COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Tuesday, February 25, 2004
10:15 a.m.

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

PRESENT:

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

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I N D E X

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COUNCIL PRESIDENT VERNA: Good morning, everyone. This is the continued public hearing of the Committee of the Whole regarding Resolution No. 040076.

Our first witness will be Joseph Vignola from PICA.

Good morning.

MR. VIGNOLA: Good morning, Council President Verna, Members of City Council. My name is Joseph C. Vignola, and I'm the Executive Director of the Pennsylvania Intergovernmental Cooperation Authority, known as PICA.

Before I begin my testimony, I'd like to make a personal comment. This is my first time back in Council Chambers since I visited right after the disaster of two years ago. Wow.

COUNCIL PRESIDENT VERNA: It's beautiful, isn't it?

MR. VIGNOLA: Just wow. That's all. It's great.

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

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MR. VIGNOLA: I am pleased today to testify regarding the findings and recommendations of the Tax Reform Commission.

In almost every staff report and white paper issued by PICA, as well as in previous testimony before this Council, we have called for a comprehensive overhaul of the City's tax structure. Although we've always called for reform in such a way as to avoid jeopardizing the immediate fiscal health of Philadelphia, it is all too clear that the lack of any such reform since PICA's inception continues to harm the City's ability to grow. Dwindling population, job loss, and other maladies currently characteristic of Philadelphia can be tied, to some extent, to our present tax structure.

When one considers Philadelphia's natural advantages that would normally attract people in businesses, affordable housing, strong higher education opportunities, livability, geographic location, et cetera, it highlights the devastating nature of Philadelphia's tax structure.

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This Council felt strongly enough about the issue to present it to the citizens of Philadelphia, who voted overwhelmingly to create the Tax Reform Commission.

Although PICA staff has not examined every finding of the Commission in detail, this proposal represents the most in-depth review of the tax structure to date, including consideration of maintaining the City's fiscal health in line with current spending projections. To not give these proposals serious consideration would be abandoning the City in its time of need.

The City consistently finds itself forced to offer tax break incentives like TIFs and KOZs to businesses. However, the City should not be in the position of choosing winners and losers. That is better left to the marketplace.

I further believe that the City does not need large amounts of new economic development dollars which will simply continue the spiral of short-term fixes to a solvable structural problem. An improved tax environment would create a level competitive playing field for all and allow businesses to flourish in a transparent environment.

Philadelphia in the '70s and '80s was a case study for the effects of a negative tax cycle. Taxes were raised to make up for a shortfall and some businesses left. The higher the taxes caused more businesses and individuals to leave, eroding the tax base. The City responded by further raising taxes and the vicious cycle continued.

In the '90s, with the help of many partners including PICA, the City began to attempt a positive tax cycle. The City lowered tax rates and the tax base grew. Unfortunately, that version of tax reform is no longer enough. The tax system needs to be changed beyond simply cutting rates. It is time for the next round, and the ball is in this Council's court.

PICA would also like to note that comprehensive tax reform is still only one piece of the puzzle. The City needs to eliminate unnecessary regulatory burdens on businesses. Government contracting and incentive programs need to be transparent and open to all. Philadelphia needs to be a City that encourages business and individuals based on skill and determination, not on connections or contributions or even the appearance thereof. Without these changes, tax reform can only go so far.

PICA will also continue to advocate for controlling government spending. While the national economy has contributed to lower revenues, the City has allocated funds equal to those budgeted. It is the expenditure side of the balance sheet which continues to grow at an unsustainable rate. Any increase in government efficiency can only aid the impact of tax reform.

PICA's success throughout its existence has been predicated on a responsible approach to budgeting and forecasting. The strength of the Commission's report is that it makes considered attempts to implement these changes while allowing for the current projected growth in the City's Five-Year Plan.

Although some gaps remain and some additional expenses will need to be considered with the introduction of the new Five-Year Plan, the Tax Reform Commission's report offers a program for responding to future revenue shortfalls. It would also be somewhat inconsistent to reject these proposals as being too risky when the proposals have a lesser impact on revenues than some of the laws enacted by this Council last year.

We believe City revenues are relatively stable, consistent with projections at the current time. However, the long-term outlook remains problematic absent significant initiatives to reverse the steady loss of people and jobs. The City has reached a critical point in time. In this light the only true failure by this Council would be inaction.

With that, I conclude my remarks and would be more than happy to take questions.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam

President.

Mr. Vignola, you talk about the negative tax cycle, the '70s and '80s, in a broad brush, not acknowledging that between 1984 and 1987 the unemployment rate in Philadelphia actually was reduced from 9.3 to 6.2 percent and there was a net job gain of about 30,000 jobs. How do you characterize that within this broad brush of a negative tax cycle?

MR. VIGNOLA: Councilman, that was in the early '80s. In that period I happened to be Controller of the City of Philadelphia. There was a lot of things going on that brought job opportunities to Philadelphia. In fact, in 1988 the Administration put forward what then would be considered a sort of Five-Year Plan. And the Administration at that point wanted, in order to balance its budget, wanted to have an increase in taxes. We're always balancing.

COUNCILMAN GOODE: But my discussion is about 1984 to 1987, a period right after the wage tax was raised from, I think, roughly

4.3 to 4.96. So in fact there was tremendous job growth after the raising of the wage tax in 1983.

MR. VIGNOLA: A lot of the job increase was the result of government employment. The naval base saw some government employment. There was expansion in the healthcare industry in Philadelphia. And we lost the naval contracts, the Service Life Extension Program at the Philadelphia Naval Base. We saw contraction in the healthcare industries. As a result of that, in the late '80s and on through the first part of the '90s, '92, '93, there was continued job erosion until the national economy started to come back and we picked it up.

COUNCILMAN GOODE: The issue I'm raising is real simple. The broad brush of a negative tax cycle in the '80s and a positive tax cycle in the '90s, it's just that. It is a broad brush, and tax reform is not the answer to economic and job growth. It's a major part of the puzzle, but not the only part of the puzzle.

MR. VIGNOLA: I agree with that. But what I'm saying is, we are taking a broad overview. When you look at specifics, there are anomalies to it. But what I'm saying is, is that there are other factors outside of the control of local government, the national economy being one. In the '80s we were the beneficiary of expanded job opportunities in the Philadelphia Naval Base, where employment literally went from 4,000 to 5,000 to 13,000 to 14,000. We're the beneficiary of the healthcare industry that was taking off then with the expansion of jobs, both at the University of Pennsylvania, Temple, Jefferson, on all those medical facilities. We've continued to lose that. In the late '80s we started losing even more manufacturing jobs as that recession began in '88 and '89.

COUNCILMAN GOODE: I'm a strong supporter of tax reform because I think we need to be able to take advantage of national job growth that we expect to happen over the next few years, but I just wanted to continue to make the point on the record that a lot of this has to do with the national economy, not just local tax policy.

MR. VIGNOLA: But our local tax structure is one piece of the puzzle.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President.

Mr. Vignola, let me ask you a couple questions from your testimony. On Page 2 in the second full paragraph you talk about comprehensive tax reform as only one piece of the puzzle. "The City needs to eliminate unnecessary regulatory burdens on businesses. Government contracting and incentive programs need to be transparent and open to all."

The next sentence is pretty good too. "Philadelphia needs to be a City that encourages business and individuals based on skill and determination, not on connections or contributions or even the appearance thereof."

I know the organization pays very strict attention to our finances, but also issues a variety of reports, so if I'm asking either a redundant question or a question I should already know the answer to, I apologize.

Has PICA opined, I guess, on unnecessary regulatory burdens on businesses or government contracting and incentive programs and the notion -- and we had some discussion yesterday even about economic inclusiveness of a broader group of businesses. Expand the tax base, which would make it easier for us at a certain level to reduce taxes. Has PICA issued any reports with regard to these kinds of issues?

MR. VIGNOLA: We have not issued a white paper, but in our annual report on the Five-Year Plan we talk about the need to re-invent government, for want of a better word. We have not done white papers that we've done on other topics.

COUNCILMAN NUTTER: Is it within your purview, mandate -- I don't want to say capabilities because you guys have tremendous capability over there. Would it be possible to get some of that kind of data or information from PICA, as PICA's perspective, on these kinds of issues to help us?

MR. VIGNOLA: The answer to that is yes. All our reports are on our web site, www.picapa.org. We can point out the references for you and your staff and other Members of City Council to look at.

COUNCILMAN NUTTER: That would be great.

And at the same time the next paragraph, which you go on the other side of the balance sheet and talk about our spending, of which there is usually very little discussion. Have some of the same kinds of either documents or reports been put together on those kinds of issues?

MR. VIGNOLA: Again, there are several white papers in that regard. But the biggest one, we did one several years ago in regard to economic development. But again, in reviewing our report on the Five-Year Plan, we talk about the spending levels.

COUNCILMAN NUTTER: All right. So

the place where we really want to look is probably toward the back end of the Five-Year Plan documents, and that's where we would find all this?

MR. VIGNOLA: No, sir. There is a, as I said, a www.picapa.org.

COUNCILMAN NUTTER: You're promoting this heavily.

MR. VIGNOLA: I sound like someone who should be on TV. It sounds like I should be on the Howard Stern show or something.

COUNCILMAN NUTTER: You guys have any revenues based on the number of hits on the web site or anything?

MR. VIGNOLA: No. No. We don't even have a counter for that. But all the reports are there, and our reports are separate and distinct from the Five-Year Plan.

COUNCILMAN NUTTER: I will check that out.

Has the PICA staff had an opportunity to run the numbers from the Tax Reform Commission proposals? I mean, there are 13 separate pieces of legislation, some

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naturally have pretty serious fiscal implications. Has the staff taken a look at the report and matched it up with whatever your current data is?

Obviously, we can't know what the upcoming Five-Year Plan is, as we have not received it. But has a financial analysis of the TRC report been done by PICA staff?

MR. VIGNOLA: No, sir. One of the reasons is that we, as you are, are wanting to see what the Administration is going to incorporate in their new budget and Five-Year Plan. In fact, referring back to last year's report on the Five-Year Plan, we made specific reference to what the Administration would say about the report of the Tax Reform Commission. Although our report was issued in June of last year, we knew that the Tax Reform Commission would be issuing a report that October.

In our informal meetings with the City Administration before the end of last Calendar year, we specifically pointed to that line in our Five-Year Plan, and we expected the City to make good on its promise.

COUNCILMAN NUTTER: Well, it's possibly impossible to predict. And since none of us have the numbers, your testimony, though, would seem to indicate PICA is basically in favor of the Tax Reform Commission proposals; is that correct?

MR. VIGNOLA: We're in favor of seriously reforming the tax structure in Philadelphia. To the extent that the Tax Reform Commission is the most aggressive, most encompassing and most recent review of the tax reform structure in Philadelphia, that is a good place to start. And what we're saying is that given the charge by the voters of Philadelphia to the Tax Reform Commission is to look at tax reform while holding harmless the expenditure side. Again, that is, Councilman, saying a lot.

You can reform taxes, but you've still got to find a way to cover $3 billion plus in expenditures. That's a daunting task. Given that charge, we feel that what the Tax Reform Commission sent to the Mayor, to the Council, to the citizens of Philadelphia, is a good starting point.

COUNCILMAN NUTTER: I heard what you said, and I hate to cut across you, but don't we all have still a responsibility to question the assumptions on the expenditure side of the house?

MR. VIGNOLA: I believe we do, but that was not the charge.

COUNCILMAN NUTTER: I understand that. I know what the charge was.

MR. VIGNOLA: Yes.

COUNCILMAN NUTTER: I know what the charge of the Tax Reform Commission was.

MR. VIGNOLA: I know that, sir. Yes, I think we all have an obligation and PICA has an obligation, and we've told the Administration we're going to be looking at overtime. We're going to be looking at public safety costs. We're looking at what the impacts of the DROP Program are having and how they're going to replace. I had serious discussions when the DROP Program was further implemented, what the Administration should be doing with that. When the Parking Authority was an issue, I had serious discussions with the Administration about, well, if you're going to take it back, tell us how you're going to accommodate 4,800 employees. We're trying to have some serious discussions about the expenditure side.

COUNCILMAN NUTTER: When the budget and Five-Year Plan come in, will PICA be in a position shortly after that -- because in City Council we'll certainly be in this position. I believe we do have to take some action, but it should be a reasonable action based on the real numbers.

Will PICA issue its opinion with regard to the impact of the proposals of the Tax Reform Commission as it relates to the then just introduced budget for FY '05 and the Five-Year Plan that goes with it, and subsequently be able to tell us then its view on the Tax Reform Commission report as it relates to a live budget and Five-Year Plan that we'll have in March?

MR. VIGNOLA: Only to the extent of the recommendations that are included in the

Five-Year Plan. We would not --

COUNCILMAN NUTTER: I'm asking a different question.

MR. VIGNOLA: But we would not take the Tax Reform Commission's proposals, although that is pending legislation, and then say, well, given this expenditure side of the Five-Year Plan, if you adopted these revenues, this is what it should be or this is what is possible. Because our charge in reviewing the Five-Year Plan is to review a Five-Year Plan that's been proposed by the Mayor and adopted by this Council to make sure that the revenues and expenditures match.

