The Chair recognizes Councilman O'Neill.

COUNCILMAN O'NEILL: Thank you, Madam President.

I would just address the panel and thank them for their testimony, but at the same time, Councilman Kelly I think made a very good point. Everyone in this Council I believe wants to reduce the business privilege tax. The question is how long do we do it. We were talking 12 years just two years ago, and we had 11 votes for that. We hopefully have at least ten right now, because I think we're in -- from what I can tell, we're in a veto situation if we do the bill at the five years.

But five years is a great compromise over what we were talking about just two years ago. For me, it's very hard to swallow, because I like the 12-year commitment. And I would hope that if we do the five years, we also commit to a rolling five years, that every year we would come in and not wait until the five years runs out and find ourselves back in this position. We'd only be talking about one year each year being added to the four that are left.

And so I believe we're talking about Councilmembers who very strongly feel that 12 years is what we should be doing, willing to compromise down to five, other Councilmembers who think we should do it on a year-by-year basis, hopefully trying to get at least two of them to compromise on five to get something done, and I think that's your greatest task and ours in the discussions with our colleagues among us.

To me, it's a huge compromise, to come from 12 to five, and have faith beyond that. But I would hope also that you would both work with the Administration and with Councilmembers who have not been for more than going one year at a time but have been in favor of business privilege tax reduction to try to sell that as a compromise coming the other way, and actually less years involved, only going from one to five rather than 12 back to five.

I think we could have something here, because this is not a gap of between one and 12, but now we're at five years, and I hope we can do it, because the Groundhog Day was a great movie, but it's not fun.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you very much. I guess we're going to keep doing this until we get it right.

MR. McPHERSON: Our next witness is Rob Dubow, Executive Director of PICA.

Mr. Dubow, as they say, welcome home.

MR. DUBOW: Thank you.

COUNCIL PRESIDENT VERNA: Nice seeing you again.

MR. DUBOW: Nice to be back.

Good afternoon, Council President Verna, members of the

Committee. My name is Rob Dubow. I'm the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority, and with me today is Uri Monson, our Deputy Director. I just want to start by thanking you for inviting me to testify on the various bills before you today.

In staff reports and issue papers, PICA has consistently called for the City to restructure and reduce its taxes in a way that does not threaten the General Fund's fiscal health.

In addition, over the last several years, a series of analyses have shown that the business privilege tax inhibits economic activity in the City. The City's Five-Year Plans have recognized the importance of reducing the gross receipts portion of the BPT. The tax has been reduced each year since FY96 and it has now been cut a total of 48 percent. The net income portion of the tax, however, has not been reduced.

Despite the gross receipts tax decreases, the BPT continues to put the City at a competitive disadvantage. An analysis by the District of Columbia of the tax rates in the largest cities in each state showed that Philadelphia had the second-highest combined city and state corporate income tax rate, behind only New York City, and was only one of four cities with a gross receipts tax. Implementing the reductions included in any of the bills before you today would help reduce that competitive disadvantage.

While the bills Council is considering today would make the City's tax structure more competitive, they would also come with a cost to the City's General Fund. The tax rate changes proposed in Bills 050669, 051063, 051064 and 051065 would reduce General Fund revenues by between about 30 million and 46 million as amended. Bill 040776 would cost 162.6 million through FY11, although as amended only one year at a time would be enacted.

Even with the bills' proposed reductions, however, BPT revenues would still exceed the amounts included in the approved FY06-FY10 Five-Year Plan, because higher-than-anticipated FY05 collections resulted in a BPT base that's larger than that found in the approved plan.

The cost of the proposed bills should be considered in the context of the City's overall budget situation. On October 27, PICA released an issues paper that address the City's fiscal condition, and that might help provide some framework for the discussion of these bills.

The paper reported that the General Fund ended FY05 with a fund balance of slightly over $96 million, nearly 70 million more than the amount included in the approved FY06-FY10 Five-Year Plan. While the paper said that the larger-than-anticipated fund balance was a sign that the City's economy and its fiscal health were slightly stronger than anticipated, it also pointed out that there were reasons for caution, and among those reasons were that the fund balance remained well below the level recommended by the Government Finance Officers Association. That Association recommends that fund balances equal about five percent of revenues. In the City's case, that would mean a $173 million fund balance.

The FY05 fund balance was as large as it was in part because the City received a $29 million reimbursement from the state in FY05 rather than in FY06. This was anticipated in the plan. So that early payment merely represented a shift between years.

The largest single reason for the increase in fund balance was better-than-anticipated business privilege tax collections. The City received $64 million more in BPT revenues than anticipated, but the BPT is a volatile tax that actually decreased in both FY02 and FY03.

And the plan has a number of risks, including costs of future labor agreements and awards, the potential that the City will not receive 81 million from PGW that's included in the plan, the threat that the City might not be able to achieve the $60 million in unspecified future government efficiencies that are included in the plan, the likelihood that reductions in federal funding will create revenue shortfall, and the strong possibility that the City will not be relieved of the financial responsibility for the Convention Center as quickly as the plan anticipated.

With those cautions in mind, PICA delineated what it thought would be a fiscally prudent response to the higher-than-anticipated fund balance. Most importantly, the report said the

City needs to ensure that even after accounting for all substantial risks, the FY07-FY11 plan will be balanced.

If the Administration and Council can clear the hurdle of being able to balance the FY07 to FY11 plan, they should use any projected fund balance to begin to cure some of the key long-term challenges facing the General Fund. Making the City's tax structure more competitive was one of the key challenges that the paper said should be addressed.

The other actions PICA recommended were building a rainy-day fund, reducing the City's debt burden, reducing the City's unfunded pension liability and investing in the City's infrastructure.

The proposed bills provide Council with an important opportunity to take a step towards addressing a key structural issue facing the City.

The City's ability to reduce

the business privilege tax was made clearer earlier this week when the City released its quarterly report for the first quarter of FY06. The report showed that the Administration now projects that we'll end FY06 with a fund balance of over $142 million, which is $120 million higher than the amount forecasted in the approved FY06 to FY10 Five-Year Plan. The projected increased fund balance should enable the City to make important progress in attacking the structural problems it faces, including its uncompetitive tax structure.

One goal of business tax reduction is to attract new business to the City. A demonstrated five-year commitment is more likely to influence businesses weighing the decision of where to locate as they consider a long-term commitment to the City.

In addition, it's fiscally responsible to lock in five years of rate cuts since the tax reduction schedule adopted by the City would be included in the next Five-Year Plan the City submits to PICA in the spring.

That concludes my testimony. I'd be happy to answer any questions. I also attached a chart to the testimony that compares the pieces of legislation that we're considering today. It was done before the amendment, so it's slightly out of date now.

COUNCIL PRESIDENT VERNA: Thank you very much, Mr. Dubow.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

Mr. Dubow, the $96.2 million balance unanticipated in the, I think you said, $140 million --

MR. DUBOW: 142.

COUNCILMAN KENNEY: How does that happen? Because part of my concern as it relates to our budget process in general is how -- I mean, I know in a business budget, it's a real document that allows you to really plan and understand your business and make adjustments. Now, I guess in a budget the size of the City's, perhaps that's not a lot of money, but it's a lot of money in aggregate.

What is our budget process? I mean, you've been on both sides of this now, so I think you can speak freely. How do we have a real budget process if we wind up going through the debate we went through last year or last budget approval about closure of basic City services and then comes the revelation that we have $100 million more than we thought we were going to have? What good is the budget process if we can't really have it as a guide to running this company?

MR. DUBOW: Right. A big part of what happened last year and a big reason that the fund balance was so much higher than anticipated was that the business privilege tax came in at a record-high level, much higher than it had ever come in before. And in fairness to the Administration, I think that would have been really hard to predict. And it comes in very late in the year and there are reconciliations you have to make between years.

So I think if it had been anything other than business privilege tax, I would say, yeah, there's something to really think that there was something going on there, but I think the business privilege tax was kind of a rare case, because it comes in so late.

COUNCILMAN KENNEY: And then the other portion of it was the realty transfer tax.

MR. DUBOW: Yeah, but by the end of the process, in the plan that was approved by PICA, that was up at 195 million, and it actually came in in the low 190's. That wasn't part of the 70 million.

COUNCILMAN KENNEY: I'm sure having gone through the number of budgets you've been through, it's a frustrating process to have to go through what we go through last year relative to making really difficult choices and having the communities that we represent upset about libraries and rec centers and fire station coverage and everything when we get through this whole tortious process and, oh, by the way, we have an extra hundred million, sorry.

So, I mean, it is an opportunity to do things like tax reform and others, but just as a comment, it's a frustrating process when it seems as if it's not a real -- we're not dealing with reality half the time.

MR. DUBOW: No. I understand the frustration.

COUNCILMAN KENNEY: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions or comments from members of the Committee of Mr. Dubow?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none -- Councilman Nutter.

MR. DUBOW: I almost got away.

COUNCIL PRESIDENT VERNA: Not fast enough.

COUNCILMAN NUTTER: Mr. Dubow, thank you, and Mr. Monson.

Mr. Dubow, you may hold a record of sorts as having testified here in so many different capacities. You're like a person that played on a national league World Series team and then you're on the American league World Series team. I mean, you're just all over the place.

MR. DUBOW: Just so long as you get to play in the World Series.

COUNCILMAN NUTTER: I understand. I understand.

So you have a confidence level about these numbers, and what I took from your testimony was the five-year time range makes sense?

MR. DUBOW: Yes.

COUNCILMAN NUTTER: And do you have any --

MR. DUBOW: And I believe we've already had legislation that provided for five-year business privilege tax cuts.

COUNCILMAN NUTTER: Well, one, you're absolutely correct. We're in the middle of a five-year business privilege tax cut cycle right now.

MR. DUBOW: That's correct.

COUNCILMAN NUTTER: Weren't you Budget Director in the spring of 2003?

MR. DUBOW: I think we talked about that at a play-off game.

COUNCILMAN NUTTER: Yes. We made a five-year guaranteed cut back in '03 that extended for '04, '05, '06, '07 and '08, which we're presently experiencing at the moment. So we have some experience and history with multi-year cuts for the business privilege tax.

You also produced some charts, as you are often one to do, with regard to the different measures before us. Do you have any particular opinion with regard to affordability of these different plans? Your testimony talks about one of $19 million, which you know there was an amendment made.

MR. DUBOW: That's right.

COUNCILMAN NUTTER: So probably now on the low end, it's the $38 million -- I'm sorry. There is one for 30 as well. But do you have any particular opinion with regard to a total cost of five years in the $30 to $40 million range?

MR. DUBOW: I believe that costs in those range are clearly something that could be implemented and the City would be able to balance a Five-Year Plan with numbers in that range.

COUNCILMAN NUTTER: I didn't

hear the last part.

MR. DUBOW: With numbers in that range.

COUNCILMAN NUTTER: With numbers in the 30 to 40 million range?

MR. DUBOW: Yes.

COUNCILMAN NUTTER: With a five-year guarantee?

MR. DUBOW: Yes.

COUNCILMAN NUTTER: Thank you very much.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman O'Neill.

COUNCILMAN O'NEILL: Yes, Madam Chair.

I'm glad to see you two gentlemen are working together on this issue, as opposed to two years ago when you were on opposite sides of the fence. But you were working on opposite sides of the fence. That was very important.

But I would like it to, if you could -- I think it's on behalf of all of us. PICA could be a Board that just sits there and counts beans one way or the other, but I think this issue is so important that they've expressed themselves now for the third straight year, and if you could just thank the Board for being proactive in this way, while still showing a lot of restraint in terms of making sure that everything is being done in the best interest of the future of the City, which is their ultimate responsibility. It's very much appreciated.

Thank you.

MR. DUBOW: Thank you. I'll pass that on.

COUNCIL PRESIDENT VERNA: Thank you, gentlemen. Thank you very much. Good seeing you again.

MR. DUBOW: Good seeing you.

COUNCIL PRESIDENT VERNA: Our next witness?

MR. McPHERSON: Joyce Wilkerson, Office of the Mayor.

MS. WILKERSON: Good afternoon. My name is Joyce Wilkerson. I'm Chief of Staff to Mayor Street, and with me is Sean McNeeley of my office; Dianne Reed, Budget Director; and Nancy Kammerdeiner, Revenue Commissioner.

Thank you for the opportunity to present testimony on these business privilege tax rate reduction measures that are currently before Council.