COUNCILMAN NUTTER: I understand that. And I have read the PICA statute. I think what I'm asking you now is, within the confines of the statute -- and then there's always, you know, you can have a thin line. You can have a broad line. The question is how much chalk do you get on your shoe?

Given your overall charge and responsibility to this City, what I'm asking is if PICA would -- not whether you're statutorily required -- if we get a budget on March 18th, would you take that budget and Five-Year Plan, take the Tax Reform Commission numbers, have your own independent analysis of what would happen to the budget and Five-Year Plan if we adopted the recommendations of the Tax Reform Commission and then tell us whether you think that budget still works, and does it allow us to run this City government in the way that we anticipate?

I mean, someone has to come -- because we'll have to make that decision. And then obviously because of your charge you get the right to judge what we've done. What I'm asking is a front-loaded process where everyone is in the boat at the same time, looking at the same data and information and someone to come to that table and say, This plan can work based on what's been laid out, or it could work, but you need to make certain adjustments if you don't change anything else.

MR. VIGNOLA: We are reviewing and confirming the process. To that extent, no, we wouldn't do what you are suggesting. In the context, if there was a working group among the various parties, the parties being the Administration, City Council, and if PICA was asked to include in it to give its opinion on the revenue estimate side of it, yes, we would participate in that group. But we would not voluntarily advocate for one tax reform structure over another.

COUNCILMAN NUTTER: I understand that. But I'm not asking you to be an advocate. What I'm asking you to be is the third-party oversight entity that you are, but to give us the good information at the beginning of the process, as opposed to us possibly taking steps that may or may not be in the best interest of the City and then learning about it in July.

MR. VIGNOLA: We try to do that along the process. One reason for my remarks saying that in reviewing the revenue estimates -- and these are revenue estimates that not only appeared in last year's Five-Year Plan, but the revenue estimates that the City is currently formulating. We believe those revenue estimates, without looking into the individuals and what part of tax reform is there. But again, it's the nature the oversight. So we wouldn't answer a hypothetical. But if you asked us would we participate, the answer to that is yes.

COUNCILMAN NUTTER: Okay. Thank you. Two last questions.

The first is --

MR. VIGNOLA: Councilman, may I say that is because of my philosophy that I brought with me, is that I believe when I was a Member of this Council and PICA was in existence, that PICA shouldn't dictate how we raise revenues and how we spend. What PICA should do is to make sure that the revenues that are to be raised are reasonable and that the expenditures meet the mandated function. You are the elected officials to make those elected judgments. If it turned out you were saying that if you pass this widget tax it was going to raise a billion dollars, therefore we could do away with the wage tax; if we believed that was unreasonable, we would come out and say that during the public hearings.

COUNCILMAN NUTTER: Okay. PICA has issued some reports or expressed some concern in the way that you express your concern in recent times about the level of debt obligations by the City; is that correct?

MR. VIGNOLA: Yes. In the Five-Year Plan, yes, sir.

COUNCILMAN NUTTER: What are those concerns?

MR. VIGNOLA: That as a percentage of the budget debt levels have been increasing. There was a trend in the late '90s, early 2000 where debt payments as a percentage had been going down. Recent debt has been on an increasing percentage, and that is despite the lower interest rates. So more of our operating budget is used to go to the sinking fund payoff debt service.

COUNCILMAN NUTTER: Is there a standard within the industry or by -- what is it, Government Finance Officers Association?

MR. VIGNOLA: Yes. GFOA and all of that.

COUNCILMAN NUTTER: Is there either a range or a level beyond which a major metropolitan city like ours should not exceed in good government practice?

MR. VIGNOLA: The ranges would be more directed towards the rating agencies and the way the rating agencies would rate you. But suffice it to say that a downward trend is more preferable than an upward trend that we see, and that a range that -- obviously, if you can have 10 percent of your budget or less devoted to long-term or short-term debt would be preferable. But in certain circumstances 20 percent could be preferable.

COUNCILMAN NUTTER: You were an economist in another life, weren't you?

MR. VIGNOLA: No. I went to Wharton School like you did.

COUNCILMAN NUTTER: Same thing. You left yourself plenty of room.

Last question.

To the best of your knowledge and information, what do you estimate the deficit of the City to be, either presently or projected to the end of the year?

MR. VIGNOLA: Again, a structural deficit?

COUNCILMAN NUTTER: Yes.

MR. VIGNOLA: Forty-some-odd million. It's within the carry-over. There will not be a deficit, but you're talking about the structural deficit whereby we eat into our surplus.

Ninety-one million dollars was what was projected -- wasn't $91 million projected for this year? And they're now talking about $5 million.

COUNCILMAN NUTTER: Five million dollar what?

MR. VIGNOLA: Surplus.

COUNCILMAN NUTTER: There was a news account a few weeks back or a month or so back that the City was anticipating -- this looks like November or December -- $144 million deficit.

MR. VIGNOLA: One hundred forty-one million dollars to make up for next year. Again, are they spending more money than they're taking in? Yes. Have we consistently talked about doing away with structural deficits? Yes. To the extent that there is a structural deficit, what my staff is telling me now is that the structural deficit will exist to the tune of around $85 million this year, which will eat into the surplus left over from last fiscal year, which surplus has been certified to be $91 million.

COUNCILMAN NUTTER: Where does the $144 million deficit number come from?

MR. VIGNOLA: Well, you've got to ask the Administration. The Controller issued a report just last week that said that's not correct either.

COUNCILMAN NUTTER: All right.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam Chair.

Good morning, Mr. Vignola.

MR. VIGNOLA: Good morning,

Councilman.

COUNCILMAN RIZZO: I want to ask what PICA's involvement would be -- and I'm going to describe a situation without being very specific. If PICA identified the fact that the City Administration was spending in excess of $5 million a year on providing a specific service that is not the City's responsibility, what would you do, especially if it were a service that maybe the state or the federal government should be providing the City of Philadelphia?

If you identified the fact that there was no move or effort to get the state or the federal government to pay for that specific service, what would PICA's involvement be if you identified that?

MR. VIGNOLA: Councilman, I don't like to answer hypotheticals. But I will give you the answer. I will repeat what I was saying to Councilman Nutter, in that PICA does not want to substitute on a line by line basis its judgment for the judgment of the people who have been elected. Our concern is more of a whole view, and that if there are revenues available and the revenues have been lawfully appropriated, and there are expenditures to be expensed against those revenues, and if it has been the decision of the elected officials of the City that this is their priority, as long as the revenues and expenditure numbers balance, then that's their decision. And the ultimate change is by the voters of Philadelphia, not by an appointed authority or agency.

COUNCILMAN RIZZO: I don't know how a voter of Philadelphia mid-term can effect a change in something that if you identified the fact that -- and from your experience and your staff's experience -- that money is being spent inappropriately, especially money that is being spent when the state or the federal government has a responsibility to provide a service, I don't understand PICA's role then. I don't really understand what you were charged to do. It doesn't sound like --

MR. VIGNOLA: Councilman -- I didn't mean to interrupt. I'm sorry, sir. But there is a Supreme Court ruling that says the State is responsible for funding the court system of the Commonwealth of Pennsylvania. So the City is spending $110 million this year to fund the First Judicial District, despite the fact that there's a Supreme Court ruling that says there is this requirement. PICA opined about that several years ago when then Mayor Rendell refused to fund the court system. And PICA told the then Mayor of Philadelphia that the Five-Year Plan may not be approved. There was a mechanism that went into place called the Mandamus Action filed by the courts against the City in which the City joined the State that allowed PICA to approve the Five-Year Plan.

One could argue hypothetically that no Five-Year Plan should be approved that has a court expenditure in there, because that is something the State has to do. But the courts haven't acted on it. That's that gray area that we get into. But as an elected official you have an obligation to fund a mandated function. That's first. Once you fund your mandated functions, according to the PICA statute, if you decide that you want to spend it on widgets, although I may disagree as a voter, as an official of PICA, as a citizen of Philadelphia, I voted in the last election and I voted for people who I believe would make a good decision. Well, next time I may take that into consideration and not vote for those people because they didn't make a good decision because they didn't vote the way I thought they should vote on this widget bill.

COUNCILMAN RIZZO: I'm not talking about widgets.

MR. VIGNOLA: I understand that, sir. I'm not trying to make light of it. In its reiterations during the legislative process, PICA was not ultimately created to have that type of legislative oversight and veto. And there were iterations of the bill prior to the bill that was adopted in June of 1991 that gave PICA line item authority. The General Assembly did not do that. In New York, the Oversight Board had that. When Congress created the oversight for Washington,

Washington's board had that authority. The General Assembly did not see fit to give PICA that authority.

COUNCILMAN RIZZO: Have you ever asked for that? Have you ever lobbied any of the State?

MR. VIGNOLA: No. Because I believe the system that we have in place allows you as elected official to do your job with our oversight.

COUNCILMAN RIZZO: You don't think that PICA could more effective if you had that oversight? You don't believe that you could contribute more and have a better impact? You just told me that you can't do what I described. Why don't you do something to get the power so you can help us?

MR. VIGNOLA: Because we are not elected. I believe it's up to elected officials.

COUNCILMAN RIZZO: Excuse me. You're telling me that you don't have the power. You've never asked. Do you want it or don't you?

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MR. VIGNOLA: No, I don't want it.

COUNCILMAN RIZZO: Why don't you want it?

MR. VIGNOLA: Because we are an appointed board. That power should be with elected officials. That's what I exercise my vote for.

COUNCILMAN RIZZO: How much do we spend of taxpayers' money on PICA?

MR. VIGNOLA: Zero.

COUNCILMAN RIZZO: Where does the money come from in your salaries?

MR. VIGNOLA: Investments. None of the PICA tax has ever been used to pay the day-to-day expenses of PICA.

COUNCILMAN RIZZO: No disrespect, but if you have no fire power to do any of the things that Councilman Nutter or I described, I don't really know what PICA is all about. Maybe I need to learn more about what exactly your responsibility is. But I can tell you, if you don't have input over the scenario that I described or have any input, then I don't know what PICA is used for.

MR. VIGNOLA: Your scenario, Councilman, was there's $5 million that the City shouldn't spend, that the state or federal government should pick up. And all I'm suggesting, Councilman, is that an elected official, an elected body in the City of Philadelphia gave the appropriate authority for the City of Philadelphia to spend that money. If that $5 million was in excess of the budget expenditures, if it was in excess of the revenue expenditures, then PICA has the authority to clamp down on it. But if it's the setting of priorities in a $3.3 billion budget, that's what I elect my elected officials to do.

I as a citizen -- forget me at PICA. I as a citizen don't want an appointed staff or appointed board to tell my elected officials what to do or not to do. That's not what I think my vote counted for. I want to hold my elected official's feet to the fire and make the right decisions.

COUNCILMAN RIZZO: How does it work in New York? You tell me that PICA has that authority. How does it work there?

MR. VIGNOLA: When New York had the Oversight Board, its situation was different and they did have contract and budget line authority. That has not occurred in the last 15 years. But I'm saying when you look at models, when you look at models in which PICA was based, PICA legislation had that taken out.

When the Congress of the United States created the District of Columbia Oversight Board, which by the way is no longer in existence, they wanted to give because of what they perceived to be the political situation in Washington, D.C., the Oversight Board adopted the New York model.

COUNCILMAN RIZZO: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions of Mr. Vignola?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you

very much. I appreciate your coming in to testify.

Our next witness is the Honorable Mark Schweiker representing the Greater Philadelphia Chamber of Commerce. Good morning and welcome.

MR. SCHWEIKER: Thank you, Madam President. I appreciate the opportunity to visit for a few moments and offer some commentary.

Good morning, Members of City Council's Committee of the Whole. For the record I'm Mark Schweiker, President and CEO of the Greater Philadelphia Chamber of Commerce. My foremost reason for being here today is to reiterate the position of the business community on the need for continued tax reform which benefits the City and indirectly the region.

This is by no means my first pitch for tax reform, nor for that matter the Chamber's first pitch for tax reform. As you likely know, the Chamber testified in favor of the Home Rule Charter change that created the

Commission. And once the Commission was in place we testified before the Tax Reform Commission in May and again in October of 2003. I will briefly review the points presented by Roger Bullo (ph), President and CEO of the CDI Corporation before this Council yesterday as part of the opening panel. I might add that Roger is a member of the CEO Council for Growth.

In my capacity as President and CEO of the new Chamber, and as a result of the merger between GPCC and the Greater Philadelphia First Organization, I'm charged with conducting a very ambitious regional marketing campaign called "Select Greater Philadelphia, the Place to Prosper." This is and will be a $16 million four-year initiative to market the greater Philadelphia region nationally as well as globally to successful businesses and ambitious entrepreneurs.

A major component in the success of this effort is and will be the tax climate we can offer them. I'm asking you to help me do my job. You can set the tax rates that will either drive people away or encourage them to come and stay and do business in Philadelphia. To this end, tax reform is critical. The region has huge natural advantages, as does the City; its proximity to the major centers in business and government in New York and public capitol in Washington, D.C., and I might add, major universities, 83 in total, transportation networks, industries and growth segments of the national economy and quality of life.

I want to acknowledge the fine work of the 15 members of the Tax Reform Commission for their relentless effort, dedication and hours of meetings and research to develop a plan that, as we all know, was adopted almost unanimously. This diverse group was able to hunker down and over the long, hot summer ultimately present a plan that I believe, and many of our members, if not all of them believe, is fiscally responsible.

In fact, the Commission received such glowing accolades that the Greater Philadelphia Chamber of Commerce has been working with the General Assembly in Harrisburg in modeling a state Tax Reform Commission after the Philadelphia model, and we were pleased that Governor Rendell made mention of this in his recent budget address.

I would also like to acknowledge and thank Mayor Street for recognizing the Commission's work when on December 18, 2003, he instructed each and every one of his transition committees as part of the Philadelphia 21st Century Review Forum to carefully review these recommendations. As a member of one of these groups, the Regional Cooperation Committee, I've heard time and again the cry to make our City more competitive with our neighboring borders to help market the City and region to the tourism industry and to expand the Pennsylvania Convention Center so that we can get a bigger piece of the economic and consumer spending pie. May I suggest that the best way to do this is to make this City a more business friendly town in which to live and work and, yes, prosper.

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The Greater Philadelphia Chamber of Commerce, the voice of the business community, felt so strongly about the Tax Reform Commission's recommendations that we had our CEO Council for Growth send a letter to the Mayor and every Member of City Council endorsing this plan. And I personally thought it important enough to hand deliver the letters to City Council so that I might have the opportunity to present our views in person.

Having said this, we do not operate in a vacuum. We realize that many public, governmental and political factors must come together for things to work out and to work out financially. We are optimistic that City residents will be able to enjoy additional tax relief from the State as a direct result of new gaming revenues. However, I would caution and encourage that State action be an addition to City tax relief, and not in place of it.

In times when company poaching has become fashionable for some, I'm of the mind that stealing companies from one another really doesn't get us anywhere. We're in the economic fight of our lives, and if we are to win we must be competitive. One only fails if you give up, and we don't plan to do that.

In closing, let me thank you for the opportunity to comment. I certainly look forward to seeing you all at the Chamber's business luncheon where we'll feature the Mayor on March 5th, and also the annual salute to the City Council in the month of March, on March 25.

Thank you, President Verna.

COUNCIL PRESIDENT VERNA: Thank you very much.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Governor.

MR. SCHWEIKER: Good morning.

COUNCILMAN GOODE: You mentioned in your testimony that state action should be in addition to City tax relief, and I note that within the Commission's proposals, there are actually two proposals regarding the wage tax; one that includes state aid and one that does not. Are you suggesting that the Commission's proposals be accepted in entirety?

MR. SCHWEIKER: Well, as it relates to the State, we certainly know that there's a proposed half a point wage tax reduction for the City and those who work here as a result of the gaming legislation being enacted. We like that prospect. And we're attracted to the idea that you have the half point wage tax reduction. It represents a big talking point when you're trying to lure in companies and keep companies here. It makes the City more affordable. That interests us greatly.

And so with that appeal and that prospect, Councilman Goode, it was my intention today to drive home the point that, let's not see that as the only action that we should bring about, that we want the State and the Legislature to carry through, but ideally the City government, with support from people like yourself and others, ought to be taking seriously the work of the Tax Reform

Commission. And I think based on the mathematical assumptions that are the basis for the Tax Reform Commission's game plan, it can be done over a series of years.

So in sum, let's get the gaming legislation in place, lower the wage tax and let's offer more tax relief. It's not just wage tax, as you know. It's BPT, the gross receipts tax and on and on and on.

COUNCILMAN GOODE: That's actually my follow-up question. If in fact from gaming revenue offered by the State we were able to do something more dramatic than is contained in the Reform Commission's proposals, would you be in favor of actually more dramatically reducing the business privilege tax?

MR. SCHWEIKER: I certainly don't think if we get the wage tax reduction as a result of gaming that we ought to stop there. We being you good folks who are Members of the Council. I'm not sure I understand your point here.

COUNCILMAN GOODE: The question is, to the extent that the proposals work together and they anticipate, even though it's two different proposals, one with and one without state aid, if in fact we get enough State revenue to more dramatically reduce the wage tax, doesn't that free up what City action might have been taken on our own with regard to the wage tax, and couldn't we also apply that to further business privilege tax reductions?

MR. SCHWEIKER: Let me put myself in the shoes of a would-be entrepreneur or a chief financial officer of a company who is looking at the affordability of doing business in the City. I think they would be very encouraged if they saw this Council, in tandem with the Mayor, work to improve the tax model and make it more affordable, whatever the pinch point, whether it's the gross receipts or the BPT.

The general picture when it comes to comparing the cost of doing business in Philadelphia to other urban locales is not an attractive and competitive one. I can only tell you it's a very tough sell at times. And not that we do it every day, but as you can imagine, with 6,000 member businesses and trying to tout the appeal of the City and the region, you're not going to get real far when you say -- rhetorically, what do you say; "Come to Philadelphia, it's got the highest wage tax in the land"? It doesn't work, my friend.

COUNCILMAN GOODE: Last question.

MR. SCHWEIKER: Same goes for the BPT. The path is in there to eliminate it in 10 years. I think when you take a look at the math -- and I realize there are other elements to creating the balance of which Joe Vignola spoke -- it's there. The possibility exists. The question now is, is the will legislatively there for it to be put in place.

COUNCILMAN GOODE: Last question with regard to the 10-year elimination of the business privilege tax.

Currently, there are gradual reductions in both the gross receipts portion and the net income portion over the 10 years. What would you think about the proposal to eliminate the gross receipts first over the first five years and then eliminate the net income over the second five years?

MR. SCHWEIKER: I'd have to take a look at the math. We have not run those kinds of numbers. You're looking at someone who represents 6,000 member businesses, half of whom, by the way, are outside of the City. It's a regional chamber. Half are within the City. We'd certainly put the question to them. But generally speaking, we were hungry for a march to making the City more affordable.

I've been through this. I had the responsibility as Governor in a very tough environment with the downturn to balance a budget. Let me say very respectfully that I'm sympathetic to the leadership and mathematical challenges that you face here. It ain't easy. I know that. But the reality is by any account we are hemorrhaging residents and jobs. It is not an encouraging picture. So to speak, the business community is on the side of making us more attractive and outstanding. It's not about being confrontational. So our outlook and our hunger has to do with what we do to see to it that our residents have jobs and paychecks.

In my estimation, if the Tax Reform Commission's work is about anything, it's about creating the competitive circumstances to provide jobs and furnish paychecks to your residents. It's not only about what's good for the corporate citizen or the small business. That is what's at stake here.

Does anyone question the assessment that it looks like for the first time in many, many years there is a document around which we can rally? With some incisive and gutsy work by the Council, along with the Mayor, we could put this City on a path to economic ascension again, with outcomes that everyday residents recognize, jobs and paychecks.

COUNCILMAN GOODE: Thank you, Governor.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman

Rizzo.

COUNCILMAN RIZZO: Madam President, my question isn't for the Governor. But I would appreciate some clarification, and I'm going to call on our Council's Chief Financial Officer to explain for the record the funding of PICA. Because I believe that Mr. Vignola did not clearly explain when he said that there is no taxpayers' money that PICA receives. I'll let the Chief Financial Officer explain exactly where the funding comes from PICA.

Mr. McPherson.

MR. MCPHERSON: My name is Charles McPherson, Chief Financial Officer for City Council.

When PICA was created, they needed a steady source of income in order to pay the debt service on the bonds. What ended up happening was, is that the City, for residents only, reduced the residents only portion of the wage tax by one-and-a-half percent. That one-and-a-half percent then became the PICA tax, which went directly to PICA. The City would collect it, pay it over to PICA so that the bond holders would have a steady source of income in order to pay the debt service on the bonds. That income and the interest earnings on that income would cover both the debt service and PICA's operating expenses. Any income that was left over after those payments were made for debt service and operating expenses are paid back to the City of Philadelphia and to the General Fund.

COUNCILMAN RIZZO: What is the State's participation?

MR. MCPHERSON: Zero.

COUNCILMAN RIZZO: Thank you, Mr. McPherson.

COUNCIL PRESIDENT VERNA: Any further questions?

COUNCILMAN RIZZO: No. Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam President.

Governor Schweiker, let me say a

couple things.

One, I appreciate your testimony and your presence here today. I did receive a copy of the letter that was signed by many members of the CEO Council for Growth, and I want to commend you and Denise Early, who's at the table, and I know Joe Mahoney has been working very hard as well to have a coordinated approach by the business community in this effort, quite similar to the coordinated effort the last time we had a big public discussion about taxes here in the City.

Can you give us a sense of, I guess, the present mood or climate within the business community? You certainly touched on it in your testimony, but there are many, many discussions going on throughout the City about a variety of tax-related issues, proposals, ideas, this business coming, this business going, X moving to this location, Y moving to another location, a little bit of a shuffling of the deck issue.

It strikes me that we have our tax

structure problem and then we have a business attraction, business retention, tax incentive issue that we continue to grapple with, which is often either deal driven, personality driven or crisis driven, as opposed to public policy driven. I know I've covered a number of areas with this, but tell us, where are business people these days and what goes on?

MR. SCHWEIKER: I will do my best to briefly answer your questions because I know you have other officials ready to comment.

I can tell you for tax reform the fervor can be no higher. I think if we were to give the truth serum to business operators in this City, large and small, this room could not handle the volume of that cry for tax reform in making the City more affordable. They're busy folks. They're trying to make ends meet, employ people, and they can't come here. But if they were here, I believe that's what you would hear as it relates tax reform.

I know of what you speak, whether it's KOIZs to TIFs to whatever acronym you want to invoke. I don't think we need to delve into and break down the financial concepts at work there. See them all as Enrons. When you have a difficult and surely lacking competitive tax model, you're going to get those kind of moots. That's what's at work. I don't think there's any economic magic that's hard to understand. The cost for doing business in the City is intimidatingly high compared to other locales. It's not just what we're espousing. And I know I'm speaking to the choir when I look at the folks assembled here. But as we all know, the choir on the weekend has to sing the loudest. Together we wish to add some harmonious singing and say, we've got to make ourselves more affordable.

And so, Councilman Nutter, for the moment avoiding specific discussion about specifics techniques, I believe they all amount to what is done when you're trying to entice businesses here.

It pains me to have to reference a Triple A's decision to move just a few miles to the south in Wilmington. And all those

Philadelphians now, and probably some who live outside the City, will be spending their lunch dollars not in the City when the time comes.

Now, listen, it was a tough one against which to compete. That City and state put more into one deal than the City has in its stimulus budget for the deals it does all year. So there's about four-and-a-half million dollars in the stimulus account. They put seven-and-a-half million dollars in to make that deal go. And, you know, the net effect is we lost jobs.

But having said that, I do want to compliment the Commerce Department and Paul Levy of the Center City District and Peter Longstreth because the reality is, we're batting close to a thousand, to use a baseball reference, when it comes to holding onto our companies. We lost a few jobs at Anderson, but they closed all across the country. We lost a few jobs in Asset Management that went out to Conshohocken. And as you know, the Triple A probably was the most infamous and negative outcome. But generally, they've done the right outreach work and the retention job is being done solidly.

So I guess it's a way of saying, Councilman Nutter, it's been a mixed bag. The fact that they stayed despite some of the intimidating costs says something about their love and passion and interest in the City's economic welfare.

COUNCILMAN NUTTER: Well, it is at times very difficult to operate here, and we do commend many of the businesses. I wanted to raise one last issue with you. It came up yesterday.

Your counterpart at the African American Chamber of Commerce, Mr. Crawley, testified certainly in favor of tax reform. But he added an additional component to his testimony, which was discussion -- and we had some conversation about the economic inclusiveness issue, and I guess a broadening of something that the government has tried to do, which is certainly promote Philadelphia-based businesses doing business with the City. Some think it is in some way that I can't completely figure out is a disincentive to outside businesses to be here.

When this was promoted, actually, I think it was an incentive to be in Philadelphia because, you know, you'd have a slightly advantaged shot, again given the financial challenges that businesses often face being Philadelphia-based as opposed to even our surrounding counties. But putting that argument aside, could you comment for us to some extent on the economic inclusiveness issue.

The point was if you broaden the base of companies growing and functioning in the City, it makes it a little easier for us who have this ultimate responsibility with regard to taxes and tax rates to push tax reform because you have a broader and healthier base. The discussion I think went on the level of, shouldn't we at least promote business in our region --

MR. SCHWEIKER: Well, kind of a favorite national concept.

COUNCILMAN NUTTER: Right. Kind of

a region first sense of things and region first partnerships. Obviously, to the extent that Philadelphia-based businesses can do well, that's certainly good for the City and I think it is good for the region. But in your capacity representing members inside and out, at least the next move is, if you can't do with the Philadelphia-based bills, I think we should explore why then we at least check out the other four counties? What are we doing on that front and how do we make more concrete steps, whether it's a large business or small business, regardless of what people look like or came from? What kind of steps do you think the Chamber could take in that regard?