Entering FY06, the City provided over $1.1 billion in tax relief through wage and business tax reductions. This Administration supports responsible tax reform and manageable tax rate reductions. Our testimony and Five-Year Plan have made the numerous mention of our commitment to affordable tax cuts that allow the City to maintain service levels and enable the full economic value of the cuts, and we have signed into law legislation providing wage tax reductions, gross receipt tax reductions, tax abatements for new construction and BPT credit. Unlike the Federal Government, this Administration has focused on both sides of the ledger in pursuing a tax cut policy.

The Administration acknowledges that the higher-than-expected FY05 fund balance and tax collections provide an opportunity for further tax reductions beyond the wage tax and business tax rate reductions already planned or in law. The question is how much and when.

We are willing to work with Council and the business community to provide BPT relief beyond the 174.5 million in gross receipts rate reductions already included in the FY06-FY10 Five-Year Plan. We are open to input on whether this additional relief is provided on the gross receipts portion, the net income portion, or both.

The preliminary, unaudited FY05 fund balance was $96.2 million, significantly higher than projected in the FY06 budget and FY06 to FY10 Five-Year Plan. The primary reasons include higher-than-projected BPT collections. FY05 collections totaled $380 million, $65 million higher than assumed, and a 23 percent increase from the prior year. The full revenue amount was not known at the time the budget was resolved, in part because the 132 million, or 35 percent of the total, was collected in May and June, unlike a typical year when 90 percent of the total is collected by the end of April.

In addition, the Revenue Department must process returns over the summer and wait until the federal extended filing deadline of October 15th in order to determine the final amount attributable to a fiscal year. Note that the City Controller's 2005 Mid-Year Economic Report stated that, "The BPT may be the most difficult tax for the City to predict," and actually forecasted a decline in the FY05 BPT collections.

Early reimbursement: The City received $29 million in TANF payment from the state prior to the accounting cut-off, earlier than anticipated. There's also been lower-than-projected personnel costs. Salaries and wages were $14 million lower than projected due to the workforce reduction program. In fact, salaries and wages declined from FY04 to FY05, the first such reduction in 11 years. The General Fund filled position level was 22,848 as of November 4, 2005, 8 percent lower than on November 21, 2001.

The strong BPT collections are one reason that we support additional BPT relief. Another is the strength of our real estate transfer tax revenues. In working with the Pennsylvania Intergovernmental Cooperation Authority to balance the FY06-FY10 Plan, the Administration made technical amendments to the revenue projections which increased the real estate transfer tax projections over the life of the plan with PICA approval.

Real estate transfer tax revenue doubled from FY02 to FY05, an increase by 38 percent in FY05 alone. We testified during the tax hearings early this year that our practice had been to forecast a drop-off in real estate transfer tax revenue each year during this boom. Fortunately, that drop-off has not occurred.

PICA's staff has been similarly conservative regarding real estate transfer tax revenue. Our increase in the real estate transfer tax projection was made in cooperation with PICA, assuming that even if interest rates rise and the number of transactions drop, the increase in values in Philadelphia will sustain real estate transfer tax collections. Note that the City Controller's Mid-Year 2005 Report forecast a drop-off in the real estate tax revenues from '05 to '06 $30 million less in real estate transfer tax revenues for '05 than was collected and 45 million for '06 than our current estimate of 200 million.

The Administration was not alone in being conservative regarding the real estate transfer tax. Although we continue to forecast some drop-off in collection amount, the base going forward is now significantly higher than assumed in the adopted budget and plan. We believe this lends some support to additional BPT relief efforts.

We'd like to caution, however, that the BPT and real estate transfer tax are now our most volatile taxes. Collections for both of these taxes have fluctuated more widely than the City's other tax sources in recent years, including fiscal years where collections declined. As the net income portion of the BPT has become a larger share of collections, this volatility has increased since net income fluctuates more with national and local business cycles than total receipts. There is risk in using the strong performance of these taxes as the basis for multi-year plans.

The City's program of incremental wage and BPT reductions was begun in 1996 on the premise that moderate tax reductions each year could be incorporated into a balanced City budget and that maintains City service levels by generating efficiencies and taking advantage of economic growth. The tax rate reductions were made on a year-to-year basis for the first seven years so that the Council and the Mayor had the flexibility to respond to changing circumstances.

The Administration supports further BPT reductions on a similar year-to-year or pay-as-you-go basis for the upcoming FY07 to FY11 Five-Year Plan period, but not beyond.

The PICA statute was designed to promote long-term financial planning and fiscal stability in Philadelphia. Legislating beyond the PICA five-year window runs counter to this goal.

Before I get into discussion of the individual bills, let me talk to you about why, as PICA recently said, happy days may not be here again.

The unaudited FY05 fund balance of 96.2 million was produced through first operating surplus in four years, excluding accounting adjustments, since before the 2002 recession. Although it is nice to have reserves again, this is still lower than the '96 to '02 fund balance and lower than the level recommended by the Government Finance Officers Association or rating agencies. GFOA recommends an unreserved fund balance of 5 to 15 percent of annual revenues, which for the City would mean at least $172 million. Similarly, Moody's suggests an unreserved fund balance of 5 to 10 percent.

In 2003 before the recession took full effect on government finances, the cities with the highest credit rating from Standard & Poor's averaged an unreserved fund balance of over 30 percent of General Fund expenditures.

More ominously, as we begin to prepare for the FY07-11 Plan, there are unfavorable developments that temper the good news on our strong tax collections and rebounding fund balance, including shortfalls in the DHS needs-based budget due to state and federal taxes, delays and state-wide gaming revenues and the assumed relief for the Convention Center, delays in implementing our Fire Department restructuring plan, an increasing prison population, and increases in utility and vehicle fuel costs.

The PICA white paper on the fund balance did comment that tax reform was one prudent use of resources. PICA highlighted four other major prudent uses of resources, all of which we agree have merit and should be given consideration by Council. In particular, the condition of our pension system requires attention. The City shifted its pension funding policy to the Minimum Municipal Obligation required by the state beginning in FY04 after missing pension earnings assumptions for four straight years. Even with this change, the amount of the General Fund pension obligations increased $800 million from FY02 to '06 Plan and to the '06 to FY10 Plan.

As a consequence, however, the funded liability has dropped from 77 percent before the shift to 59 percent currently, a situation that merits concern and dedication of resources, particularly in light of the pension defaults taking place around the country.

PICA also pointed out a series of legitimate risks to the plan, such as the fiscal health of PGW, the cost of labor agreements, the ability to continue to generate sizable work for efficiencies or target budget reductions with a dramatically reduced workforce.

Given the current discussions around full valuation of real estate and the range of proposals at state and local levels to respond to impacts of full valuation, the ability to achieve the real estate tax projections in the Five-Year Plan is also at risk.

As we begin to prepare for our next plan, it's important to keep in mind that the wage tax rate reductions will accelerate in FY10 and '11, and the low-income wage tax credits will take effect in those years. The weighted average wage tax reduction for the five years from 2010 is 1.1 percent per year. Assumed tax base growth of 3.5 to 4 percent is larger than the reduction and allows for the wage tax collections to increase, as they have since the inception of the tax reduction program.

However, the weighted average wage tax reduction for the five years, beginning 2010, is 3 percent per year, nearly three times as large as the current reductions, and large enough to mostly offset growth in the tax base.

When the low-income wage tax credits are factored in, wage tax collections are likely to decrease in each year. The current estimates of the impact of the low-income wage tax credits based on the most recent data available is shown in the table below.

The combined effect of these accelerating rate tax reductions and credits will make it more challenging to balance each successive Five-Year Plan.

Because we are entering into another Five-Year Plan cycle, our analysis of these bills takes into account FY11, which we'll continue to consider in our next plan. Our analysis is preliminary and based on a continuation of the growth rate assumptions in our current plan modified for actual FY05 collections. We will revisit these assumptions in the course of preparing the next plan.

Bill No. 040776 would eliminate the gross receipts portion of the BPT by FY10. The continuation of the gross receipts rate reductions already in the City's Five-Year Plan will eliminate this tax by 2020. So this bill would sharply accelerate this schedule. The bill is projected to reduce revenues by $162 million from FY07 to FY11. Given the other challenges in the plan and the existing tax rate reductions, the Administration considers this unaffordable and does not support -- I guess at the time it was a multi-year reduction. So we would have to revisit our analysis of that.

Bill No. 050669 would begin rate reductions to the net income portion of the BPT, with slightly faster reductions in the gross receipts portion compared to the plan through tax year 2010. The bill is projected to reduce revenues by 19.7 million from '07 to '11. And I guess there have been changes also in that proposed legislation, so we'll have to revisit those numbers, and I won't bother with what I've written here.

Consider what the rating agencies say about locking in tax reductions, as well as depending on optimistic revenue projections due to "supply side" effects, our bond rating is the second worst among largest cities, and Moody's and Fitch currently have us on a negative watch. In its most recent rating of the City, Fitch commented, "The Five-Year Plan shows fiscal 2006 and succeeding fiscal years maintaining the legacy of an over-reliance on economically sensitive revenue sparked by the set schedule of wage and business tax reductions. Economic benefits continue to lag expectations, while the reductions in recurring revenue is stressing financial operations. While Fitch recognizes the potential long-term economic benefits of the City's tax policy, a sustained drain on fiscal stability is not consistent with the current rating level?"

And hopefully when the new fund balance numbers are shared, the City will be able to hopefully make some progress with our rating, which would stand us all in good standing since we have large bond issues on the horizon.

Bill No. 051063 would reduce the gross receipts portion of the BPT at a slightly faster rate than currently assumed in the plan through tax year 2010, while also reducing the net income portion of the BPT annually from tax year 2006 to tax year 2010. This bill is projected to reduce revenues by 38.5 million from '07 to '11 compared to the current plan. The rate reductions would require Council approval each year and extend only through the upcoming

Five-Year Plan.

That element is key for the Administration. It's one thing to carry it as a projection in the Five-Year Plan. From our perspective, locking it in in legislation is unacceptable.

Bill No. 051065 would reduce the net income portion of the BPT annually from tax year 2006 to 2010. The gross receipts portion of the BPT would continue to be reduced at the rate assumed in the plan, although this bill would codify those reductions past the current cut-off year 2008. This bill is projected to reduce revenues by 46.9 million compared to the current plan rate reductions. The rate reductions would require Council approval each year and extend only through the upcoming Five-Year Plan period.

The Administration views the latter three bills as within a manageable, if challenging, range, and we support in particular the year-to-year provision.

This concludes our testimony and are happy to answer any questions.

COUNCIL PRESIDENT VERNA: Thank you.

Ms. Wilkerson, Mr. Dubow stated in his testimony, and I'm sure you heard it, that it is fiscally responsible to lock in five years of rate cuts since the tax reduction schedule adopted by the City will be included in the Five-Year Plan the City submits to PICA in spring.

I think from your testimony you disagree with that assessment?

MS. WILKERSON: Yes.

COUNCIL PRESIDENT VERNA: And can you tell us why?

MS. WILKERSON: I think the numbers in the out year plans are all projections. The revenue numbers, the expense numbers are working numbers, and that to lock in the tax reduction numbers we think is imprudent.

Things change from year to

year. There have been dramatic changes in some situations, and think that the approach the City has followed for the most part over the course of the last decade has allowed the City to have a reliable continuing tax reduction policy. We've done over a billion dollars in tax reduction, and think it's the more prudent way, particularly with costs, some costs moving around as unpredictably as they have.

We have a new challenge with DHS, for example. We're probably looking at $10 to $20 million more annually as a result of the state's change in its funding policy.

And so we're comfortable carrying accelerated tax reductions in the Five-Year Plan. We acknowledge that there has been substantial growth in the business taxes and in some of the other revenues, but think that it's not prudent -- we disagree with PICA on this point. We think it's imprudent to lock it in.

Another thing that needs to be a part of this conversation we believe before we lock in on taxes is what happens with the property taxes. The City has a figure in for property tax revenues. If there's any kind of -- there's a lot of talk now about capping the tax revenue. If we cap it and generate revenue below what's in the Five-Year Plan, I think even PICA would change its commitment to locking in or its position on locking in taxes as we move forward.

COUNCIL PRESIDENT VERNA: I don't know if Mr. Dubow is still here, but I think that's a statement that you've made and I don't know that he can speak for the entire Board.

MS. WILKERSON: We have -- I don't want to speak for Rob, but the numbers that we've shared are numbers that include fixed dollar amounts, revenue projections for the property tax, and I'm just saying to the extent that any of those numbers move around, it impacts the ability to fund additional tax cuts.

COUNCIL PRESIDENT VERNA: Thank you.

Councilman Nutter's light is on. I see he's in the back of the room.

MS. WILKERSON: We also have the ethics bills. The cost of the ethics bills impacts what otherwise would be an ability to fund more aggressive tax reductions in every year. We're projecting that at 10 million over the Five-Year Plan.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Good ethics is good government and sometimes it's a little costly.

Thank you, Madam Chief of Staff, for that intro. Just a couple quick questions. Your testimony with regard to Bill 050669 is as it was introduced; is that correct?

MS. WILKERSON: Yes. In my comments, I said we'd have to rework these numbers. I appreciate that they've changed.

COUNCILMAN NUTTER: Right. I understand.

And I'm sure you're aware that Bill 050669 is an exact replication of Bill 040767, which was introduced on September 23, 2004 and was the subject of debate and a vote in this Council last spring. Do you recall that? And that bill was passed by Council and vetoed by the Mayor.

Your testimony indicates that, on Page 4, "The bill is projected to reduce revenues by 19.7 million from FY07 to FY11. Based on our improved financial position and higher tax base, the Administration views this amount as affordable at this time."

My question is, if you had the

financial information that you have now, had that information been available to you in the spring, would the Administration have supported the bill?

MS. WILKERSON: I think the Administration doesn't support multi-year cuts. I think we're in a position to do more. We acknowledge that, that there is more revenue, taxes have performed. We've managed to do more with cuts. We think that additional tax reductions are warranted. Assuming that we don't dig in substantially and reduce the property taxes, additional taxes are warranted. And there needs to be a conversation about how deep in year one and how you spread it out over the balance of the years and how you reflect it in the balance of the years, whether it's just carried in a Five-Year Plan or legislated.

And I think it would be a wasted -- it's unfortunate when we end up missing some of the opportunity because we can't reach agreement on this issue of how many years you do it once. I think we all need to redouble our effort this year to try to find some middle ground for doing what everybody wants to do. It doesn't make any sense not to do what everybody agrees on, and I think we ought to spend a lot of time trying to come up with a formula. I think Councilwoman Reynolds Brown and other members, Councilman Goode, are interested in trying to do something. The Administration has long supported business taxes.

I want to remind people that we got into big trouble several years ago when we proposed shifting from wage tax reductions to business tax reductions, because we understand how important it is, but I think if we spend time over the next few months trying to work out the mechanism that everybody can live with that gives predictability to tax reductions and also gives the

Administration comfort that when the numbers fall off, when the expenses don't break our way, we have the ability to automatically react. I think it's worthwhile trying to find that vehicle now.

COUNCILMAN NUTTER: Well, I appreciate your comments, and I wouldn't necessarily characterize it as the Administration got in trouble a couple years ago when you recommended that we end the incremental cuts in the wage tax. I would say that it sparked a vigorous and lively discussion and that we've made tremendous progress since then, and you should take credit for starting that debate.

MS. WILKERSON: I think we missed an opportunity to do something important for business tax reductions.

COUNCILMAN NUTTER: I understand. But when you say that you're not particularly supportive of multi-year guaranteed cuts, I do have to remind you that -- and that you want to seek this common ground around any number of proposals, whether bills that I've put in, Councilwoman Reynolds Brown, Councilman Goode, you'll recall that in 2004, the Mayor did sign a ten-year guaranteed reduction in the wage tax. That same year, we had a 12-year guaranteed reduction in business privilege tax, which was vetoed, passed by Council and vetoed.

We subsequently came back with Bill 040767, amended it to have only a five-year guarantee. So we've moved from 12 years to five. That bill passed Council and was vetoed.

MS. WILKERSON: Just --

COUNCILMAN NUTTER: Let me just finish one last thing.

MS. WILKERSON: I'm sorry.

COUNCILMAN NUTTER: In the spring of 2003, the Mayor signed a business privilege tax bill with a five-year guaranteed reduction, which we are in the middle of right now. In the current Philadelphia Code, there are guaranteed reductions in the business privilege tax through FY08, approved by this Council unanimously, signed by the Mayor in the spring of 2003. That has been our history.

MS. WILKERSON: Just in terms of the first wage tax reduction, as I recall, that was a tax reduction that was already legislated in Harrisburg, and so there was not --

COUNCILMAN NUTTER: I'm sorry?

MS. WILKERSON: That was already legislated in Harrisburg, and so there was not the opportunity, as I recall, to do other than five years worth of reductions.

COUNCILMAN NUTTER: What do you mean "legislated in Harrisburg"? The only thing Harrisburg is requiring is that gaming revenues be used to further reduce the wage tax.

MS. WILKERSON: I'll provide

you with the documentation of what I'm thinking about. As I recall, though, it happened in the year when the Administration had proposed not doing any wage tax reductions -- my memory fails me. I will go back and try to document what it is. But the Administration's position is that we support it one year at a time. When a vote comes to the Mayor 15-0, 17-0 and there's no support for an override, the Mayor will sign the bill. We think --

COUNCILMAN NUTTER: No. I've been down that road, too. I've had some 17-0's come flying back here.

MS. WILKERSON: All right. All right. My memory fails me.

COUNCILMAN NUTTER: I think I had 17 --

MS. WILKERSON: Generally. This year we look to find middle ground with Council on this --

COUNCILMAN NUTTER: You moved off of that one.

MS. WILKERSON: -- on this issue. We think that we've all worked hard to try to generate revenue. We've all worked hard trying to manage the government. When the business community has proposed additional means of generating additional revenue, we've taken those measures to heart. We're looking at raising over $40, $50 million from asset sales. That was something that came out of these hearings. We're more aggressive on revenue collections. Some of that came out of these hearings. And as a result of all of those measures, we have a fund balance.

We believe that some portion of the fund balance ought to be spent on more aggressive tax reductions, and so we're willing to engage in that conversation and be flexible, as long as it reflects that there are substantial risks on the horizon.

COUNCILMAN NUTTER: Well, let me just say lastly, part of this is, when you boil it down, if nothing happens, we still have two years of guaranteed cuts in the business privilege tax. Even as amended, 050669 only gives rates out through '11. So you're really just adding three years on. I'm not hearing that these figures, $38 million over five years, I don't think you've testified that is outrageous or unmanageable.

MS. WILKERSON: It doesn't appear to be. We are in the early months of putting the budget together, and one of the things that I think we've learned off the past is that when we try to project tax revenues too early, we tend to be too conservative. I think that --

COUNCILMAN NUTTER: What's the current estimated fund balance for FY06? I mean, we're a quarter into the year.

MS. WILKERSON: That's right.

COUNCILMAN NUTTER: Isn't it over up -- it's like $140 million?

MS. WILKERSON: That's looking at revenues without looking at all the additional expenses that -- without the changes in expenses. I think that we acknowledge that there's additional revenue. The Administration supports doing more for tax reductions. We're also cognizant of the fact that there are conversations going on about the real estate tax and that that also has to be a part of the conversation.

COUNCILMAN NUTTER: Okay. And we'll take that up next year.

I guess lastly, and this will really be it for me. I mean, the one concept here that I think really has to be dispelled, which we proved last year, is even in multi-year guaranteed cut proposals, we are still 16 members of City Council who annually review our budget, along with the Mayor, and if something were to happen, there is nothing to prevent us under an extraordinary situation from taking an action to prevent an even worse conclusion. We are all responsible people here, and we're elected to represent our constituents. And last year, we changed the tax structure and rate schedule on the wage tax, moving it from a July 1 guaranteed cut last year to January 1 of this year, which also generated additional revenue for the City of Philadelphia, which no one thought that we would do. We moved it back because that was the responsible thing to do.

So I don't want anyone to be under some impression that we give up our legislative rights to make prudent decisions even with a guaranteed tax rate cut schedule as laid out. I mean, I think that there is this fiction out there that if we were to do something and even, in your words, it's a manageable number, it's over five years, revenue seems to be good here at the moment, if some cataclysmic event were to take place two or three years from now, I believe that this Council would be responsible, and if the Administration came and said, We've got to take a second look at what's going on, the members would certainly be open to listening.

So, I mean, we've gone from 12 years guaranteed proposal to five. We've got revenues up, modest reductions. These are still modest reductions as compared to anything else that could be out there. We could rally around one particular proposal and put this issue to rest once and for all.

(Applause.)

COUNCILMAN NUTTER: So any comment?

MS. WILKERSON: Yeah. The Administration is interested in finding a middle ground with Council. We believe that business tax reductions are important, that we ought to be able to find a middle ground that we can all agree on around the business taxes, also around the property taxes.

The good thing about having the

conversation starting now is that we have enough time to take it all into account.

COUNCILMAN NUTTER: With regard to this issue, is there any proposed middle ground at the moment?

MS. WILKERSON: I think we're interested in talking with all the parties. I don't have something to put on the table. I know we've -- but I think there is an opportunity. In some years, there hasn't been the shared recognition that there is revenue there. I think usually we're fighting over numbers. The good news is, we're not fighting over that this year.

COUNCILMAN NUTTER: Right. Now it's about time.

MS. WILKERSON: I think it's more the mechanism, and it would be a shame if that's allowed to be the impediment.

COUNCILMAN NUTTER: Okay. All right. Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam Chair.

Good afternoon. I apologize. I was either speaking to Councilwoman Tasco or Nutter earlier. On Page 3 of your testimony, you have five bullet points concerning the unfavorable developments. Delays in the state gaming process, which will slow our local tax share of revenue. I'm not clear on that.

MS. WILKERSON: The Five-Year Plan carries revenue. Initially I think it was beginning in FY07.

COUNCILMAN DICICCO: Okay. I know what you were going to say. The anticipated revenues from the gaming.

MS. WILKERSON: That's right. It keeps sliding back a year, and those are large numbers, 20 million.

COUNCILMAN DICICCO:

Understand. And the delays in implementing our Fire Department restructuring plan, is that something that's still being considered?

MS. WILKERSON: The Administration was -- the Five-Year Plan had, I believe, a compromised figure. It wasn't clear how we were going to realize that number. It's mischaracterized here. We're currently enjoined by the court. The judge reversed the Arbitrator's award. That's now back in arbitration. So those numbers are no longer good numbers.

And then the utility and fuel costs, our utility, our natural gas bill is going up $5 million and the vehicle fuel cost bill is going up by a similar amount. So these are wild-card items that we're carrying in the budget right now.

COUNCILMAN DICICCO: I think it would be helpful if you can put some numbers to those items as well, especially the prison population increasing, what those costs are estimated. That would help.

MS. WILKERSON: Mm-hmm.

COUNCILMAN DICICCO: Thank you. Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions or comments by members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you very much, and I would ask Mr. McPherson to please call our next witness.

MR. McPHERSON: Jonathan Saidel, the City Controller.

COUNCIL PRESIDENT VERNA: Well, you don't look like Jonathan Saidel, but would you identify yourself, please.

MS. WAXMAN: Good afternoon. My name is Marissa Waxman. Controller Saidel sends his apologies that he can't join you this afternoon and asked that I deliver his testimony.

COUNCIL PRESIDENT VERNA: Very well. Please proceed.

MS. WAXMAN: Good afternoon, Madam President and members of City Council. I am City Controller Jonathan Saidel. I come before you today to support reform of Philadelphia's business privilege tax. The City's crippling loss of jobs and people requires us to make changes and think differently about how we organize our tax structure. Meaningful reform of the BPT should have three essential components: Gradual reduction of the net income rate, gradual reduction of the gross receipts rate, and these reductions should be legislated for at least the life of the current Five-Year Plan.

There is often little debate when new spending initiatives are announced outside the scope of the City's annual budget process, but tax reform has been subjected to endless debate and opportunities have been missed as a result. In the interest of time, I'm sure that I do not need to explain once again why and how the reduction of the BPT will improve the lives of Philadelphians. This topic has been covered in my 2001 Tax Structure Analysis Report, the recommendations of the Tax Reform Commission, proposals of the Mayor's 21st Century Review Forum and his Economic Development Blueprint. The benefits of tax reform and the reduction in the BPT rate have been championed by academics, community groups and business associations across the City.

Given the vast amount of research and community support for the reductions to the net income and gross receipts portions of the BPT, I can only assume that this body's reluctance to move forward with reductions to both the net income and gross receipts portion of the BPT stems from a concern that the City cannot afford these measures.

As the City's financial watchdog, mandated by state law to analyze and opine on the reasonableness of the City's Five-Year Financial Plans, I can attest that the City can most assuredly afford these reductions to BPT rates without reducing the resources available for service delivery.