MR. SCHWEIKER: It's a Chamber for all people, regardless of what the people look like or how they dress.

I think whether it's our 6,000 member businesses to the many leadership committees, I think they are emblematic of that commitment and instinct. I would say when it comes to -- I'm assuming your question has to do with, can area businesses have an opportunity to do more business with the City or with each other and how we aid and abet that outcome. I believe -- and I don't have any empirical data -- I believe, Councilman Nutter, that the inclination to do just that already exists. It may not be a stated policy. But I believe that is the leaning of most of our members.

Now, I think when it comes to larger companies it's easier to demonstrate that because of a variety of reasons, you know, federal and state government expectations. They track that kind of stuff. When it comes to economic inclusion and working intentionally to create arrangements with, as an example, minority-run firms, it's an everyday habit. They are hungry to do that and hungry to do it well. So while it may not be a concrete policy, I believe the instinct is there to do it and to emphasize it.

I can tell you the Chamber -- and I'll finish up -- we some time soon are going to have -- and this is to the heart of your question, how we make it easier for small

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businesses who want to get larger and who want to do business with larger firms, how they can ink these arrangements. We're going to put together -- we're in the conceptual stage now -- what I call a procurement summit. How do you procure these relationships? How do you get into that business? How do you grow it if you're already doing it? Bruce Crawley is aware of this interest. We're going to program that. It may take a year because we want to do it right. One module within this endeavor will be particularly for minority businesses, whether it's women or whatever it may be, and help them along and get them the connections and the comprehension of what it takes to put together such arrangements. I think that will go a long way.

And we believe -- when I say we, 6,000 member businesses, many of whom do business in the City, want it to go well.

I just would add one caveat, though. This is a global marketplace now, man. When it comes to internet relationships and doing business to just-in-time processes on acquiring goods and services, we should all realize it is just as easy to do business with a firm that is in West Philadelphia as it is to do business with a firm in the western part of this country. It's just no great shakes anymore. It really comes down to price and the capacity and the ability of the people who do the work. So you've got to pass the test on those counts as well.

Nevertheless, we don't look the other way on offshore out-sourcing as an example. They're jobs that belong to our residents and we're eager for those to be preserved. But it's really a competitiveness challenge, and that is a note worth striking here as we finish up.

COUNCILMAN NUTTER: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: The Chair again recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you.

Governor, it's interesting you brought that up. I just had an experience and I was taken back a bit. Maybe it's been going on a lot longer than I'm aware of, the number of companies that customer service has gone outside of the country.

I called American Express just recently, and I got a representative in Costa Rica. I called an insurance company and got a representative in the country of India. I don't know what we can do about that. Is there anything?

MR. SCHWEIKER: Well, that may be another meeting, but I will quickly say that there are steps and commitments that can be considered to guarantee our competitiveness so such back-office-type jobs are preserved. It's all not about going to other countries, I will tell you. Granted, that's often the most reported right now. And I know Time Magazine has it on its cover page.

Dell Computers, as an example, when it comes to very sophisticated high-end IT-type applications, their customer base has told them, we want instant access, and it ought to be right here in the US, and they moved theirs back.

So it's a bit of a mixed picture right now. I don't think we have a total picture, a clear picture in hand. So I think we have to find out in what niche as a country and as a region, what niches can we fill and be expert at it, given the skill sense of our residents in the City and region. We count those and we hold onto those jobs. I'm not sure you can totally stem the tide because it's a global marketplace.

I've been in India and I know of what you speak. I've been in Bangalore, which is the silicon valley of India, and you would be shocked at their expert ways. Just the sheer number of people who will work for four bucks an hour to do this kind of work, and they'll go 20 hours a day if they have to. We've got to out-work them. That's what it comes down to.

COUNCILMAN RIZZO: Thank you, Governor.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of the

Governor?

(No response.)

COUNCIL PRESIDENT VERNA: Our next witness is our City Controller, Jonathan Saidel, who has been pacing the floor like an expectant father. I don't know whether it's because he's nervous to testify or whether it's because he's just so impatient.

I believe everyone has copies of Mr. Saidel's testimony.

MR. SAIDEL: Jonathan Saidel, S-A-I-D-E-L, Controller of the greatest City in the world, the City of Philadelphia.

Let me state for the record, Madam President, how beautiful the Chambers are. I haven't had the opportunity to be here until today. It looks great, and may you all serve many years in the capacities you hold within this Chamber.

COUNCIL PRESIDENT VERNA: Thank you.

MR. SAIDEL: I didn't get the bill yet, but it looks like real wood too, Frank.

You have my testimony. I would rather just talk to everyone here as friends and colleagues and as fellow Philadelphians.

I'm quite distracted by the attendance in this Chamber. I have great reverence for this Chamber and Members of Council, and I believe the issue of tax reform is one of the major issues confronting us in the City of Philadelphia. As elected officials, we have a responsibility to listen at any opportunity to divergent opinions beyond ourselves so that we can be the best informed elected officials we can be to make the best decisions for not only ourselves and the Councilmanic districts, but Council At-Large. And as Council representing the one I have from the people, and myself being a City-wide official, and the Mayor, we have I think that ongoing responsibility to listen to a variety of people that have been given a charge to look at a variety of complex issues.

I was not in favor of the Tax Reform Commission being created when it was initially proposed by Councilman Nutter, though I applaud him now for that initiative. I've always felt that blue ribbon panels and commissions were in many ways an aggregation of the responsibility of duly elected officials to live up to their responsibilities and make the difficult decisions. The fact that the Commission was empowered to look at ways of reducing taxes, but not to specifically look at reductions of expenses, I thought was a fault. The fact that the Commission's report was to come out after the general election I felt was political in nature and did not serve the people of Philadelphia.

That being said, I think that the report and recommendations that were put forward by this wide variety and diverse group that was called the Tax Reform Commission should be applauded. It was passed by the people of Philadelphia I think by over 80 percent. We spent $500,000 of the taxpayers' money to create the Commission and pay for its staff. I think the work that they did is a valuable part of the property of this City and something that needs to be discussed by all of us as we move forward to try to save

Philadelphia and continue to make it the place where people want to live, work and play.

I applaud Councilwoman Tasco for passing the resolution up for these two days of hearings.

I thank Councilman Nutter for putting the bills in that represent the different topics of the Tax Reform Commission so there can be movement in the Finance Committee to see what bills and what compromises of bills can come forth so we can look at the antiquated taxing methods that we tax people in Philadelphia, and one of the reasons why people stay away here.

I thank Councilman Kenney and Councilman DiCicco for being here. It's easy to do this because there aren't that many here.

I thank Councilman Goode, who's always been a profile of courage when it comes to the business privilege tax, for being here.

And of course Councilwoman Blondell Reynolds Brown, who I happened to endorse the year that she didn't win.

And of course you, Madam President, for your leadership all these many years and your future leadership here in Council.

These two days are supposed to be days upon which Members of Council can listen. To listen to Governor Schweiker. To listen to members of the Tax Reform Commission as to the reason why they came up with the ideas that they did. The true battle ground will be in front of the Finance Committee, as it was reported out whenever those hearings are. And I would respectfully request that those hearings in the Finance Committee be held not right before the end of our fiscal period, but during the entire mix as we begin to look at the Mayor's state of the City address and his proposed budget and his Five-Year Plan as it is submitted after his state of the City address.

I say that the operational deficit for the City is different than the Mayor says. I don't know what PICA says, but the reality is that we all know that we have an operational deficit. We all know that people are leaving Philadelphia. We all know that businesses are not coming here and businesses are leaving the City. We all know that. Regardless of our attitudes towards other individuals in elected office or other individuals in elected office at another floor in this building or across the street at the municipal services building, we all understand that Philadelphia has problems. We all understand that. It is therefore our responsibility to come together and fix those problems as best we can.

I think the Tax Reform Commission's recommendations are certainly, at a minimum, a beginning. We should open up the budget of the City of Philadelphia, we should look at every operational department, every way that this City spends money, and look at it in an open and transparent way, all of this collectively, to see where we can cut, where we can cross-train, where we can create opportunities, where we can have the state and federal government pick up expenditures that they should be paying for, such as I-95 and the Expressway and the fact that we don't have any state parks in Philadelphia. There's a variety of things we can do. And as we look at that situation and then create an economic development formula for the entire City, we then should incorporate the recommendations of the Tax Reform Commission, which includes the reduction of the business privilege tax, which includes increasing the real estate tax to where the percentage of land value tax becomes 50 percent over 10 years, where we can begin to set up an overall program to save Philadelphia.

Most of us here this room -- and I dare say all of us here in this room -- were born here. We raised a family here, and we will die here. We all know that there is a problem. The end of this day will not mean the end of not looking for better ways to streamline our government, create an effective taxing system that will not impede people from living here, that will not impede businesses from coming here, and I think create an opportunity. And none of that should be done with any type of ulterior motive, except for the motive that at the end of day the offices that we hold are merely temporary. But the value that we have of being Philadelphians and the fact that we live here is paramount to our responsibility to make the fundamental changes that have to be made for the City of Philadelphia to have a future.

Many of the programs and many of the bills that have been put forth by Councilman Nutter as part of the overall package don't cost any money. The fact that you want to have taxes being paid on estimated payments four times a year doesn't cost us a dime. The consumer advocate within the Board of Revision of Taxes doesn't cost us any money. We can then, I think, look at the Tax Reform Commission and say collectively what we can all agree on, pass those pieces of legislation and then begin a transparent and open discussion, because I'm sure there are some people that would like to reduce business privilege taxes or would like to extend out the wage tax reductions because of the fact that we're anticipating $135 million from Governor Rendell's slot program to reduce the wage taxes dollar for dollar. There's a variety of things that we can look at. But we ought to look at it as a government, as a government, and look and just completely continue to redefine who we are. Look at our budget, streamline it where we can, make changes where we can, and then incorporate all the different programs that we can in a comprehensive and systematic way from today forward so that we don't end up having a hearing on these bills, and some time before the end of the fiscal year where someone will say, well, we can't do any of theses things because it's already too late in the day. Or we can't change the budget because it's already been passed and totaled with some minor modifications. We know there's a problem. We know that people aren't coming here who need to come here. We know businesses are leaving. We know we need to attract businesses. We need to keep the systems of higher education and the wonderful output that they have of young people that are intelligent and hard working from leaving Philadelphia. These are the challenges that we have.

Again, I want to thank Councilwoman Tasco for having these hearings. I want to thank Councilman Nutter for putting those bills forward so we can have those hearings in Finance. But in the end we can argue all day as to whether my numbers are right in relationship to the Mayor's numbers as to what the operational deficit is. But you can drown in two inches of water as much as you can drown in 10 feet of water. What we need to do, I believe, as a government is to move forward in a comprehensive way and take advantage of the tremendously hard work that the Tax Reform Commission did. From the wide diversity of groups it was passed 14 to one within the organization. Take what they have, use it as a nucleus. Look at our budget and consistently work, all of us collectively, to make things better as you move forward in this fiscal year and for years forward.

I appreciate the time for being here with those few that are here. And thank you for the opportunity of allowing me to speak today.

Again, as you know, Councilwoman Verna, I did not anticipate coming here to speak. It is an informational two days, but I was concerned about what I saw yesterday, and I wanted to personally thank all of the Council people for being here for the last two days and for showing the people of Philadelphia that they're concerned about their future and are willing to listen and learn.

I've always believed as an elected official I don't have all the answers to all the questions. One of the key items of being a true elected official is to understand that you don't even have all the right questions in order to get all the right answers. So the fact that we're all here listening to the members of the Commission and a variety of people that are affected by this, I just want to thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

(Applause.)

COUNCIL PRESIDENT VERNA: Mr. Saidel, can you share with us what you see as the present deficit?

MR. SAIDEL: My difference between the Mayor's, to be very simplistic about it, is that what we forecast higher revenue projections for the next number of months than the Mayor does and less of a number of expenditures. The operational deficit may be around $70 million, which will leave a $47 million surplus. The Mayor, I think, is now at $114 million and counting. He was at $144 million, but I understand a quarterly report came out which says he's down at $114 million.

The problem is if the operational deficit is just strictly braced upon changes in expenditures, those expenditures are controlled by the second floor, and I would hope that the Administration -- and I don't know for sure whether they are or not -- is going to continue to try to restructure their plan projections for expenditures so that we meet with a balanced budget, which is our responsibility by law by the end of the fiscal period.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good morning, Controller. Does the City have a comprehensive strategy for economic growth?

MR. SAIDEL: Nothing that I've seen in 15 years.

COUNCILMAN GOODE: Who do you believe within City government is responsible for creating such a strategy?

MR. SAIDEL: It is, I believe, the Mayor's responsibility.

One of the problems we have had in Philadelphia -- and I know that there was a resolution put forth by Councilman Clarke that

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has to do with his district, that he wants to talk about the overall economic development strategy within his own district. That's all well and good, but that's one of 10 councilmanic districts. We ought to have an economic development scheme that affects the entire length and breadth of Philadelphia. Because the only way that any of this really works is that if you have an overall plan on how a TIF affects your scheme, how an abatement affects your scheme, how the low interest loans that are given out in many cases by the City affect your scheme. The fact that we don't have an overall economic plan, I think is a clear indication of the reason why many of the patchwork development schemes that we have don't work and effectively negate each other in many cases.

I believe it's the second floor's responsibility as the leader of this City to have a plan. Because that plan then becomes the dream that you have in relationship to where you want to see the City go. That doesn't mean it has to be done in tunnel vision. It should be done with your participation because of your concerns. It should be done with Councilwoman Tasco's participation, all of us, because you have input as to districts. You have input as to your expertise over the years in other areas that you've worked and it should be done in a comprehensive way. The buck ends with the Mayor's office on the second floor.

COUNCILMAN GOODE: In your role as Controller, as fiscal watchdog, do you have any charge to take into consideration economic concerns or is it just the fiscal bottom line? In other words, is there any direct charge you have as to fiscal watchdog to make decisions or to make recommendations based upon the economic environment we're operating in?

MR. SAIDEL: I think if you look at the City Charter, my office is the Auditing Department, and I have probably gone so far beyond the two pages that created the department that, you know, I attack anything that I think is a problem and recommend solutions wherever I think that I have an opportunity to recommend solutions.

Our mid-year report talked about the problems of TIFs. We talked about the problems with some abatements. One of the things I've always talked about, which is a concern of yourself and Councilwoman Tasco's, is the fact that there's no overall economic strategy and no real coordination of all those different departments in city government that deal with that strategy, if you had one. But I've never been one for being just guided by the three pieces of paper in the Charter that created the Auditing Department.

COUNCILMAN GOODE: Well, the reason I asked the question is some might suggest that the whole debate over tax reform will be reduced to we can or cannot do it based upon balancing the budget. So I'm actually asking what is your responsibility as fiscal watchdog in terms of viewing and presenting tax reform as an investment, and what would be your official role in terms of how you view the money that may or may not be spent on tax reduction?

MR. SAIDEL: I don't know how to answer that as my official role, but in relation to guidelines that created my office in 1951, it's been a long time since I looked at them. I will tell you what I will do as Jonathan Saidel, the current Controller of Philadelphia. I'll be up there hip deep in whatever discussions there are, because it is not just simply a matter of dollars and cents. It is a matter of the future of the City that we all love.

I'll give you an example. Why does the federal government give us charitable deductions as an itemized deduction on a tax return? They do that because they want to give an incentive to people to give charitable donations because it alleviates the federal government from having to be involved in those activities and it's cheaper in the long run. Taxing recommendations and the way to reform the taxing structure has to have, not only just an impact upon the budget that exists, but it needs to have an impact on budgets that you hope exist, which means that if the Tax

Commission's reports or any type of tax legislation can work, it needs to effect the economic viability of the people that it's involved with.

To me, tax reductions and tax change policy has two things. One, it affects the cash that you have, but if done properly under and over all economic forecasts as to where you want to be years from now, it can affect where that money comes from in the future and the type of economic diversity that I think this City needs for it to be viable within the next century.

COUNCILMAN GOODE: Do you believe that the tax reform package has to accompany an economic development strategy?

MR. SAIDEL: I think anything that we do has to always have within the back of its mind a development strategy. By that I mean, you heard Governor Schweiker talk about the loss of jobs. I think Philadelphia has to decide what it can be and what it can't be. How we can use these geographic strengths between Washington and New York as an example.

To look at the schools, the systems of higher education that we have, to try to keep those people here, what's called educational attainment level. To bring those types of businesses here, I think we have to do all that. Or I think a taxing structure needs to be used to promote not only the economic well-being of its budget, but the economic well-being of the population and diversity -- and I'm talking about the economic diversity you're try to create, as well as having a strong middle class, which I think is the economic backbone of any large urban area.

COUNCILMAN GOODE: Lastly, on the 10-year elimination of the business privilege tax. What do you think about the proposal to eliminate the gross receipts portion the first five years and then the net income portion in the second five years, as opposed to gradually eliminating them both at the same time?

MR. SAIDEL: I think there's an argument either way. The problem with the net income portion is that there are a variety of companies that have large amounts of net income, but their gross receipts are located all over the world. Usually they are businesses that have portability where they do computer designs all over the world. They don't have any sales in Philadelphia. So I think we'd have to really look at the tax collections as they come in. Would I like to see the package approved in total? Yes. But I think we have to have a discussion among all of us so that we can get a variety of nine votes and really have a program in place. I'm more than happy to look at anything.

COUNCILMAN GOODE: Did you say nine votes?

MR. SAIDEL: All right, 12. I'll take 17. But I'm more than happy to have 12 votes on the second time around.

COUNCILMAN GOODE: Thank you, Controller.

MR. SAIDEL: Thank you, Councilman.

COUNCILWOMAN TASCO: Thank you for coming over.

One of the reasons we wanted to have this discussion now is because we were told not to discuss any taxes until the Tax Reform Commission completed its report, and we had not had an opportunity to discuss this report. Then we were advised that we should do it during the course of the budget. Well, if you look at the schedule of the budget hearings, you're not going to have too much time to discuss in depth the thinking of the Committee.

I don't know if people thought there was some notion we were going to come in here and vote to adopt this plan. My intention is to have this discussion so that these people who spent months and months and $500,000 of taxpayers' money to put this plan together, that it just won't be for naught and it goes away. Well, it was an admirable job and nothing got done because there will be the notion that, well, we can't do it now. But in the overall context of all of this, how do we begin to look at tax reform in this City?

It's spread out over a 10-year period, so it's not going to be done in the next budget cycle. So I hope my colleagues will understand that. I think they do themselves a disservice to miss the discussion of the legislative intent and the content and the thinking of the individuals who spent so much time looking at it all.

I agree with you that to have them not look at expenditures, although they may be outsiders and not understand government, they have some notion -- because I think I may have heard what Councilman Nutter was saying and some of the others -- that in the end, who's going to give us their analysis of the proposals so that there's just, like, another piece to this.

Then someone else was saying, Well, given the budget, given the Five-Year Plan, given some of the proposals from the Tax Commission, we think you can do this.

So there's a point of discussion. Because what ends up is 9 out of 11 people will say, Well, no, we can't do it right now, and there's no real discussion about how it can be done.

If you're given a movement or just

the actions of Councilmembers, they're not even going to want to hear the discussion. And we're not going to have that much discussion in the next few weeks. You've got two days of tax debate. How can you have two days of discussion in a tax debate? So I agree.

I'm just concerned that we will have had a valid position, a vote by the voters who said we want something done about the taxes. We will have these people who spent their time and this money to do it and then politically we don't have the political will because somebody thinks there's a grand conspiracy to embarrass someone, okay, and nothing gets done. And that would be very sad, and a disservice to the voters. I think the voters ought to hold these people accountable to it.

MR. SAIDEL: If I can just make a statement. My office can be used as a reservoir for the almost 50 CPAs, if you need any kind of analysis done. I'll drop everything for this Council. And anything that is specifically requested to analyze, you have the full usage of my office for any impact on the expenditure side and any analysis that you might need on specific expenditures that are part of the budget. It would be my pleasure.

COUNCILWOMAN TASCO: Thank you.

Councilman Goode did steal my question because I asked him this morning who in the City is in charge. And I remember back in '83 before I came to Council, Councilman Joe Coleman put together an Economic Development Committee Task Force to look at the City, but it didn't go anywhere. That's what we do when we don't want to really address an issue. We put forth a committee and put them in charge and the committee does nothing.

Fortunately, this Tax Commission did do something. They took their task and their charge seriously and have come forth with a serious document which probably some people don't want to happen. But we don't have someone who sets the policy. I think that's critical. That's why he took my question.

Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

Jonathan, thank you for your insight into this issue. I just want to say, all the years I've known you -- it's been a long, long time -- I think we both kind of came into this business around the same time and around the same age group, and I've never seen anyone in public office that is more committed and more forthright and displays a passion that really is needed in this City. You really care about whether this gets done right. You really care about what happens. It's not just about filling a job or filling a role. You really are committed to making this a better City and I'm proud to be your friend and I'm glad you're our Controller.

You raised the issue of budget deficits. In the year 2000 when we were sworn in for a new term, what was the surplus for the City then?

MR. SAIDEL: The surplus before the last fiscal period?

COUNCILMAN KENNEY: 2000.

MR. SAIDEL: It was probably around $150 million.

MR. MCPHERSON: I agree.

COUNCILMAN KENNEY: And the budgets that we passed in 2001 through 2004, they were all balanced budgets, correct, as our requirement?

MR. SAIDEL: Yes.

COUNCILMAN KENNEY: And the Five-Year Plan that we continue to add to every year projected out were all balanced as a result of the requirements from the State?

MR. SAIDEL: Right.

COUNCILMAN KENNEY: What are the factors in your mind that have put us, whether it's your number or the Mayor's number, that have put us in this situation facing either $40 or $140 -- you know, a $700 million, five-year problem, whatever the number is --

what are the major factors in your mind that created this situation?

MR. SAIDEL: We've have had a number of unanticipated expenditures, additional transfer of real estate tax collections to the School District, the cost of NTI, the bonds, the additional expenditures of police overtime in relationship to the Mayor's additional usage of uniformed police officers on the streets of Philadelphia. I'm not criticizing them. But I always look at government relationships that when you walk into the market and you've got $60, no matter how cute you are, you're not getting out with $90 worth of goods.

COUNCILMAN KENNEY: Unless you have a big coat.

MR. SAIDEL: Yes. Unless you're going to steal.

I look at government the same way. You can have dreams and aspirations, but they're also confined by the parameters of the reality that exists. I think that there was no dramatic reduction of revenue that was collected. If that was the case, then that's something -- if, God forbid, 9/11 occurred here, we wouldn't even be having this discussion because there would have been external forces at play. But that's not the case. I think one of the major problems we have is that the expenditures have grown greater than anticipated in relationship to the revenue that was projected. We have actually increased our revenue beyond projections, but expenditures have grown.

COUNCILMAN KENNEY: You're an accountant by profession in the accounting profession and you teach also. The budget is a tool. It's not just a document that we sit in here and fall asleep on and listen to the Commissioners rattle on and we give them what they want or what they ask for and we pass the budget and the budget is just a document that is meaningless. In business, the budget is a tool that is analyzed on a monthly basis, a quarterly basis. It's adjusted. There's discussion about it. We don't seem to do that in the running of this government, the way a business runs.

I understand government is not business and every issue a business is involved in should not be replicated in government. I understand that. But as far as the budget as a tool, isn't there a need for this Board of Directors to have some input on an ongoing basis with at least discussion and information about expenditures? Because I know that when we pass these successive budgets, no one ever came back to us and said, "You know, what we'd like to do is, we have a program. It's going to cost a little more money. We need to move some money from here to there. What do you think about that and what effect does it have on our budget?"

Collectively, as you said earlier, collectively we kind of govern. What is your view as to the way in which the budgets that we have are used or not used as tools to direct this business or direct this governmental entity? It's really bothersome. Money is spent without just even a discussion. Once we have passed a budget, the document almost becomes totally meaningless.

MR. SAIDEL: That's always been, as you know, a concern of mine. The only time that Council's involved in any changes in the budget during the fiscal period is when they have transfer ordinances because they need to, by law, come back and ask to move money from one operating department to another. And based upon the PICA legislation that created the oversight committee, it also created, I think, a better accounting system. There's a quarterly report that's put out. That's an internal document that's generated by the Finance Department upon which none of us have any input in relationship to what we'd like to see happen.

We're no longer the be-all and catch-all in the Delaware Valley surrounded by suburban farms and villages and apple orchards in South Jersey. I think we need to almost look at our budget and changes in direction, if not on a monthly basis, if you can do it on a weekly basis. I think input from the wealth of talent in Council is a vital necessity

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because you become the eyes and ears of an Administration. Everyone besides the Mayor in his Administration is not elected. He's got thousands of employees, but the only one that's truly elected by the people of Philadelphia is the Mayor himself or herself. Certainly, I've always believed that influences and contributions of knowledge from other elected officials in no way impedes upon my responsibilities, but I think makes me a better elected official by listening to them.

COUNCILMAN KENNEY: I voice this because the real frustration for me in this environment and in this process is that a lot of what we're going to be told we're not able to do is a result of decisions that were made on expenditures that we had nothing to do about.

The real ultimate problem with tax reform is going to be, "Well, we can't afford it right now because we have this deficit. We can't afford it right now because in order to do this we're going to have to cut services somewhere."

And I think that this is the time we need to do it. It may be the worst environment to do it in because we'll have all the potential excuses for not doing it. But all of those excuses came about as a result of little or no cooperation or sharing of information or even telling us what it's all about.

What happens is we wind up getting criticized or put in a bad light because if we have a question, God forbid, about a $60 million overtime issue, we don't want to see the City of Philadelphia have safe streets. Well, that's not the case at all. We all do, but within the confines of our ability to pay for it. And now within the confines of our ability to reform our tax structure is all going to be impacted upon the decisions that were made unilaterally over the last four years.