I have long believed that we can afford tax reform through increased governmental efficiencies and the resultant growth in the tax base, but today there are even more obvious justifications for the affordability of BPT reduction.

The City ended fiscal year 2005 with a fund balance of approximately 96 million, 70 million more than anticipated. Additionally, based on current collections, analysis by the Controller's office projects that revenues from the BPT over the life of the current Five-Year Plan will exceed the stated collections by a significant amount, roughly a quarter billion dollars more than anticipated. I believe that even with BPT rate reductions, the City is likely to collect more than the amount of BPT revenues in the current plan. Given these two facts, there has never been a better time to adopt rate reductions. Failing to do so would jeopardize future expansion and job growth. At this moment in time, Philadelphia is experiencing expansion and we cannot afford to undermine the progress that has been made.

The gradual, simultaneous reductions of both the net income and gross receipts portions sends a strong message to entrepreneurs that we are serious about making Philadelphia a location of choice for business. It shows a willingness to bring jobs and prosperity to our residents. We are the only major city to tax both net income and gross receipts. We are competitive with our suburbs and other cities throughout the nation and world. Our future is bleak if we cannot compete. Phased BPT rate reductions will enhance our competitive position.

By adopting reform measures, you are choosing to chart a positive course for Philadelphia. We have an obligation not only to the citizens of the City today, but also to the next generation of Philadelphians. Predictable, responsible BPT reduction is an opportunity to create a better future for Philadelphia.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Just a quick question. I read through the testimony and I'm just really trying to understand other than generally supporting reductions, is the Controller supporting any bill?

MS. WAXMAN: Let me get back to you. The Controller has actually been out of the country and only recently returned, and some of the bills were introduced after he left. So I can prepare a more direct response for you, have him prepare a more direct response.

COUNCILMAN NUTTER: Well, did he have an opinion about any of the bills before he left?

MS. WAXMAN: Yes.

COUNCILMAN NUTTER: What was it?

MS. WAXMAN: He was in favor of Bill 050669, as it was the main proposal that was going to be discussed today at the time when he left. That was the only bill slated for discussion, and because that met his three essential criteria of phased net income rate reduction, phased gross receipts reductions and the fact that it was legislated over five years. That bill was also subsequently amended today.

COUNCILMAN NUTTER: I understand that. Well, do any of the other bills meet that test?

MS. WAXMAN: I haven't had a chance to review the ones that were amended today, but I do not believe that any of the other bills currently meet those three essential criteria.

COUNCILMAN NUTTER: Okay. So, in essence, he's only in support of 050669?

MS. WAXMAN: I have not had a chance to confirm that with him yet, but I would be happy to prepare a response and forward it to the Chair.

COUNCILMAN NUTTER: Very good. Okay. You're going to be all right.

MS. WAXMAN: All right.

COUNCIL PRESIDENT VERNA: Thank you very much.

Any other questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

MS. WAXMAN: Thank you.

COUNCIL PRESIDENT VERNA: Our next witness is Stanley Shapiro.

Hi, Stan. Welcome.

MR. SHAPIRO: Thank you. My name is Stanley Shapiro, for the record. Nice to be back here.

COUNCIL PRESIDENT VERNA: Nice seeing you.

MR. SHAPIRO: Not the happiest circumstance necessarily, but I'm here for One Philadelphia, and we have a panel of three speakers, one of whom is going to make a presentation. You also recognize Mr. Haver for sure. He is a member of One Philadelphia as an individual, and he's not speaking for the Administration today, but he will be speaking for One Philadelphia, and we're going to start off with Lance.

MR. HAVER: Good afternoon or almost good evening.

COUNCIL PRESIDENT VERNA: Good afternoon.

MR. HAVER: My name is Lance Haver. I'm the Director of the Mayor's Office of Consumer Affairs. As most of you are aware, I am not speaking on behalf of the Mayor this afternoon, but offering my own testimony.

I believe that before one can take a position on the bills before Council today, it is important to first understand the goals of the bills, then ask if the bill is passed will it achieve its goals. And with your permission, may I pass out the testimony? Because I do have a little chart that I would like everyone to have a quick look at.

I am testifying under the assumption that the goal of these bills is to create good-paying jobs for Philadelphia citizens, and there is agreement with the opinion of the vast majority of economists that most new jobs will be created by small businesses and start-up businesses.

The question before us today then is, will the bills as written achieve this stated goal? If all we do is rely upon deep, broad-based tax cuts without provisions to rescind the cuts if they don't produce the desired goals, I fear the answer to that question is no, there is no guarantee that deep cuts will produce jobs. Here is why: Broad-based cuts give equal benefits to those companies that have already received tax breaks, as well as to those who carry too large a tax burden. Unfocused tax cuts put money back in the pockets of businesses that are cutting their workforce without creating an incentive to hire or rehire workers.

The across-the-board tax cuts give the biggest companies the biggest savings. It begs the question, are all businesses of equal value to the City? Do we really want to give Wal-Mart the same tax cuts we give to a small business, to a start-up? Is it our goal to put more money in the pockets of a multi-national corporation that fails to pay a living wage and places a greater burden on our tax base by refusing to offer affordable health insurance to its workers? Or do we want to help innovative start-up companies that offer promise and help small mom-and-pop stores that all too often Wal-Mart puts out of business?

Don't our schools, our neighborhoods and even our neighbors need more help than the multi-billionaire owners of Wal-Mart? Don't Philadelphia families need more help with their heating bills than Sunoco needs to increase their record profits?

I know that Philadelphia Forward states that the tax cuts will create jobs. Unfortunately, like many of those type statements, there is no accountability to the public if the funders of Philadelphia Forward are wrong. They advocate for bills that contain no projections of how many good-paying jobs will be created, nor do the bills they ask you to pass have any provision to rescind the cuts if new jobs are not created.

It appears that Philadelphia Forward doesn't care if the bills do what they say they will. They simply want their funders to be excused from paying any taxes regardless of the effects, and that is a real danger.

It is not just the possibility that the cuts will be of no use to citizens that I would ask you to consider. It is that the proposed cuts can hurt the City. If the jobs don't materialize and there's not a promise that they will, the cuts will take money away from the City's ability to improve the quality of life in Philadelphia. Our neighborhoods will lose service, our public facilities will weaken, and the City will lose some of its ability to deal with problems caused by the cuts being ushered in by the right wing zealots in Washington, D.C.

It seems to me that it would be far better to learn from our experience with the real estate market than to accept the unproven and unaccountable advice of Philadelphia Forward. To help the real estate industry, we created a tax abatement for new construction, not for all real estate. The abatement, at least in part, helped jump start the industry. Now the housing market is so hot that we have the opposite problem. Real estate values and, therefore, taxes rising so quickly, that long-time residents are having difficulty keeping up.

We could attempt to develop new businesses by adopting Councilman Clarke's approach of offering a three-year tax abatement to start-ups. We could do this by lowering the ten-year new construction abatement to seven years and temper the skyrocketing prices of homes. This type of target tax cut based on a successful program, not an empty promise, doesn't place our City at risk, doesn't take money away from our neighborhoods, will give start-up businesses the same type of help we gave to the real estate industry. At the same time, it will relieve some of the pressure on the rising real estate taxes.

We can assure that such an abatement does not hurt existing small businesses by creating a storefront exemption where the first $100,000 of sales is exempted from the gross receipts portion of the business privilege tax. This can be paid for by uninstituting a windfall profit tax on zoning changes. For example, if changing the zoning of a parcel of land increases its value, we should ask the beneficiaries of the windfall to pay a net profit tax on the increase. After all, if changing the zoning makes money, why shouldn't the business pay its fair share of taxes on what they make?

I know there are some members of the business community who make the argument that businesses should not pay any taxes, that they should receive City services at no cost. I suspect many of the people who hold these opinions are funding Philadelphia Forward. I admit I do not understand the logic behind such a claim, and hope the members of Council agree with me when I say everyone, everyone should pay their fair share of taxes, the rich and the poor, consumers and businesses.

While I know reasonable people can argue about what everyone's fair share is, it is hard to accept a reasonable argument that businesses should have to pay nothing and the rest of us should have to pay more. I wonder who in Council Chambers today would check big business on the chart that's up there right now when asked the direct question, who should not have to pay taxes, how many people in this room would check big business should not have to pay a single penny in taxes?

Whatever decision you make, I hope at the very at least you will include stated goals in the bills. If you believe that cutting taxes are going to create jobs, put in the bill how many jobs will be created, and if those jobs aren't created, you should rescind the tax cuts. It is easy to make an empty promise. Council shouldn't make it any easier for people to break those promises.

Thank you.

We can take a vote. I was going to take a vote, but I don't think I have enough attention. If Council were paying attention, if the members were active, I would have a show of hands, how many people believe Wal-Mart shouldn't pay any taxes? One person? Not you. Everyone believes it, so then why should we cut the business privilege tax? If everyone believes Wal-Mart should pay their fair share, why are we talking about cutting the business tax to zero? Why is that even on the table? We all believe everyone should pay their fair share. Everyone believes that. So why is it a reasonable proposal to say real estate taxes go up, business taxes go to zero?

MR. SHAPIRO: Jonathan Stein from Community Legal Services will be next.

MR. STEIN: And I've reduced my testimony to really a question, because I think part of the reductions we should have is perhaps reductions in tax reform rhetoric, and maybe that might be appreciated by people here as well.

My question really goes to whether we want to eliminate business taxes for businesses like Comcast, Sunoco, Wal-Mart. Are these really the businesses that are going to run out of the City, that really need the tax break that the arguments are being set forward?

I included on this one-page handout the public data published by Comcast and Sunoco as to what their revenue was in this past third quarter and what it was for nine months. Comcast had revenue of 5.3 billion, that's a B, billion dollars for the third quarter of 2005. The revenue for the first nine months of this year were 15.8 billion. Should they pay no business taxes?

Sunoco, which has had windfall profits because of the various factors that we know about affecting the oil industry, their income has risen enormously in just the third quarter. They posted income of $357 million in just the third quarter of 2005. For the first nine months of 2005, they've posted income of $715 million.

Do we want to pass legislation that says that Sunoco will pay no business taxes? Do we really want to do that? Can't we as rational policy people, of citizens of the City, as legislators be able to refine tax reform and tax reductions to those who we really think need it?

If in fact the case has been made out for small start-up businesses, and those are the poster child of tax reform, can't we in good faith, in rationality say that's where we're going to focus and target a business tax cut and not allow the Sunocos, the Comcasts, the Wal-Marts to pay no business taxes, while your constituents are having their real estate taxes go up and while your constituents pay wage tax and other taxes, and these enormous businesses posting unprecedented profits and revenue that they've never had before, hundreds of millions of dollars, billions of dollars?

COUNCILMAN KENNEY: Point of information.

COUNCIL PRESIDENT VERNA: Yes,

sir.

COUNCILMAN KENNEY: The witness indicated that the real estate taxes are going up. When are they going up?

MR. STEIN: Let me restate that. They are paying real taxes.

COUNCILMAN KENNEY: Everybody pays real estate tax.

MR. STEIN: I won't assume they're going up, but I'm trying to contrast the fact that constituents who pay real estate tax and wage taxes will also have to learn that maybe these enormous corporations may be paying no taxes, no business taxes as their profits soar through the roof.

And the last point I make in this one-page handout is that although we don't talk about City services today and the needs of the City, because this is tax reform day, this is tax-cutting day in this session, there are major unmet needs in the City, and I've mentioned these in various testimonies that I've made before Council, things like how long does it take to get an appointment on the City Health Center, how long does it take to get a housing inspection when your roof is falling down in the City. Should one wait six months, 12 months? And if so, can we reduce that number with some surplus that the City has? Is not that a priority we should at least be talking about?

And the priority I talk about on this sheet is the one that each of you personally has knowledge of. There are thousands of PGW households without gas service. The number we came to for at least mid October was something like 27,000 households. That number will be going down a bit, but there will be thousands of PGW households facing the winter months. Tonight it's going to be 29 degrees in the City, and they have no gas service. And one of the ways of getting them back on is to infuse in a smart way some additional City money, married to LIHEAP money, married to maybe weatherization efforts to restore heating service to thousands of Philadelphia households. Isn't that a valid use for some of the surplus money, especially in contrast to money that will go to a Comcast or a Sunoco making record profits?

If we're having a conversation, I think that should be part of the conversation, and I think that raises serious questions whether a blunderbuss approach to tax cutting is really appropriate or whether we can put our best thinking together to say who really in the business community, not the Sunocos, not the Comcasts, not the Wal-Marts, really could use a targeted tax cut that could really help the economy in the City.

That's my testimony. Thank you.

COUNCIL PRESIDENT VERNA: Thank you, Mr. Stein.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President. I'll be very brief. Just a couple observations.

First, Mr. Haver, you are well known to us. You are highly respected in your service before government and now during government. I would only make one either observation or recommendation. Should you plan to testify in the future in City Council -- this is only a recommendation. You're a grown person. You'll do whatever you want to do. But should you plan to testify in City Council in the future and if you are not here in your governmental capacity, I would strongly encourage you, one, to not put your testimony on City stationery; two, I would suggest that you might want to make sure that unless you've already cleared the time in your capacity as a private citizen, that you might want to make sure that it's on your time as opposed to the government's time. I don't know whether you cleared your testimony or not. And as a private citizen, obviously you have a right to make whatever testimony you want, but it does create some amount of confusion, if not potential concern, with regard to the use of City stationery for private personal testimony. I only make that as a recommendation.

Second, with regard to Mr. Stein, who you are also well known and well recognized in your capacity, and Mr. Shapiro, as a former staff person here, with regard to all of the issues that you raised, the subsidies that certain people need, the lack of either programmatic assistance or funding support, I would only suggest back to you that notwithstanding the very easy ability to talk about whether it's Comcast or Sunoco or Wal-Mart or any other mega company, I'm sure you're well aware that the overwhelming majority of companies in Philadelphia are small businesses, they are not these large mega businesses, and these tax proposals are not being done company-specific. They are not particularly for the benefit of any of the companies that you've mentioned or any others, but, most importantly, if we could create more jobs here in Philadelphia, if we could grow this economy, then many of the people that you are seriously concerned about -- and I know that you are -- would have better-paying jobs, with healthcare benefits and would not find themselves, many of them, in the positions that you're talking about in the first place.

So it really should not be an either/or situation. We're either going to create more jobs and have more Philadelphians working in those jobs at higher wages or we will continue to lose jobs and have people with lesser incomes. Those are basically the choices.

There is not one shred of

evidence anywhere, even from the people who work for the Administration, who testified last spring, there is not ounce of evidence that the tax cuts that we've enacted over the past ten years have led to reductions in revenues. And, unfortunately, there continues to be the propagation of the fiction that cutting tax rates leads to less revenues and a reduction in services. We know that's not true. Everyone knows it's not true. And you can continue to talk about it as long as you want. That's the beauty of America, but it's just not true.

Thank you.

MR. HAVER: If I may, Councilman, one of the things that I would then ask is that for your bills to include a provision that if the new jobs are not created, that we stop going down that direction. If it is true and it is proven, then there should be no objection to that.

COUNCILMAN NUTTER: Well,

that's the job of City Council. That's what we do. That's what we get paid for, and we evaluate that on a year-by-year basis.

MR. HAVER: Why not just include it in the legislation, though?

COUNCILMAN NUTTER: Include what? Who are we going to make the demand of?

MR. HAVER: The people who are advocating the cuts in the business privilege taxes are saying it will create jobs. How many jobs do they project it will create, and if those jobs are not created --

COUNCILMAN NUTTER: I don't know that anyone has come to the table and said, If you cut my business privilege tax, I will create jobs. This is a tax that affects every business in the City. Do you plan to go out and ask the neighborhood cleaner that if they don't create the additional jobs, that they should give it back?

I mean, look, I'm going to be as respectful as the argument warrants. That makes absolutely no sense whatsoever. It's across the board. It's an economy situation, local, regional and global in nature. And so to put a provision in a piece of legislation that says if X amount of jobs aren't created over a certain period of time, what? We should take the rates back to where they were?

MR. HAVER: We should stop cutting them, yes. If the program you've put in place is not working, why continue to use it?

COUNCILMAN NUTTER: I think the recent evidence indicates that actually in the past few years incrementally there has been some small job growth here in Philadelphia. Now, whether it's attributable to the tax reductions or not, there's one fact we know, it is indisputable, that over the last 40 years, Philadelphia has lost more people and more jobs than any other major city in the United States of America, and the number one issue that is cited for that is the onerous tax structure here in Philadelphia. We have the highest local tax burden of any major city in the country.

So if you want to keep doing what we've been doing, that's fine. Get a job over here, sit in one of these chairs and you can make that decision, but I'm not doing that.

MR. HAVER: I understand if you're looking for an answer. All I'm asking for, again, is that the bill includes a provision that if it's not working, we stop doing it.

COUNCILMAN NUTTER: That's called an action of City Council. We don't need that in a bill. We're going to be responsible, but I appreciate your testimony.

MR. HAVER: Thank you.

MR. STEIN: Councilman, if I

can just add, I understand your point about your desire to have a tax cut that then grows jobs and I think you mentioned health insurance that we provide its employer. When you give this money away to Wal-Mart, that's going to have no effect --

COUNCILMAN NUTTER: I haven't given any money to Wal-Mart. What are you talking about?

MR. STEIN: I'm saying when you have a business tax cut that doesn't distinguish the mom-and-pop stores, the start-up business from Wal-Mart or Sunoco --

COUNCILMAN NUTTER: Mr. Stein, you're a recognized attorney. There's a little provision I believe in -- I think it might be in the state Constitution. It's called a uniformity clause.

MR. STEIN: I'm familiar with it.

COUNCILMAN NUTTER: So maybe along with Mr. Haver's provision, that if we don't create the jobs, we'll take the tax cuts back, we'll have a separate provision that says "and Wal-Mart gets nothing."

MR. STEIN: No, no, no. I'm not --

COUNCILMAN NUTTER: We'll add that subsection to the bill.

MR. SHAPIRO: I'm not going to offer testimony, but I would want the comment --

COUNCIL PRESIDENT VERNA: Please identify yourself for the record.

MR. SHAPIRO: Stanley Shapiro.

I do want to comment that there are provisions in the business privilege tax statute and in the business privilege tax ordinance that distinguish between various kinds of companies. Now, granted, it does not now distinguish between various kinds of companies based on their size or based on their revenue. The fact is that the uniformity clause has not been construed to bar all kinds of distinctions legislatively, and this Council might just -- it has done so in the past -- pass legislation, make it contingent upon an appropriate ruling in the event of a challenge. But that should not stop Council from making the distinctions that it believes are appropriate and should not require that Council in fact allow those companies which have no need for additional revenue to get that revenue because of a legal conclusion that's uncertain.

MR. STEIN: I guess --

COUNCILMAN NUTTER: I appreciate your comments. I have no idea what you just said, but I know that you are sincere in your proposal.

MR. STEIN: Councilman, I think some of these distinctions could be reasonably made, and I think most people in this Chamber can distinguish the needs of a Comcast, Sunoco, Wal-Mart from the small businesses or start-ups, and I think you can ask your staff to try to craft those distinctions that would be legal and upheld in the courts.

COUNCILMAN NUTTER: Okay.

MR. STEIN: I mean, you mentioned health insurance. I just have to just follow up on that and then let other questions. But I'm thinking of a Wal-Mart who would eventually pay no business taxes, when I think that will not have any effect on their providing health insurance to their employees or adequate health insurance and I think of what that sum of money would be, and you can probably over time find that out. And using that money for the City Health Department to bolster their services to uninsured people who are working-class people who don't have good health insurance, to my mind, might be a better way to use the money.

COUNCILMAN NUTTER: Maybe we should have used some of the money that we forgave for some of the recent festivities in the summer, with the Live8

Concert. Maybe we should have done that. Maybe you should have challenged any number of spending priorities over the last few years and ask them to be redirected to the Health Department. I don't remember that discussion here. I don't remember anybody coming to the table to question the hundreds of millions of dollars that have been spent on any number of things, good, bad or indifferent, but here we are now trying to help small, medium and large businesses in Philadelphia, to promote and grow an economy so that people can work in better-paying jobs with dignity, and now we're having -- and our entire tax policy should be a function of what happens with a mega corporation that is the largest retailer in the United States of America and what they're doing? I think you're possibly just in the wrong forum.

MR. STEIN: Councilman, if they are going to benefit as we can concede, and it's not only one corporation, there are many --

COUNCILMAN NUTTER: And a flower shop and a cleaners and a grocery store and a whole host of other folks who are going to benefit. I appreciate your view --

MR. STEIN: Councilman, can't we distinguish --

COUNCILMAN NUTTER: No, not tonight. We're not distinguishing tonight. I would love to have that discussion with you some other day. We're not distinguishing tonight.

MR. STEIN: I respect your views today, but I would respectfully also say --

COUNCILMAN NUTTER: I hope you'll respect me in the morning.

MR. STEIN: Maybe tomorrow's discussion should try to distinguish the Sunocos and Comcasts from the tailor store.

COUNCILMAN NUTTER: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you, Madam President.

I want to thank these gentlemen for bringing this testimony to us. I think that when we talk about taxes, we should talk about all aspects thereof, who's taxed, who isn't and what our purposes are. It seems to me that when we talk about taxes, part of the reason we have this discussion is certainly to create more employment opportunities because we have new businesses and more businesses and all of that.

I don't find this discussion out of order. I think it is to the point when we talk about who gets taxed and why and who it affects. I think that's why we're here, and that those are some of the issues that we as a body should consider as we deliberate these issues.

So I think it's important. I want to thank them for putting it on the table, and certainly consider all issues they raise absolutely pertinent to this discussion.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Good evening, gentlemen.

You're now aware that a number of tax proposals have been put before this body to look at, and, of course, the challenge, as I indicated in my comments to the leadership of the Chamber, is to find a balanced place in the debate but ultimately in the action that we take, and now I will put you on the spot. If we end up at a place where we have what we have, one bill that seeks lock-in and another that suggests or actually it states pay as you go on a year-by-year basis, which means that allows us to take a look at, do a gut check, if you will, and look and see where our current economic climate is and then based on where we are, take further action, imagine a circumstance where we have BPT bills before us. Pick one.

MR. SHAPIRO: Let me just say that One Philadelphia has not been able to examine the separate bills, but, clearly, under that scenario, the bill which is limited to a cut in just one particular year is far better than a bill which would mandate cuts over a period of time, without examining spending obligations side by side. So there's no question that a bill that does not mandate a continuation of cuts is preferable.

I would also say, though, that any of these bills would best be considered in budget season, because we're looking only at one side of the ledger. People have talked about it and there's no need to go into great detail again, but there are tremendous obligations what the City has. There are growing obligations because of increasing problems that the City has. The fact that some day down the road maybe hopefully we will get jobs out of continuous tax cutting is not going to keep people warm this winter. It's not going to keep them in their homes if their real estate tax bills go out of sight. It's not going to get them healthcare if the state and federal governments completely decimate funding to the City and state.

We now have legislation in Harrisburg which would cap state funding at a very low rate, which might cost the City millions and millions of dollars. It's being deliberated in Harrisburg right now. There will be a vote on one of those bills on Monday in Harrisburg. We don't know what's going to happen. It could cost the City millions of dollars. It would be prudent, it seems to me, that we consider tax cutting at a time when we also know what our obligations are and when Council's legislating on obligations, and that happens in the spring.

But to answer your question, a one-year tax cut is certainly far better than one which cuts taxes for many years at a time, without review.

MR. HAVER: If I may, I would certainly recommend a targeted tax cut. If we are trying to help the start-ups and small businesses, we should structure the tax cuts to help them and them alone.

COUNCILWOMAN BROWN: What did you define them as? Targeted tax cuts?

MR. HAVER: Targeted tax cuts. We can, again, give a three-year tax abatement to start-up businesses, learn from what we did with the real estate industry and help at least jump start that industry. We could do the same thing with start-ups by giving them a three-year or five-year tax abatement to come into the City, start up. We could protect small businesses by having a homestead exemption for the first hundred thousand dollars.

We can be creative and we can help the people we want to help. I don't think there's any argument from anyone that I know that doesn't say the business privilege tax has to be redesigned. It's an old tax. It should be looked at, but it doesn't mean it should be eliminated. It just means, in my opinion, that we ought to use it for the best way possible, to help the start-ups, to help the small businesses and to make sure the City has the revenues it needs to take care of our citizens.

COUNCILWOMAN BROWN: Well, I'll finish where I started, and, that is, the challenge before us as a legislative body, in my view -- and I'm one of 16 -- is to come up with a balanced scenario where we indeed do what you suggest, protect or cushion City services, because we really don't know what's going to happen 24 months from now, let alone five years, and yet be responsible in acknowledging that we can do better with this small business community because of the substantial existing surplus.