And it's extremely frustrating because I know what the song will be when we get to the point of voting or not voting for these things is that we can't afford to do it now because we're in debt.

MR. SAIDEL: I don't think that anything should be voted up or down in totality. I think the only time that Council really has, unfortunately, based upon the process, has a real opportunity is during these budget hearings. You can effectively recreate a budget.

COUNCILMAN KENNEY: But as Councilmember Tasco said, we have very little time. We're usually dealing with this issue mid January. We're not dealing with it now until mid March with a PICA deadline of, what, May 30th?

MR. SAIDEL: I know. The problem has always been, if not now, when? I have not gotten to the when point yet in 15 years of being an elected official, so...

COUNCILMAN KENNEY: Well, what I would ask you to do, because you have a cogent, clear voice on this stuff and a lot of credibility, is to keep on pushing us and pushing the public for us to do something now as opposed to in the future.

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Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: First of all, thanks for your good work, and I think you know that I value your reports, your audit reports. As a matter of fact, your audit report from a few years ago motivated me to look into an issue that has not yet been resolved. And, unfortunately, the City Controller audits but has no enforcement power, which you explained to me.

I'm curious, how many departments have you identified problems with the way money is spent?

For example, for years and years you've been pointing out that the police overtime program, where police officers work on their days off, the fact that the City pays the police officers. But millions and millions and millions of dollars have not been collected because of, A, shoddy paperwork, the fact that the customers never paid the bill but continued to get the service. That is a disgrace. And it's millions of dollars which I believe your representative at the meeting identified that have not been collected by the City, one way or the other.

My point is that the Administration makes a statement, which it sounds good that there's not going to be any cuts in police or fire. At least I believe I've heard that said and I doubt that that would be the fact once this budget hits. The Police Department and the Fire Department really need to be looked at, because I get reports regularly -- an example, telephone lines in the communication system when we changed over to the new radio, dozens of telephone lines were disconnected because they weren't used, but we continued to get phone bills for lines that provided no service at all. Radios, batteries that could have been recharged thrown away, $50, $60 dollars a piece that the police officers and fire fighters use.

I'm a strong supporter, as everyone knows, of our Police and Fire Department. But

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it seems as though every time you want to look at the Police or Fire Department they say, "You can't look. This is the Police Department. It's privileged information."

I really need to hear from you what we can do to try to run these operating departments. Because it took me to at least get the Administration -- and they weren't going to do it willingly on the police overtime issue -- I had to do a resolution, which my colleagues supported. The day before the hearing, I started to get a response from the Administration. And we're talking millions and millions and millions of dollars that the taxpayers of this City were not being reimbursed for.

I appreciate the good work of you and your staff, but they have to start listening, because you people are professionals in identifying where they can do better. What is the resistance of them doing what you recommend or communicating why your recommendation isn't a good one, if in fact it isn't a good one? But I can't imagine when

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you point out when money isn't being handled properly how anybody could argue with that. But use the example of years and years and years of pointing out that they had a flawed system in collecting money for police that worked on their days off. It just boggles my mind.

MR. SAIDEL: I certainly understand your concern. One of the tests of independence in accounting and as an auditor is that you cannot audit an agency of which you have management responsibilities because that would be an inherent conflict. So the way the Charter reads is that we can make recommendations to run government in a cost efficient way, but we have no ability to enforce that, which is one of the reasons why I allow the different operating departments to have a variety of exit conferences and to report, and I attach their written response to our recommendations to all the audits that you have so nicely thanked me for. And that information is disseminated to all Members of Council and to the Operating Department

Commissioner, as well as to the Mayor and to those individuals in the Mayor's Administration that are responsible for it.

If you criticize the Defense Department of the United States and you're a Congressman, it doesn't mean that you're not patriotic. If you criticize the manner in which the Police Department or the Fire Department live up to their obligations to spend almost 45 percent of our budget, that doesn't make you anti-American or anti-Philadelphian or anti-police or anti-fire. Because if they spend their money in a better way, fire fighters' lives will be saved and police officers technically will be able to do their job in a comprehensive way and, I think, save lives.

The only thing that I have ever advocated is that -- and you have done this, so you're actually somebody who can respond to it -- is that the list of recommendations that we had made and its effect upon the cash that is spent and the expenditures that are spent in each one of the operating departments, and the question that you had that my office worked with you on as far as reimbursement to the City for officers working on their days off with the same police powers, those questions should come up when the Commissioner is sitting here. You know what I mean? And if they could have saved a $100,000 because they didn't do what they're supposed to do and they knew about it, therefore they had notice on it, I would take $100,000 off their budget for that.

One of the ways that my parents always got my attention was when I went from $2 allowance to $1 allowance if I didn't do something. I think unfortunately sometimes in government you have to make sure that people take judicial notice when they get less money.

COUNCILMAN RIZZO: I think you'll recollect it was significantly more than a $100,000.

MR. SAIDEL: I'm using that as an example. And you know that police and fire, they can't use the fact that something is confidential. The only thing that's

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confidential in the police department is the use of RICO (ph) money, money that's acquired for the eradication of drugs and drug forfeiture money. That money is audited by me and then that audit is not sent to you. It is sent to the Attorney General of the State, and the Attorney General then sends that audit report to the Justice Department in Washington.

COUNCILMAN RIZZO: Don't ever try to ask them how many police officers are on duty in a particular district on a particular tour. They have a big umbrella that protects them from answering that question.

MR. SAIDEL: That's public information. That should be disclosed.

COUNCILMAN RIZZO: So can you think of any other areas, significant areas like we're talking, maybe well over a $100 million that you've been identifying for years and years and years and they've been, for lack of a better word, blowing you off and not doing anything about it? Are there any other areas that we need to know that we as your colleagues in Council can -- and that's how I believe you referred to us -- that we can help? Because if they're not responding to you, hopefully together they may respond. It's a disgrace to see all of that money out there, and especially when we're talking about tough times ahead.

You mentioned about the state patrols on I-95 through the interstate highways. We're talking another $6 million. Somebody has to do something about these issues when we've identified them and you've spent such amount of time with your resources to identify these areas and no one is doing anything about it. In my opinion, it's a disgrace.

MR. SAIDEL: I understand that, Councilman. As Councilman Kenney mentioned, when an Administration tells you that they're operational deficit is $114 million, that's based upon their numbers. What about if their numbers can be changed to make government more cost efficient and still provide the services, then their own deficit will go down. I mean, these numbers are not -- you know, Moses didn't get them up on Mount Sinai. I think, as I had mentioned when I had spoken off the cuff, that we really have to have a transparent system here. And all of us have to participate because we have tremendous opportunity to do a lot of good. And if we don't force that hand, then I think we have a lot to be called for.

I think a deficit can be eradicated a little over here, a little over there, so, as my mother would say, at the end of the day you've got some money. But also the deficit that is broadcast is a deficit based upon the numbers of the person that's broadcasting it. I think you can do a variety of things and be much more imaginative to get to a number that everyone will say, that's the best we can do this particular year. Then let's look at an economic plan. Let's look at some tax reform that can get us one step closer to where we'd like to be.

COUNCILMAN RIZZO: Could you possibly make a note that I would like to have -- and I believe I have it -- the most up-to-date audit of the Philadelphia Police and Fire Department?

MR. SAIDEL: I will send them over to you this afternoon.

COUNCILMAN RIZZO: Thank you, sir.

Thank you, Madam Chair.

COUNCILWOMAN TASCO: Councilman Nutter.

COUNCILMAN NUTTER: Controller Saidel, again, thank you again for your testimony.

I wanted to, while we're in the same record, at least provide some perspective on a couple issues that you raised.

One, I do respect your forthrightness with regard to what your position may or may not have been at the time of the creation of the Tax Reform Commission. And it is certainly clear since that time that you have been a most enthusiastic supporter of the Commission and of the Commission's work, and I commend you for that. It's helpful to have your voice as a part of the dialog on taxes. You do play a critical role in laying out an alternative view to our financial situation and making recommendations.

You and I are certainly in agreement in putting the proposal together for the Tax Reform Commission. And one of the reasons that I felt, and many others, that the better way to go as opposed to any of the other ways to create such a body, whether it's by Mayoral Executive Order, whether it's by resolution from City Council or a task force or anything like that, is I strongly felt that if the voters empowered this group of people to do their work, that these groups and organizations, more often times than not, take their charge from the people who help put them together.

At times there have been occasions where any of us in the body of politics have put together entities ostensibly for the reason to study something, but in some instances we'd like it to just be studied and maybe ultimately nothing happened. I believe that, empowered by the voters, the Tax Reform

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Commission would take its work seriously and feel compelled to go beyond what often commissions or task forces might normally do.

With regard to the technical inability of the Tax Reform Commission, for instance, the first concern that you expressed, that they could not look at the spending considerations as opposed to just the cuts or revenue enhancement, as well as even the date of the issuance of report. Let me state for you very directly that if you look at the bill that was introduced for the Tax Reform Commission, you will see that they had both the power to look at all of the components of the City government on both sides of the accounting ledger, both spending and revenues, as well as the expectation, I believe, that the report was going to be released either on July 1, 2003 or on July 15, 2003. Both of those issues and a few others were changed at the request of Mayor Street and some other Members of City Council. Those of us more directly involved, quite honestly, had to make a judgment call as to whether or not the good work of the Commission was more important, at least in terms of getting either 9, and because it was a Charter provision, 12 votes required on the resolution. And I did make that judgment, along with others, that the Commission, once empowered, within reason would do the things that it needed to get done. I thought that the report should come out earlier, and that because of the nature of what was going on last year in the mayoral election, that this issue certainly was one that deserved consideration, if not debate.

So I wanted to, at least in the context of the conversation, lay out that there were some compromises made against, quite frankly, the will of those of us supporting it. But you know about the need at times to make those political judgments.

Second, Councilman Goode, both on his own and as well as Councilwoman Tasco, were thinking about these questions about whose responsibility it is to have a plan for economic growth. One, I think you're right in terms of where the responsibility lies. But we've asked this question before, and I recall, I believe at last year's budget hearings or the year before, the response to that question from the City Planning Commission was that actually we should prepare for and anticipate a smaller City and learn how to live in a smaller environment and we should just comfortably go into that good night, acknowledging that we will not grow and figure out how to downsize this environment. It seemed to be a plan for economic shrinking, not economic growth.

When the discussion was going on, I wrote down a note to myself that we were on the verge of creating a municipal respite and that we just want to be comfortable as we die this slow death. I think that that kind of thinking is irresponsible and is an insult to the citizens of this City.

So we have a challenge before us. And whether it's this round of hearings -- and the Councilwoman is to be commended for it -- or when we get to the 13 bills, which will just be a quite interesting day, whatever

Committee the bills are heard in, to listen to testimony and try to make very complicated decisions on at least 12 of the bills that have very serious components to them.

There might not be much debate about the bill to do away with the real estate non-utilization tax. We probably won't have much of a fight about that. But I've had the concern for some time with the switched around budget process. As Councilman Kenney said, normally we get it in January; now we're getting it in March. How we complete our job and our task is of great concern to me. So I think having these hearings at this time sets a framework for our future discussions.

We had Mr. Vignola up earlier for PICA. I'll call it a low level accounting or economic dispute that's going on now, for instance, between the -- I don't mean to make it more than it is -- difference of opinion between the Controller's Office and let's say the Budget Office or the Mayor's Office on what these numbers are. What's the engagement, I guess, between the Controller's

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Office and the Budget Office on the fiscal health or fiscal status of the City? Or are the two mutually exclusive, and you say what you say and the Administration says what it says and never the twain shall meet?

MR. SAIDEL: Let me just state for the record I've been disappointed with the availability of information from the Budget Office, to be pleasant about it and polite about it. My position has always been, these are the forecasts. This is the bases and the analyses that's done to get to that forecast that we have when the City presents its numbers. I think immediately we should sit down and go through our foundation for our analysis so they can go through their foundation so that there's no animosity. It's not like it should be a closed system and effectively this becomes some sort of a state secret as to where these numbers come from.

Historically, governments have been pretty open. This is my third mayor that I've been Controller under. Lately though, I have been concerned. I don't have any communication with the Finance Director at all, and so usually this work is done as a relationship between my budgetary analysis office directors and the people within the Budget Director's Office to try to find out what the differences are. Because to me it's not a question of being right or wrong. It's forecasting. And as you know, Councilman, forecasting is not 100 percent reliable. But when I say it's X and the Mayor says it Y, let's just get together and figure out -- you know, because maybe I've got to move a little bit and you've got to move a little bit, as an example. Because in the end we find out when the fiscal period ends. But it is in many cases, This is what I'm going to state and this is where I'm going to stand and I'm not going to tell you how I really got there and you can say whatever you want.

Now, there could be a variety of reasons why the Administration announced that the deficit in the beginning of the year was $144 million forecasted and now they're down to 114. I don't know what the other reasons are that they did that because they haven't confided in me. And I still don't know where the 114 came from in relationship to what we say it is. But it's not an open process that I wish it was.

An example would be that if the Mayor of Philadelphia says there's $144 million deficit or surplus and any Councilmember wants to know where that number comes from, they have that absolute right, I believe, to get all the information that's available to justify what that number is. I think that that's the way government should be run. But that's not necessarily the communication that exists today between my office and the Administration.

COUNCILMAN NUTTER: This will be my last question, or I can couch it as a request, similar to Mr. Vignola.

When the budget comes in, will the Controller's Office take the FY '05 budget and the Five-Year Plan, look at the recommendations of the Tax Reform Commission and formulate an opinion as to what the impact on the stated budget and Five-Year Plan would be if the 13-bill package were adopted?

MR. SAIDEL: I'm more than happy to do that. I'm not going to answer like Vignola.

COUNCILMAN NUTTER: I'm stunned with the response. I can't formulate another question.

MR. SAIDEL: Yes, I will do that.

COUNCILMAN NUTTER: I'd appreciate it. That would be very helpful to us. This will require a significant amount of analysis.

MR. SAIDEL: If the choice is between finding out whether petty cash slips are sequentially numbered in a City that has an operational deficit and will continue that way unless we make changes, or is spending my talent pool of employees to come up with an analytical discussion that you can use and other Members of Council can use as you look at the Tax Reform Commission's recommendations and comparison to the Five-Year Plan, everybody that works for me is under your disposal, every Member of Council.

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COUNCILMAN NUTTER: Thank you.

Thank you, Madam Chair.

COUNCILWOMAN TASCO: Thank you.

COUNCIL PRESIDENT VERNA: We need a five-minute break for the stenographer and then we'll call on Mr. Jonathan Stein.

(Brief recess.)

COUNCIL PRESIDENT VERNA: We're back in session.

Our next witness is Commissioner Jonathan Stein. Good afternoon. Thank you for your patience.

MR. STEIN: Good afternoon. Thank you.

COUNCIL PRESIDENT VERNA: Do you have prepared testimony?

MR. STEIN: Well, I gave to Mr. Green, I believe, some written remarks I had gotten published. And they may be being distributed.

COUNCIL PRESIDENT VERNA: Are those that were in the Daily News?

MR. STEIN: Yes. I've had a number of my reviews published in various papers and

I feel that might be a succinct way of having them for you.

Good afternoon, Madam President. I'm Jonathan Stein. Most of you know me as General Counsel at Community Legal Services, but I was also appointed by Madam President as a member of the Philadelphia Tax Reform Commission this past year. I had a particular interest in joining the Commission's work. I embrace the general thrust of the Commission's directions as to how to support economic development growth in the City as well as tax equity.

I also was concerned that there might well be a number of voices in the City that might not get heard on this Commission. And in viewing who was pressing and lobbying for a variety of measures, I thought that that didn't necessarily reflect the entire City, and there were community organizations, there were voices that needed to be heard if we're going to engage in a major public debate on allocation of scarce tax dollars in this area.

And indeed, I was a dissenting

member of the Commission. Although, as I'll make clear in a few minutes, I did not dissent from all the recommendations. In fact, I hardly embraced many recommendations of the Commission. But because the Commission had made no provision for publishing or presenting dissenting views in its final report, I particularly welcome this opportunity. And I certainly took the opportunity to make my views known in these various hotbeds, the Inquirer, Daily News, Philadelphia Sun and City Paper, which you have before you.

On the first day I participated in the Commission I made a point about the complexity of what we were facing. The issue is what does support economic growth and population coming here and staying here in the City. And my concern was that if you just looked at one factor or one tax or a couple taxes, you weren't taking a realistic, honest, complete view of tax policy and tax reforms. Because the reality, as Mr. Vignola said this morning, just a couple hours ago, is that these taxes are one piece of the puzzle. And if you're just looking at one piece and you're making decisions that affect hundreds of millions of dollars of City revenue looking at one piece, you're not really, I think, doing justice to the issues before us.

I made a point of the need for the Commission to commission research that would look at the variety of factors that everyone in this room knows affects population and business. And they include not only the various taxes before us, but also schools, quality of the labor force, our transportation system, public safety and crime, the cost of insurance and a number of factors that are very real. They have play every day. This is not an impossible task to do.

The District of Columbia's Tax Reform Commission just a few years earlier had taken on a very similar task and they did commission research that did an honest job at looking at the multi-factors that deal with economic development and population growth. This Tax Commission in Philadelphia chose not to do that. I never, I think, really received an adequate response as to why they chose not to do that. But they made the decision and that decision is reflected in their recommendations. Their decision was to commission research and look at just tax factors, or we commission existing research where you essentially play out what happens when you cut a wage tax, a business privilege tax and what supply side economic consequences are there; how much money is freed up. And with using a formula or model, what good consequences come from freeing up that money.

The people who did that research for the Commission readily admitted, but you don't see it very prominent in the Commission report, unfortunately -- it may be in the foot notes someplace or it's not even in a foot note -- that essentially that kind of research has an inherent bias of not looking at all the variables and all factors that effect population and growth.

They also made the qualification that their predictions don't hold water if services are cut. If the infrastructure of transportation, social services, fire, police, and the rest are adversely affected by your tax cuts, then all bets are off. Then all these predictions about thousands of jobs won't happen. That you'll find in some foot note of an economist. You won't find that very prominent in the final report. I'm here in fact to say that's reality. That's a factor that needs to be taken into account and that qualifies the whole package of recommendations that's before you.

Now, this is not to say that taxes are irrelevant. I don't want to be in a corner which says that this tax debate is irrelevant and taxes are not relevant. The real question is how relevant the tax is, how much weight and consideration do we give to taxes in relationship to other things, like a good work force that can work in jobs here. And that is part of the picture which I think was absent. And there was a kind of tunnel vision, and I think people had a rationale for that, to look solely at the tax picture and tax side.

I think what we are hearing this morning, some excellent questions from City Councilmen -- I know Councilman Goode asked them this morning -- were questions about economic growth. Where is the total picture, where is the total policy on economic growth. Because unless we have that total picture we can't just tinker with a tax here, a tax there.

The consequences obviously for major tax cuts are serious for the budget. And I know that's in debate this morning, some of which came out in Controller Saidel's statement. But there is a serious shortfall for the City when you have a major tax cut as proposed. A tax cut beyond that of what the Mayor already has in the pipeline, which as I understand is something like $364 million of tax cuts, are already in the pipeline that are unquestioned. And my concern was that in the shortfall, not only are potential essential services endangered, but the remedies that the Commission came up for the shortfall are essentially other taxes. Increase the sales

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tax base to deal with the shortfall. And they even say we can even increase the real estate tax. And I'm not sure that was prominently enough mentioned by -- maybe it was not even mentioned by anyone who spoke yesterday.

The idea of cutting a business privilege tax and a wage tax and then saying, well, we'll have a shortfall that can be made up by increasing real estate taxes --now, this is on page 76 of the Tax Commission report, Volume 1 -- that has serious consequences. I don't think this Commission seriously looked at what happens when you cut the wage tax in a broad way. And remember 40 percent of that comes from suburbanites, and those are people who are not represented by people in this Chamber. When you cut the wage tax broadly, cut and really end the business privilege tax and then say, well, that gap can be made up because housing values will go up, assessments will go up and indeed real estate taxes will go up, is that a formula for growing the City, for keeping the population here, for attracting people to a City where one of our great things about the City is the livability, affordability housing in the City for many, if not for all? So I think there are sides to this Commission report which need a fuller airing and assumptions that somehow by cutting taxes on the wage and business privilege side and raising them on the real estate tax as a consequence, that there's something good about that. I would suggest respectfully that increasing real estate taxes or an increase in real estate tax is not healthy for the City. It's not health for low income people. It's not healthy for middle income people. There's no provision here for really dealing with the impact on either middle income or low income people of a real estate tax increase. Seventy percent of homeowners and renters in the City earn less than $20,000 a year; 70 percent. And that 70 percent also pays over half their income for housing. And if you're going to institute any tax cutting that's going to have an effect of raising real estate taxes, you're going to increase homeless people, you're going to increase suffering and hardship on low income people and indeed on middle class people as well.

Now, another key element that was missing in the Tax Commission report is an area of progressive tax policy. Now, this is not some new deal thing or something from another century. This is what is called fairness and equity in tax policy. It's having people pay according to their ability to pay. And in terms of the wage tax, we have an enormously regressive tax which impacts on lower income people in a horrific way, and yet the Commission report did not do anything to make the wage tax more progressive, short of simply cutting it for everyone a bit equally, whether you earned $15 or $25,000 a year or whether you earned $50,000 a year or $500,000 a year or $5 million a year. The cut is the same. That's not progressive tax policy. When City Council set up the Commission it explicitly said in the ordinance that was approved by Council, that a guideline for the Commission should be tax equity in apportioning tax burdens. And one would have hoped that this Commission, which comes maybe once in a hundred years, would say something to make the wage tax more progressive, and it failed. It certainly said, well, let's do a better job of helping lower income people draw down Earned Income Tax Credit and the state tax forgiveness, and that's great and that's wonderful and the City should be pumping some money there because there may be up to $150 million of federal and state tax rebates or credits that should come into City residents that's not happening and the City would be smart to help people get that money down. But there's not any recommendation that makes the wage tax more progressive.

There was in City Council -- it was Councilman Cohen's bill, which a majority of Council one point passed would provide that kind of progressivity. It would say that the wage tax would have the same or similar exemptions as are in the state income tax. That would inject progressivity in the wage tax. Now, there's no magic formula for how that's done. There are formulas that can make it a bit more costly or less costly. You can set the line at 200 percent of poverty, which the state income tax does. You can do it at something less than that at poverty or even less than poverty, but the principal is important, that if you are working and in poverty or working at close to poverty, you should have recognition in City tax wage tax policy that you should get a break. There should be a recognition that you're having difficulty putting food on the table, paying a utility bill and surviving. And we should have progressivity on a wage tax to do that.

Now, I distributed two items, which may have got to your desk earlier in the year, which was research commissioned by the Keystone Research Center, and they provided the first economic analysis that's ever been done on why a targeted wage tax cut for lower income people should be adopted on economic grounds. Because what they looked at are a number of factors, including how much consumer demand for local businesses, Philadelphia neighborhood businesses, is created by having a wage tax cut that's targeted to lower income people, not a broad across the board tax where those 40 percent of suburbanites or commuters get a cut, but a tax that in fact benefits largely or almost solely Philadelphia people, who will largely or solely spend that money on Philadelphia businesses. They won't, as the economic analysis shows, put a chunk of that aside for savings or for their trip to Cancun or wherever they're not spending that money. And so there's a good economic rationale to say, a targeted wage tax cut -- and it can be as small as this Council wants to enact -- it doesn't have to be grand like the federal or the state income taxes do. It could be a small step in the right direction, but it would ensure that that money is spent in Philadelphia by Philadelphia people and by the neediest people in the City. I urge the Council to consider that as this tax debate continues.

Let me spend just a few more minutes on a couple of other points. On the whole wage tax cutting matter, I think it certainly is prudent for this Council to tune into what the Governor is doing. If the Governor is going to press a gaming tax as well as a small increase in the state income tax, which is a progressive tax, and that will produce a significant cut in the wage tax, might it not be prudent to embrace that, work to make that happen and then use that to advertise that we are going in the right direction on tax cutting. The Mayor is already cutting wage and business privilege taxes by over $360 million in the next five years. The Governor's proposal will add to that, and that puts you in good stead in my view that you're in the wage tax cutting business and that you value that as well. And I think what's going on at the state level certainly needs to be incorporated into the debate here.

I should say a couple of words about the fact that although I did dissent from the Commission's report, I did heartily embrace a number of its recommendation. I mentioned one significant one, which was having City support efforts to help lower income people draw down

Earned Income Tax Credit, EITC, and state tax forgiveness. There's an estimated -- and I can't personally vouch for it, but we're told that there's an estimated total of about $150 million in federal and state rebates that should come to Philadelphia residents, but because of the paperwork, the burdensomeness, the fact that there's very little free tax assistance, people don't claim that money. And the City would use its money in a real smart way to help groups help people draw down that money.

I also embraced pretty much all of the recommendations to reform the real estate tax assessment system, not to increase real estate taxes, but to reform the system as to how assessments are done. It's a system that discriminates against low income and minority residents. It has lots of problems of fairness and arbitrariness and really needs to be turned on its head in a major way.

Also, although I really was not a great enthusiast for the land tax, I have to say that I was brought around by studies and analyses that the land tax and the small steps toward the land tax that the Commission recommended over 10 years is a smart decision. It will benefit the large majority of residential homeowners and will give a message to speculators and people who just leave property vacant. I can say one in our neighborhood, the Toll Brothers Naval Home Site, which has been left vacant for a long time now, that it would be a tax message to people who leave property vacant that there's a price to pay for that, and that that's not what our City needs. Our City needs development, and a land tax is a way of giving the right message to have a more pro-development side to the City. There are a number of other recommendations there in the real estate area that I think are really very important that I also adopt as well.