Thank you for your testimony.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam Chair.

I was really debating whether I want to get into this debate or not. I just can't keep quiet, I guess. I've learned that from colleague, who is standing up right now. Thank you.

COUNCILMAN NUTTER: Thank you.

COUNCILMAN DICICCO: I think Councilman Kenney did -- I'm getting an e-mail from my legislative assistant. I think we did some legislation that gave start-up tech firms a five-year some sort of a tax break or something, if I recall correctly. Start-up tech companies, didn't we do that?

MR. HAVER: That's correct.

COUNCILMAN DICICCO: I think at the end of those five years, some of them left, with all your good intentions.

COUNCILMAN KENNEY: That was before the bubble burst.

COUNCILMAN DICICCO: Before the bubble burst.

But I keep hearing all of these comments about Sunoco and Comcast and Wal-Mart. People have choices where to work. I don't shop Wal-Mart. I've been in there a few times, I will admit, in the past, but I do everything I can to avoid that place. But that's a choice I make. And people who work there have similar choices, and maybe their only choice is to go work for a place like Wal-Mart, which does not treat its customers fairly, has little or no health insurance, because there are no other jobs for them to go to. So we already know that. We already know that there's a shortage of jobs in Philadelphia.

I think it's worth the risk, if you want to use that term, to move forward with tax relief for everyone, because I don't think under uniformity -- and I won't debate Mr. Shapiro, because I'm certainly not an attorney, but I think uniformity would prevent us from doing some of the things that have been suggested. That's what I think.

And if I'm correct, we need to at least give this a shot, because we know where we are today. We know what we have lost for the last three decades or so in terms of jobs, and it really only leaves the Wal-Marts of the world for those folks who have limited education, if you will -- and I don't mean that to be disrespectful -- to find those kinds of jobs when those kinds of jobs -- I remember when I was growing up, we had tailor shops, we had printing firms, we had -- I'm moving into a building that was once a warehouse for a publishing company, and the name escapes me right now, Curtis Publishing, and all along Washington Avenue were factories, National Liquorice Factory, Maggio Dairy Factory, whatever. Those were jobs where people who had a limited education could go to work. They are all gone, for lots of reasons, including the cost of doing business in Philadelphia.

And it's not just Washington. It's all -- Stetson Hat. We can go on for an hour. And what was left are the service industry jobs. Some of those jobs are decent, and other jobs like Wal-Mart aren't really that good, but they're a job. No less, they're a job.

So I think even if the Sunocos and the Comcasts get that break in paying what some refer to as no tax -- and that's not accurate because there's still that onerous and abusive use and occupancy tax that's out there -- they are paying taxes. We're just looking to cut a certain tax or eliminate a certain tax, because historically the data has proven to us that that is one of the main reasons, as Councilman Nutter had said earlier, if not the main reason, why we've lost businesses.

And we can debate on who is the better employer, who is the worst employer. That doesn't get us, at the end of the day, where we need to be. And I think it's time to at least take that step. The same way this Council -- and I said this to Councilman Nutter earlier, because it was my bill. It's not why I'm saying it. The same way this Council debated in 1996 through '97 whether we should give wealthy developers a ten-year exemption for improvements to existing vacant buildings, to provide rental living apartment arrangements so to encourage people to move into the City, which we all hoped would repopulate neighborhoods, which would cause an effect to have the need for greater services at the ground level, more restaurants, more dry cleaners, more shoe repair shops, et cetera, or more delis that employ Philadelphians. It worked.

There was a Doom's Day theory. My colleague that passed away, Councilman Cohen, said, It's welfare for the rich, Frank. We then went in 2000 and did the flat ten-year abatement for new residential construction and to wind up eventually offering the same ten-year tax abatement for commercial, industrial. Everybody who built something new gets the ten-year abatement.

It's worked. And, again, there were those in Council who said, it's welfare for the rich. In my opinion, rich people will continue to become richer. That's the way it is in this country. But if people at the bottom or people at the lower end of the economic ladder and people in the lesser socio and economic communities have an opportunity to get employment as a result of those tax breaks to the wealthy, it's worth it, in my opinion.

MR. HAVER: I don't --

COUNCILMAN DICICCO: We have to give it a shot.

MR. HAVER: I'm not disagreeing. What I'm suggesting is that we put in the bill how many jobs we hope will be created, and if we don't reach that goal --

COUNCILMAN DICICCO: But we do that in some instance where PIDC may be involved in existing companies that want expansion. There are criteria that are placed in there. We do have some similar mechanism.

And I'm not totally disagreeing with what you're saying, but we've been dealing with this issue for such a long time and every time we get close, another idea comes up. I say let's do this, let's see how it works out, and in the meantime, maybe we can come up with some of those creative ideas, amend this bill, create new bills, but we got to start, because even with all the great things that happened in the last decade, we're still losing jobs. We got to start somewhere.

MR. STEIN: Councilman, I think we may need a little reality check of what does create jobs or expand jobs. If you look at a Sunoco, is cutting the business tax or ending the business tax over time, is that going to be a factor in whether they add or delete --

COUNCILMAN DICICCO: I'll give you a reality check. In Port Richmond, the neighborhood I represent, one of the neighborhoods I represent, there's the Port Richmond Economic Opportunity Zone. It's a conglomerate of several different businesses, many of whom were going to leave seven, eight years ago.

MR. STEIN: Did I mention Sunoco?

COUNCILMAN DICICCO: Let me finish. But there's more than just Sunoco.

MR. STEIN: And Wal-Mart.

COUNCILMAN DICICCO: You guys want to go after big business. That's your motive. Have a good day and do it. These are businesses in Port Richmond that cumulatively employ over 2,000 people at good-paying jobs with good benefits, but one of the reasons they're still there is because we created a -- it was almost like a KOZ. It wasn't a business. A business improvement district that we infused some government money in. So we took taxpayers' dollars and gave it to wealthy business people, who benefit by it, but so does the community, the citizens of the --

MR. STEIN: You've made out the case for targeted help right there, and what we're talking about is targeting help and not doing blunderbuss help. And if we can't distinguish the Sunocos, Comcasts, Wal-Marts, et cetera, and there are others, from those businesses and others, then perhaps we're not doing our jobs to make distinctions that are relevant.

COUNCILMAN DICICCO: And maybe going forward we can figure that out, but we got to start somewhere. That's all I'm saying.

MR. HAVER: All we're here to do today is ask you to start thinking about that.

COUNCILMAN DICICCO: We're thinking, and I'm suggest we're going to continue to think about it.

COUNCIL PRESIDENT VERNA: Gentlemen, I think this little debate has to come to a close, because there are a number of Councilmembers that would like to be recognized.

So at this time, I would recognize Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you. My comments will be very brief.

I mean, we all have our businesses we don't like. I don't like the porno stores and the dance halls, but they're going to get the tax breaks too because they employ people.

The concern I have is that this bill covers the small businesses. And in my neighborhood where we're trying to bring in small businesses and generate neighborhood economic development, the greatest complaint we get is that we have to pay that dag-gone business privilege tax, I can't expand. Some businesses have to pay more to get -- the cost of purchasing is more because they're small. They don't have the advantage of buying large wholesale. That gives them the money to invest in their business.

I have Paul Biel, who has been up on Ogontz Avenue, and we talked about him last year when we were trying to pass this bill. He could be here testifying if he had an employee that could take his place. He's in that store every day.

So this is important to him, to me and the small businesses. And if we have these small businesses come in and we generate jobs, then we can cut the number of PGW households who can't pay their gas bills, because people need jobs. They need jobs in the City, not to have to go out to the suburbs to get employment.

So I agree with Councilman DiCicco, we have to start at some point. And it is the major complaint that I get particularly in my neighborhood when we talk about -- and I'm not talking to Wal-Mart and I'm not talking to Comcast. I'm talking to Paul Biel. I'm talking about the guys who run the art and the war. I'm talking about the business woman who runs the county service on the strip. I'm talking to those people who have maybe one or two employees who would like to expand but because of this tax, they can't.

So thank you.

MR. SHAPIRO: If I could just comment briefly --

COUNCILWOMAN TASCO: And one thing about this, as Councilman Nutter said, we're a legislative body. We legislate all the time. If something is not working, you can change the rules.

COUNCIL PRESIDENT VERNA: Exactly.

COUNCILWOMAN TASCO: You can just change the rules. You're not locked into something forever, but it's better for the businesses to have some predictability that they're going to have a break, they can plan. They don't do business on a yearly basis. They have strategic planning. They plan years out. Well, next year we might have the tax cut. Oh, no. Maybe we will or maybe we won't. You can't ask businesses to negotiate and operate in that venue.

MR. SHAPIRO: I think at the federal level, we had a situation where there were across-the-board tax cuts that were given that provided small benefits to small people with low incomes, but gave the vast majority of their tax breaks to high-income individuals, thus kind of starving the federal budget. Now, I'm not saying that that is happening in this case, but I don't think that we have the information that we need in this context to know that it actually is sound, either morally or fiscally, to give large tax cuts to large enterprises at the same time as our small enterprises.

COUNCILWOMAN TASCO: That's the way the world works.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President.

I actually have no questions for the witnesses. I have one request. But, first, I wish to ask if Councilman

Kenney will submit himself to interrogation.

COUNCILMAN KENNEY: For you? Absolutely.

COUNCILMAN NUTTER: Madam President.

COUNCIL PRESIDENT VERNA: Yes, Councilman.

COUNCILMAN NUTTER: Fire away.

COUNCIL PRESIDENT VERNA: Madam President, I would like to know if Councilman Kenney is now or has ever been a customer of Wal-Mart.

COUNCILMAN KENNEY: I don't think I've ever been in there, to tell you the truth. I've never been in there. I have no stock in it either.

COUNCILMAN NUTTER: Very good.

Madam President, in a more serious vein, Madam President, I would like to ask, as you accommodated us at the beginning of the hearing, and I know that there are still other witnesses who wish to testify, I'm just wondering if it is at all possible that we might be able to move into a public meeting on at least one of these bills or any of them.

COUNCIL PRESIDENT VERNA: You still have a question?

I think Councilman Kenney's light was on. He wanted to be recognized.

COUNCILMAN KENNEY: First of all, I don't think we're going to win this argument, because there's a philosophical position that these gentlemen have and have a right to hold that we're never going to break through. There seems to be this hatred of large companies, which is fine. I mean, people have a right to dislike anybody they want. But when it comes to companies like Sunoco, I just want to read just a couple numbers of what they bring to this region and to the City. First of all, there's 4,000 employees in the region. There's 1,600 employees in the City of Philadelphia alone. Their estimated business privilege tax payments this year will be between $8 and $10 million and their wage tax payments through September are 1.5 million for City residents they employ and 5.8 million for non-City residents they employ.

There's 37 gas stations, Sunoco gas stations, in the City. A good percentage of them are franchises. They're small businesses. They're going to be affected by this. And if you factor in the Welcome America participation, all the other charitable stuff they do, I'm glad they're here. I'm glad Comcast is here, because I'm sure their numbers are similar there. And although you may have some difficulties with Wal-Mart on their philosophy of retailing and the way they deal with their employees, I'm sure they have a major contribution that they make to the City in the way of taxes.

Of at least two of the three companies, I'm happy they're here. I think Comcast gets vilified, Sunoco gets vilified for what? Because they're successful? Because they decided to stay in Philadelphia? And that the savings that they will make as a result of some of this tax stuff will be plowed back into infrastructure, will be plowed back into R&D and will be plowed back into new jobs. What is wrong with being a successful company?

MR. STEIN: Councilman, no one criticized what they're paying. We're saying they don't need a $10 million gift from the City and eliminating their business taxes.

COUNCILMAN KENNEY: Despite the fact that they can use that money to secure themselves even more? Do you think Comcast has to be here? Do you think that Comcast needs to be in the City of Philadelphia? It can sell us cable and Broadband from Brazil if they want. They don't have to be in the City of Philadelphia, especially in that business.

Sunoco has more of an infrastructure investment, harder to move, but it's not impossible to move.

So why would I not want to keep Comcast here?

MR. STEIN: Well, you're making a leap to say that if you don't end the business privilege tax, you're going to lose Comcast.

COUNCILMAN KENNEY: All I'm saying --

MR. STEIN: There's no evidence of that. There's no evidence of Sunoco leaving if they don't get their $10 million back.

COUNCILMAN KENNEY: Big successful cities have big successful businesses and big successful buildings that they occupy, and that's what I want to make this City. You go to Chicago. Why does Chicago work? Chicago works because it's got a business community that's unbelievable. Why does New York work? What do we want to do? Are we better off not having these companies and farming instead? What are we supposed to do?

MR. STEIN: Well, Wal-Mart has decided to come into the City despite the business privilege tax.

MR. HAVER: Councilman --

COUNCILMAN KENNEY: You're not going to --

MR. HAVER: We don't want to prolong the discussion. I'll just point out, in your own words, New York City has a higher tax burden and it's a successful city, your own words.

COUNCILMAN KENNEY: What?

COUNCIL PRESIDENT VERNA: By reducing their tax.

MR. HAVER: But they have a higher tax burden than we do.

COUNCILMAN KENNEY: New York --

MR. HAVER: I'm just saying --

COUNCILMAN KENNEY: Everybody goes to New York no matter what it costs.

MR. HAVER: Absolutely true.

COUNCILMAN KENNEY: But there are other successful cities in this country that are cleaning our clock, and worse yet, we're losing people to the immediate suburbs and businesses and jobs to the immediate suburbs, because supply side on the local level works, whether you agree with it or not.

MR. SHAPIRO: Before I came here, I read an article in the National Geographic Magazine, which I'm sure everybody is familiar with, which said that this is the next great city in the United States.

COUNCILMAN KENNEY: If we reduce taxes.

MR. SHAPIRO: It did not say only if we cut the business privilege tax. It talked about a thriving city. I don't think this is a bad city.

COUNCILMAN KENNEY: We're not going to convince each other. I don't want to sit here and have large corporate citizens who contribute much to the City vilified like they're some kind of bad guys. I mean, Sunoco and Comcast are good companies in the City, and I'm glad they're here, and if we help them stay here, I want to do it.

MR. STEIN: Councilman, just to clarify, we're not vilifying them. I'm saying let's not give them a free gift of taxes back to them.

COUNCILMAN KENNEY: It's not free. They pay a lot of taxes and employ a lot of people who pay a lot of taxes.

MR. STEIN: I don't think they should get $10 million if they're not making any commitment to us that they're going to put that into new jobs in the City.

COUNCILMAN KENNEY: They're here.

Never mind. I just want on the record --

COUNCIL PRESIDENT VERNA: Councilman Kenney, I think you're on record at this time.

I recognize Councilman Kelly.

COUNCILMAN KELLY: Yes. Thank you, Madam Chair.

I don't think these gentlemen want to hear any comments from me. I'm just going to say, I am a republican and leave it go at that.

So I'll just leave you off the hook.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Councilman Nutter, do you have any other further questions of these witnesses?

COUNCILMAN NUTTER: No further questions, Madam President. I want to go back to the earlier request.

COUNCIL PRESIDENT VERNA: Any other members have questions or comments of the witnesses?

(No response.)

COUNCIL PRESIDENT VERNA:

Gentlemen, thank you very much.

MR. HAVER: Thank you.

COUNCIL PRESIDENT VERNA: Councilman Nutter.

COUNCILMAN NUTTER: Madam Chair, again, I want to be respectful with regard to any other witnesses who have been here for a long period of time. I know a number of them have testimony, which I'm sure you would take into the record. Some may need to get to the table for their own reasons, at least just for identification purposes, but I did want to ask if we might be able to move into the public meeting, take whatever action might be possible on any of the bills and, if necessary, of course, go back into the public hearing, but at least then there would be an action by the members given the hour.

COUNCIL PRESIDENT VERNA: I don't know how members feel about this request.

COUNCILMAN KENNEY: I would

agree to that.

COUNCIL PRESIDENT VERNA: At the request of Councilman Nutter, we will recess the public hearing and go into our public meeting, and at this time, the Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Madam President, I move that Bill 050669 as amended be reported out of this Committee with a favorable recommendation and a further recommendation that the rules of Council be suspended so as to permit first reading at our next session.

(Duly seconded.)

COUNCIL PRESIDENT VERNA: It has been moved and properly seconded that Bill No. 050669 be reported out of Committee with a favorable recommendation as amended. Also, that the rules of Council be suspended so as to permit first reading at our next session of Council.

All in favor will indicate by saying aye.

(Aye.)

COUNCIL PRESIDENT VERNA: Those opposed?

COUNCILWOMAN BROWN: No.

COUNCIL PRESIDENT VERNA: There's one negative vote, and that is from Councilwoman Brown. All other members have voted in the affirmative.

Councilwoman Brown, what is your position on your three bills?

COUNCILWOMAN BROWN: I'm holding my bills, Madam President.

COUNCIL PRESIDENT VERNA: And I believe that Councilman Goode also indicated that he would be holding his bills.

COUNCILWOMAN BLACKWELL: Madam President, I associate myself with Councilwoman Brown's vote.

COUNCIL PRESIDENT VERNA: All right. So the record would reflect that there were no no's and seven yes's.

We will now go back into our public hearing. We will reconvene our public hearing, and I would ask Mr. McPherson to please call upon the next witnesses to testify.

MR. McPHERSON: The next panel is Alan Feldman, Philadelphia Bar Association; Mark Merlini, President, Building Owners and Managers Association; and Brett Mandel, Director of Philadelphia Forward.

COUNCIL PRESIDENT VERNA: And while you're getting yourself together, I would ask Mr. McPherson to please read a letter that I received from Charlie Pizzi, Tastykake.

MR. McPHERSON: "Dear President Verna, as a Philadelphia business person and employer, I am writing to share with you my support for legislation that would greatly reduce both sides of the business privilege tax and, eventually, phase it out.

"I have long contended that this tax drives businesses away from the City and greatly diminishes our chances when competing for business with surrounding counties who do not impose such an onerous tax. The City has lost 250,000 jobs since 1970, and it is time we became more competitive and won some of those jobs back.

"I am aware that there are several bills being considered and wish to express the urgency that Council approve a long-term schedule of guaranteed reductions.

"Thank you for your support on this urgent matter for the business community. Sincerely, Charlie Pizzi," with a copy to all members of City Council.

COUNCIL PRESIDENT VERNA: Thank you.

Gentlemen, thank you for your patience, and at this time, I would recognize Mr. Alan Feldman.

MR. FELDMAN: Thank you, Madam President. My name is Alan Feldman, and I am the Chancellor-Elect of the

Philadelphia Bar Association. I will serve as Chancellor of the Association in 2006, and it's an honor for me to appear here today before you.

First, I do want to thank Council for the opportunity to testify on tax reform. My testimony has been distributed, and because of the late hour and because many points have been made already, I will significantly truncate my remarks, but I do want to focus on a few issues that are of concern to Philadelphia's legal community.

I am glad to hear from the discussion today that we seem to have turned a corner and the discussion is no longer about whether or not we should reduce or eliminate the business privilege tax, but how we can go about that. I think that's a wonderful accomplishment, and on behalf of the 13,000 members of my association, I want to thank Council for arriving at this new consensus to reduce or eliminate the business privilege tax.

The issue of the business privilege tax is an issue that has gone back for many years. My three predecessors over the past three years have testified before this Council regarding the business privilege tax and the onerous impact it has had on the growth and development of law firms in Philadelphia, and I'm here to add my voice today and to reiterate that the Philadelphia Bar Association supports the recommendation of the Tax Reform Commission, and we certainly and emphatically support scheduled reductions and the eventual elimination of the business privilege tax.

Studies have time and again shown that the City's tax structure is one of the principal reasons why businesses do not locate in Philadelphia, do not expand here or never locate here at all. These studies confirm our own experience as lawyers, as well as those of our clients. In dealing with business clients in this region, lawyers have repeatedly heard businesses express their concerns with the City's tax structure. We understand those concerns, and regrettably the current tax structure actually encourages lawyers to follow their clients out of the City.

Over the past 15 years, our surveys show that Philadelphia law firms have been opening satellite offices in surrounding counties at an accelerating rate. Yes, the area's major law firms, including many national and regional powerhouses, have continued to maintain their headquarter offices in the City. They are still here because they really want to try to stay here, because they, like all of us, have a commitment to the City that we all love. But how much longer can this go on?

The time has come to signal to the Philadelphia legal community through tax policy that we want these firms to make a long-term commitment to our City, to grow their practices in our City and that this Council and this Administration values the contribution of the Philadelphia legal community.

For too long, City businesses have paid what is or is near to the nation's highest local tax business rate. We must reverse this trend. We also ask the City to address the inequality that is inherent in the business privilege tax and correct the overtaxation of professional firms that are organized as partnerships. Specifically, the City taxes partner income at a higher rate than compensation paid to employee owners of businesses operated as corporations. This discrimination against partnerships and the extremely high rate of tax is, we believe, a major factor in the large shift of service sector jobs from the City to the suburbs.

I know this firsthand because I have a law firm in the City. I am the

Managing Partner of that law firm. It is not a large firm. We have 14 lawyers. We have about 35 employees. We are located in Center City. We desperately want to grow right here in this City that we were born in, but we need to remove for my firm and for all others the road blocks to the kind of dynamic birth that we believe tax reform can and will produce.

The top 22 Philadelphia law firms employ at least 8,500 people in the City of Philadelphia at good-paying jobs with terrific benefits. They pay nearly $44 million annually to the City in taxes, including net profits, wage, business privilege, use and occupancy and real property taxes. These same firms pay nearly $70 million annually to lease 14 percent of all office space in Center City. But most of the law firms in the City are not big firms. Most of them are like mine. They're small and medium-sized firms. And when we add in those small firms, the figures that I've just described to you about the number of people employed and taxes raised are actually much higher.

The Philadelphia Bar Association is currently in the process of conducting a much broader economic study of law firms so that we can demonstrate more accurately what we know is the fact, that a large majority of our lawyers who are operating small businesses also made very substantial contributions to Philadelphia's tax base.

The City's tax structure greatly impacts on these small and medium-sized firms, as it does in larger firms, and those small firms are just as much in need of tax relief to grow their practices and help them fuel the overall growth of the City.

Taxes affect everyone, small businesses, large businesses, families, laborers and professionals. It makes no sense to pit one group, one class or one segment against another. A lower business privilege tax, coupled with the robust economic growth we are convinced it will produce, will help all of us. It will give true meaning to Philadelphia's proud new title, which National Geographic Traveler Magazine recently bestowed on us, American's Next Great City, and I believe the title that USA Today gave us in last Friday's edition, the United States' Hippest City.

On behalf of the Bar Association, Madam President, I want to thank you and tell you that the Bar Association welcomes the opportunity to work with Council and the Mayor to provide necessary tax relief for the legal community and the larger business community of our great City.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much, Mr. Feldman, and I certainly appreciate your patience. I know that you've been here for quite some time. Thank you very much.

Our next speaker?

MR. MERLINI: Good evening, President Verna and members of City Council. My name is Mark Merlini. I'm a Partner and Vice-President with Brickstone Realty. Our company has developed nearly 4 million square feet of office and retail space on East Market Street, including the Wanamaker Building, Lit Brothers, 1234 Market Street and City Hall Annex as the 500-room Marriott Courtyard. I am here today as the President of the Building Owners and Managers Association of Philadelphia, commonly referred to as BOMA, in support of the reduction of the business privilege tax.

BOMA member buildings provide 51 million square feet of office space for over half a million office workers. The assessed real valuation represented by BOMA's member buildings exceeds 1.6 billion, providing real estate tax revenues to the City of approximately 133 million annually. In addition, BOMA member buildings and occupants pay revenues to the City for city wage, business privilege and use and occupancy tax, as well as Center City District Assessment, totally $1.16 billion annually. Total tax revenues received by the City from BOMA member buildings and their tenants exceed 1.3 billion each year. Our industry as a whole represents 70 percent of the tax base in the City of Philadelphia.

As a representative of those who work daily to attract and retain Philadelphia businesses, I can tell you that our efforts are hindered severely by the current tax structure. Other cities and even suburbs, unburdened by such taxes, are more able to offer more attractive possibilities to new companies looking for a home. In addition, they're able to lure away many existing companies who find themselves overburdened and underappreciated.

The most detrimental of these taxes is the business privilege tax. With the level of competition that currently exists to attract employers and jobs, we must change our perception of privilege. It is no longer a company that is privileged to do business here, but we that are privileged to have them. Companies bring jobs and tax revenues, without which Philadelphia cannot continue to grow and prosper. To tax them incrementally for doing so is self-destructive.

We want to thank Councilman Nutter and Councilwoman Reynolds Brown and their sponsors for recognizing the need for a shift in perception and a change in taxation. Both of the bills they have presented are positive steps toward our goal of incrementally eliminating the business privilege tax by 2015 and toward a better, more prosperous future for the City of Philadelphia. The deep cuts offered by Councilwoman Reynolds Brown will attract many potential businesses, while the Five-Year Plan presented by Councilman Nutter will provide companies with the confidence to plan for a future here.

Companies do not make long-term strategic decisions based on one-year tax policy. Decisions are based on the overall long-term impact on an organization. The success of Keystone Opportunity Zones is a testament to this fact. A ten-year preferred tax abatement not only resulted in existing Central Business District tenants recommitting to the City, but was instrumental in attracting new businesses to the City.

We do not advocate targeted incentives, but broad based reform which fosters an even greater economic growth. Doing so will benefit your existing constituents by providing new jobs and greater economic opportunities. A larger employee base will increase tax revenues through wage taxes, and higher real estate tax revenue should result from increased property values due to higher occupancy in our buildings.

Thanks to the excellent management by City Council and the resulting flexibility in the budget, now is the time to institute these changes to the tax code. Philadelphia cannot delay in its pursuit of more business, more jobs and more revenue. Without decisive action, we risk getting left behind as other cities and suburbs attract the companies and industries of the future. The prosperity of our City depends on your ability to institute meaningful tax reforms today.

Thank you.

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

Brett.

MR. MANDEL: Good afternoon, Madam President. My name is Brett Mandel. I'm the Executive Director of

Philadelphia Forward. I'm joined by Tom Forkin, who is a Board member of Philadelphia Forward, former fellow member of the City's Tax Reform Commission. I previously had been joined by more than 100 fellow Philadelphians, employers and others here cheering your efforts on.

I will promise to be brief, no matter how long it takes. The Mayor is right, that line always works.

I will submit truncated comments.

We could not be happier that this debate on this topic has evolved from questions about whether it makes sense to reform our taxes, to questions about whether we can afford to do it, to questions about how we are going to make it happen. And similarly, we could not be more pleased to see so many Councilmembers offering true leadership here bringing different proposals to the fore.

We encourage City Council to combine the best features of each of these proposals into a consensus bill that can create a reliable and certain phase-out schedule for the job-killing business privilege tax so we can grow jobs in Philadelphia.

I'll address two points that have been made and then answer any questions that you might have. One is that we are questioning the idea of whether we should fix these cuts, whether we should lock them in. As everyone here knows, we budget now in five-year increments. We always lock in, at least in theory, what we think is going to happen over five years. But more to the point, I don't have to belabor the point that any year you can go in and legislate or you can make any changes, but I'd just like to remind this Council of how many things that you actually have locked in over the next five years, ten years, 30 years that truly cannot be undone. The

Stadium deal and any long-term lease, any long-term bond issue literally will be indebting my grandchildren that cannot be changed legislatively next year, the year after, any years going forward. On a shorter time schedule, any contracts that we do with our unionized workforce obviously is locked in for however many years. That cannot be changed by legislative action.

This Council, I trust. I believe in this Council's ability to make decisions down the road if it has any qualms about what's going on with taxes. And I was very encouraged by the idea put forward by Councilman O'Neill that you could vote for a rolling five-year schedule, where essentially every year you could just approve the last year of the fifth year. So you would always be budgeting within the five-year time framework that is allocated by our Five-Year Plan schedule that we produce every year, while providing that need and certainty for the business community that this tax will go away eventually, but we will every year look at the last year. Do we still think we can add one more year and one more year and one more year.

And as has been pointed out at the state level with the capital stock and franchise tax, it is not uncommon for a legislator to look and say, You know what, I don't think this year we can do it and so we can pause the schedule.

But I have faith in this Council that you will act correctly. I have faith in the Philadelphians who have been deluging your offices with calls and e-mails and faxes and letters over the past years. This is a job-killing tax. The Tax Reform Commission, the Mayor's 21st Century Review Forum, the Mayor's Economic Summit have all said it should go. We hope that we can get to a place with a consensus bill and everybody can get as much credit as they want and make it go away.

COUNCIL PRESIDENT VERNA: Thank you very much.

Are there any questions or comments from members of the Committee?

MR. FORKIN: Council President.

COUNCIL PRESIDENT VERNA: Mr. Forkin.

MR. FORKIN: Just for the record, I know the hour is late, so I'm just going to truncate my remarks to say that I think we all agree what we've heard today the consensus is that the elimination or the phase-out of the BPT is a good idea. Now it's just a pragmatic political issue of force trading, whether it's rolling schedule, fixed schedule, Councilwoman Reynolds Brown's idea of deeper cuts. I encourage this Council, please get together, do what you have to do pragmatically enact a bill that can form a consensus that sends a message to the small business owners like myself that I represent on the American Street Corridor that are not

Wal-Marts, by the way, that want a message that it's a good place to do business in Philadelphia and this Council is committed to that in whatever form or fashion it makes sense.

I'll end there because I know the hour is late. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Any questions or comments from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Gentlemen, again, I thank you very much.

Our next witness?

MR. McPHERSON: The next panel is Kevin Mazzucola, Auto Dealers Association; Bob Previdi, Director, Chestnut Hill Business Association; Michael Stalbaum, CEO, Unreal Marketing Solutions; David Lane, Leve Lane Advertising.

COUNCIL PRESIDENT VERNA: Good evening and welcome. Please identify yourself for the record.

MR. MAZZUCOLA: I'm Kevin Mazzucola. I'm the Executive Director of the Auto Dealers Association of Greater Philadelphia. I promise not to use the word "truncated." I didn't know what that meant until today. But I be brief. I guess that means the same thing.

But I represent the 29 automobile dealers, franchise, new car dealers in Philadelphia, and they are a bunch of small business people as well. They average about 55 employees, but they have large gross receipts, about $1.5 billion in gross receipts from the dealers. So it is a large amount of gross receipts.

I'm trying to brief. The big thing is that we want the two components. We talk about the business privilege tax and the gross receipts coming down, but also the net income component is very, very important to us. A tax burden of 6.5 percent is extremely detrimental to maintaining a business in Philadelphia.

So to be brief, I think the gentleman earlier said it very good, pragmatic, let's get together, let's get a bill that can go forward and hopefully be passed and to the Mayor and get it done, and it's very important to our small businesses.

With that, I'll let you go.

COUNCIL PRESIDENT VERNA: Thank you very much.

Any questions or comments of this witness?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you, and thank you so much for waiting.

MR. MAZZUCOLA: You bet.

COUNCIL PRESIDENT VERNA: You've been very patient.

Bob Previdi, I knew you couldn't stay away. Please identify yourself for the record and proceed.

MR. PREVIDI: Thank you, Madam

President. I'm Bob Previdi. I'm the Executive Director of the Chestnut Hill Business Association, as well as the Executive Director of the Business Improvement District. Thank you for this opportunity to speak. It's nice to see you again.

COUNCIL PRESIDENT VERNA: Thank you.

MR. PREVIDI: I represent over 200 merchants, 50 property owners and 200 professional businesses in the Chestnut Hill community. Many of them are small business owners who are suffering from the impact of this tax. The City offers tax-free zones, tax abatements in census, as well as the state, for a lot of areas of the City, but for small businesses, and there are a lot of them in Chestnut Hill, it is a big burden.

I think it's very important for the City Council to come to an agreement on this, on both ends of the business privilege tax, to reduce it. Council has to find a middle ground, stay the course and show a commitment of five years.

You need to have faith in Philadelphia that this place is going to grow. I'm a New Yorker that moved down here, and when my accountant told us about when we were thinking about places to live, two things come to mind. One is that they said, Well, if you move into the City, you're going to have the wage taxes and you're going to have the business privilege taxes, and my accountant strongly urged that we wouldn't move into the City. And I think that's the kind of discussion that really, really hurts the City. If we're going to grow this City back from 1.5 million people back up to 2 million people, that will bring the taxes back. And I just wanted to say on behalf of all businesses in Chestnut Hill, keep doing this good work, get the taxes down on the business privilege as soon as you can.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you, Bob, and thank you for your patience and waiting. We appreciate your coming in to testify.

MR. PREVIDI: Thank you.

COUNCIL PRESIDENT VERNA: Good seeing you again. Thank you.

MR. STALBAUM: I'm Michael Stalbaum from Unreal Marketing. We're an advertising agency out in Narberth, Pennsylvania, and I appreciate, Madam Councilwoman Verna and members of the Committee of the Whole, to hear me, and I appreciate the opportunity to be here today.

Like I said, I'm a CEO of a 37-person advertising agency out in Philadelphia. We've been around for about five years, but as I sit here and I listen for the past five years, I'm not overly political. I happen to be on the Board of the YPN. I happen to be involved in Philadelphia Forward. I've listed to Select Philadelphia as well, and the one thing that affects me, why I am in Narberth -- I'm a Philadelphia local. I live in Center City, but to me, I'm the poster child of this business privilege tax. I am the ideal -- the business that I am employ 20 to 25 students over the past couple years, I've here fighting the brain dream that everyone talks about in Philadelphia, and I don't see any incentive for companies like me to either stay in Philadelphia or to move into Philadelphia. In fact, I see this business privilege tax as the number one disincentive for companies like me.

And as we talk about things -- this year has been a big year of blocking and tackling for us as a company, and you talk about things like predictability and five-year plans. I'm about to sign another lease right now. People don't offer a one-year or two-year lease. They want you to move in for five years. So for someone like my business to commit to the City for five years or seven years, there needs to be that predictability of a long-term reduction in this business privilege tax.

I think I've seen the City -- I've been a Philadelphia native -- grow and how well-positioned we are to take this to the next level. You see the people moving in from the residential perspective and you see the businesses moving out. As I heard all of these people talk, I think we're too mired in the political discussions rather than looking at the practical discussions of a business owner; in other words, why am I in Narberth, Pennsylvania. And I happen to play a double role. I have a law firm as well in Center City, and we're a small five-person law firm. However, we're considering moving out of the City, because in both advertising and the legal business, gross receipts -- we're going to do $10 million in gross receipts this year, but as most of or some of you may know, we only keep 20 percent of that at the end of the day. So to get taxed on that $10 million cuts into our commissions. And same thing with the legal fees as well on the legal side.

And I'm naive to the exact specifics of the tax code, but from what I understand, we pay on the gross receipts that we bring in whether they sit in a trust fund for a client or they're spent for costs of good sold in my advertising business.

So I appreciate the opportunity to be here today and again just to put my name on the record to say that I am the business that you guys sit here and talk about from a political aspect, but don't forget the sort of down-to-earth day-to-day requirements.

One other thing I wanted to point out is, once we do tackle the business privilege, you're then going to have to overcome the parking taxes and everything else that get associated with it, because at the end of the day, even if I were to move my business into the City, I still hear from my employees, Well, where am I going to park? How am I going to get to work with regard to the SEPTA issues that we're thankfully dealing with and things like that.

But, again, I appreciate it. I think we need to get more creative. I think that those three guys that sit here and talked about tax the Wal-Mart, and I stay away from that, but I don't know why there's not something you can do as far as abatements for small businesses like you talked about and perhaps tax brackets of some sort. I know there's a uniformity issue, but I don't know if tax brackets are a way to get around that.

But, again, I appreciate it. I thank you, and this was worth my four hours to sit here. It was very interesting, and I'm glad to get on the record.

COUNCIL PRESIDENT VERNA: Thank

you very much. We appreciate your coming in to testify.

Our next witness?

MR. McPHERSON: Renee Webb, Jerry Sweeney, Derrick Zahn.

(No response.)

COUNCIL PRESIDENT VERNA: Do we have anyone else to testify on the bills?

(No response.)

COUNCIL PRESIDENT VERNA: Mr. McPherson.

MR. McPHERSON: We had testimony that was left by the Homeowners Association of Philadelphia, and that will be given to the stenographer and put into the record.

COUNCIL PRESIDENT VERNA: Thank you.

At the request of the sponsors of Bill Nos. 040776, 051063, 051064 and 051065, those bills have been held. Therefore, this Committee will stand in recess until the call of the Chair.

Thank you all very much.

11/17/05 - WHOLE - BILL 050669, ETC.

(Committee of the Whole adjourned at 6:10 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on November 17, 2005, and that this is a true and correct transcript of same.

____

MICHELE L. MURPHY
RPR-Notary Public

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