I'd like to sort of conclude there. I know Shelly Yanoff, who was to follow me, has had to run. I know she left a very brief statement with you, and in its last sentence she concludes -- and her concern is City services. She concludes that our City does need a better and more efficient tax system, but we also need to maintain and increase our services to make the City a place where families and industries want to live. We cannot risk diminishing vital services on hope. And the hope she's referring to is really the speculation, the supply side assumptions that cutting the wage and business privilege tax in a major will get us $46,000 jobs or whatever down the road. She says we cannot risk diminishing vital services on hope. We need to build our communities with hope and also with support as well. That's how she concludes her testimony, and I'd like to sort of conclude mine with that as well. Two in one.

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

Are there any questions from Members of the Committee?

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam

Chair.

Mr. Stein, thank you for coming in. The one thing I guess I've been -- we haven't had a chance to talk about this. I know that you voted against the TRC report, although just here in your closing comments you made reference to a number of the recommendations that you agreed with. Are there any recommendations that you disagreed with of the recommendations that were made?

MR. STEIN: Well, I thought I made that clear. Frankly, if they were provisioned for a written dissent, which generally takes a place in many democratic forums in our country where a dissenting view is allowed to be published, I probably could have delineated in greater specificity as opposed to op ed columns, which enormously abbreviated my complete views, but because I wasn't afforded the opportunity of actually providing a written dissent --

COUNCILMAN NUTTER: Why was that?

MR. STEIN: Well, I guess you can ask the Chairman of the Commission, Ed

Schwartz. It was clear before the Commission's report was published that I had dissenting views and I can just say there was no provision in the report for a written dissent.

But your question, I guess, just a minute ago was, do I disagree with things in the Commission, and it's absolutely correct. I have enormous skepticism and I don't think the case was made for the major wage tax cut and the elimination of the business privilege tax as critical to population and business growth. I might have come to that If --

COUNCILMAN NUTTER: What do you think is going drive population and business growth?

MR. STEIN: Well, I think there is a variety of factors that are known to drive it, and it not only includes taxes. As I said earlier, it's not only taxes, but it's also things like quality of schools, quality of our labor force, quality of our transportation infrastructure.

COUNCILMAN NUTTER: I understand

that, but that wasn't within their charge.

MR. STEIN: Well, yes and no. You know, charges are not absolutely in stone or black and white. The charge was very similar to that of --

COUNCILMAN NUTTER: Mr. Stein, the charge was very clear and it was in black and white. It was in a question on the ballot and it was written in an ordinance and a resolution. It could not have been more clear.

MR. STEIN: The charge was the same as in D.C., and when the D.C. Commission on Tax Reform looked at these issues, they said, we have to parcel out what drives business development and population. Because if you just put all your eggs in one basket of hundreds of millions of dollars of City revenue in the future that goes into one tax cut and put all your bets there and saying, that's going to be the key to future economic growth, but the affect of that is --

COUNCILMAN NUTTER: It's not one tax cut. There were 13 bills involved.

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MR. STEIN: Excuse me. If you undercut other services that the City has to provide or your school system or your transportation system that businesses need and people rely on, you undercut what you're trying to go.

COUNCILMAN NUTTER: Do the bills require a cut in service? Can you tell me any services that have been cut as a result of the wage tax --

MR. STEIN: Councilman, you're missing my point.

COUNCILMAN NUTTER: -- the wage and business tax cuts that have been made since 1995.

MR. STEIN: I think you're missing my point, Councilman. I'm not suggesting that the ordinance suggested any cuts. My only point is that if you take a fair and objective look at what are the factors that promote business, that promote population growth, there may be a dozen that you and I would both agree with in this room. And the question is, do you single out one or two or three of them and put all your bets on that and commission research that only looks at two or three and ignore the other seven or eight?

COUNCILMAN NUTTER: What are the other seven or eight?

MR. STEIN: Well, they include schools, the quality of our labor force, our transportation system, the cost of insurance of various kinds, and public safety and crime. Now, everyone in this room knows that those impact on population and business growth. And to have a tunnel vision that ignores those factors and just looks at a wage tax or a business privilege tax is not a very objective mutual way of trying to get answers to questions.

Now, it is one way, and the people from Wharton or the economists who did research in this area went that way, but they were candid enough to admit that, hey, there's a bias in what we're doing. There's a bias because we are X-ing out, excluding these other variables that every economist knows comes to play in this equation. What that leaves me with, Councilman, that gives me skepticism to say I can't wholeheartedly run with the crowd and say, here's a silver bullet that will bring prosperity and population to the City.

COUNCILMAN NUTTER: Let me at least put on the record -- and I understand and appreciate your viewpoint. There may yet to be a commission created to look at the larger, broader issue. But this is the question that was on the ballot, "Shall the Philadelphia Home Rule Charter be amended to provide for the creation, appointment, powers and duties of an independent Philadelphia Tax Reform Commission which would recommend methods to reduce the taxes of Philadelphia residents, workers and businesses in an equitable manner in order to enhance Philadelphia's ability to compete with other jurisdictions in attracting and retaining new residents, businesses and jobs based upon the Commission's comprehensive analysis of taxation in Philadelphia?" That was their charge.

MR. STEIN: That was the charge.

And there's also a City Council ordinance beyond that, which is not irrelevant, is it not? The City Council ordinance behind that spoke about specifically -- and was adopted unanimously, I believe, and signed by the Mayor -- spoke about factors about promoting economic development and business growth and population retention growth in the City, as well as the guideline that you're familiar with that deals with tax equity and apportioning tax burden. You can't put a whole ordinance in a one sentence referendum, as you know.

COUNCILMAN NUTTER: I'm certainly aware of that because I think we adopted that language at your request in the resolution, which did not require the Mayor's approval. Resolutions are passed by this Council. That was the ballot question.

I guess where we end up with all of this is everything I've heard, both before and today, seems to be primarily focused on the wage tax as it relates to low income residents. Councilman Cohen had a bill on that, and I've supported him in those efforts. I have been anticipating or expecting that the bill would come back. I don't know why it hasn't come in, and I haven't talked to the Councilman about it. But if that is the issue, then it seems to me that whenever the time comes, if the bill gets in, if that's the goal here, then maybe we'd have a debate about 14 bills, instead of 13. I guess I'm not clear, I guess at the moment, as to what the point is.

The Commission issued a report. You didn't like the report, although you like some of the components of the report. You want to keep talking to us about wage tax and its impact on low income people, which I understand and would like to do something about. But I guess I would also suggest to you that if I could have the things the way I'd like, which is rare, I'd rather figure out how to get more jobs in Philadelphia so that low income people can move out of the low income category and then they won't have to worry about if there's an exclusion for low income people. They'll have a better job.

MR. STEIN: I don't disagree with that. The question is, how do you get there? The interesting questions earlier before I spoke -- and they may have come from you, Councilman Goode, and Councilwoman Tasco I think asked it as well -- was where is the economic development policy of the City? And can we not put things in that larger setting. Maybe with that tax reform, business and wage tax, it was a component of that. But the difficulty is that when you have a Tax Reform Commission that just looks at taxes in relative isolation, you're going to get some skewed results. And if the City is going to not collect $200 million between '04 and '08 and another $145 million the year after, and who knows how much further, because this Tax Commission decided, unlike --

COUNCILMAN NUTTER: Not collect those dollars for what?

MR. STEIN: Those are the revenue shortfalls that they predicted. In fact, they didn't even go out to 2015. I mean, most budget estimates would go beyond five years to at least 10 years. That's what Congress does. This Commission didn't do that, so we don't even have numbers of how many more hundreds of millions of dollars the City would lose in the longer run if you take it beyond five years. But the question is, are there -- those are scarce dollars. And the rosy assumptions made by the supply side economic theory here is that we put all our bets on saying those hundreds of millions of dollars will get us 46,000 jobs -- and who knows whether any low income people could even qualify for those jobs, but let's put that aside. But those 46,000 jobs will come down the road. Now, query, if that money or some of that money went to improve schools, kept college graduates here, improved the transportation system, did other quality of life improvements that we know are relevant to business and people, that's a competing consideration.

COUNCILMAN NUTTER: Well, Mr. Stein I would suggest to you that that's kind of what we get paid for.

MR. STEIN: That's what you get paid for.

COUNCILMAN NUTTER: That's for us to make those decisions. That's not for the Tax Reform Commission. They were asked to do a specific job. And from my perspective they did their job for the narrow issue of making recommendations to reduce the tax burden on residents, businesses and people who work here. That was the charge. I think they have responded. Whether I like all of their proposals or not or whether you like all of their proposals or not, I think they did their job. The issues that you're talking about are critically important to this City. They're recommendations. We get to make all of those other decisions that you're talking about. Some we make for ourselves. Some will come in the form of aid form an aid from the state. Some will come in the form of aid from the federal government. But the Tax Reform Commission doesn't get to implement anything.

MR. STEIN: I realize that. Just to give you a concrete example. The D.C.

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Commission found in its research that labor force availability and quality were more important for economic growth than tax cuts or tax inducements. Now, if that's true here in Philadelphia too, that the availability of a skilled work force, an educated work force that can do their computer stuff and math and all that is more important than a broad tax cut.

COUNCILMAN NUTTER: I don't know if we want to compare Philadelphia to Washington, D.C. For a whole host of reasons. According to the Brookings report, 50 percent of the residents of Washington, D.C., have a college degree. Unfortunately, what they don't mention is that many of the people in Washington, D.C. didn't grow up in Washington, D.C. We have a much higher resident bred population here than the City of Washington. And they've got the capitol police and a whole host of other issues down there.

MR. STEIN: I'm not saying we're D.C.

COUNCILMAN NUTTER: They don't have

to do a few things that we do.

MR. STEIN: I'm just saying that what the D.C. Commission did, and what our Commission did not do, is that they at least asked the right questions and commissioned the right research. We didn't even want to know the answer to the question, because the answer already --

COUNCILMAN NUTTER: I can't comment on what the Commission did or didn't do. I wasn't on the Commission.

MR. STEIN: Well, that's why I'm here to tell you what the Commission didn't do. They didn't commission that kind of research.

COUNCILMAN NUTTER: Let me mention one last thing and then I'll be finished.

With regard to the issue of dissent, which I certainly believe in, Section 4-900, Letter B, the last section of that section says, "The Commission shall also publish and distribute with its report any minority report adopted by three or more members of the Commission."

I think that's the provision. Were there three or more members who wanted to issue a dissent.

MR. STEIN: In that situation they would have had to done a dissent. There was no prohibition on publishing my views as a dissenter of one. They were not under a mandate, you're correct. If they wanted to, they did not have a mandate.

COUNCILMAN NUTTER: It says, you'll publish and distribute with its report any minority report adopted by three or more members of the Commission. Were there three or more members of the Commission who wanted to issue a minority report?

MR. STEIN: No.

COUNCILMAN NUTTER: Okay. So at least by way of the Charter provision and what we passed and what the voters approved, you were not prevented from issuing a minority report, you didn't meet the standard of the ordinance.

MR. STEIN: Well, however you want to cut it. I'm not making an issue of that, Councilman. I had views. They weren't published.

COUNCILMAN NUTTER: You're an attorney, so I know for you words have meaning and process has meaning. And so when we try to craft, as inexperienced as we may be in the creation of law, when we create something, we do it for the purpose of trying to make sure that it works.

Now, if there's an internal process or some issues between and among members that don't allow something to happen, whatever that may be, that's one thing. But it's important to me as a legislator that if I write something and the voters approve it, I want to make sure that it's followed. So it is important to me that if three or more members of the Commission wanted to issue a minority report and they were prevented from doing that, then we'd be having a public hearing about that issue. That's how serious it is to me. So if you tell me that you weren't able to do it because only one person wanted to do it, that's a different issue. So what people could have done or should have done or would have liked to have done is very different to me than if you tell me that four people wanted to issue a minority report, and somehow someone prevented them from doing it. That's a problem. Because I wrote it, and I wanted to make sure that people had an opportunity to have something to say.

MR. STEIN: But I never said that.

COUNCILMAN NUTTER: Well, that's the way I took it.

MR. STEIN: Well, then I'm glad you asked the question and I'm glad I'm here to clarify it. I was a dissenter of one. The Commission weren't under a legal mandate, you're correct. There was no legal provision that said they must publish my views. You're correct.

There are other parts of that ordinance on tax equity -- and I'm glad you also shared my concern earlier with Councilman Cohen's bill, that in the same resolution that you went to great effort to enact and draft that provision on tax equity and apportioned burden was a key element as a guideline of the Commission. I repeatedly cited that provision of your resolution and the City Council resolution to say, we have to look at the wage tax to make it more progressive and we must take one step in that direction. Any step in that direction would be appropriate and that's in part of my dissenting.

COUNCILMAN NUTTER: That was one of many amendments that was made in order to try to get this done. So as I laid out that there was some issues that the Mayor had a concern about, there were issues that you had a concern about, there were issues that Councilman Cohen had a concern about, there were issues that other Members had a concern about. Almost everybody had something to say, and if you're the person trying to bake the pie, then you've got to try to make sure that all the ingredients work together. And I think, at least that part of it, we tried to be as accommodating as possible. It happens on the tail end of it. That's the wonder of independent commissions; they act independently.

MR. STEIN: I respect your efforts at the front end of it and also the Council President's efforts as well in terms of appointees the Commission, including myself on the Commission. I'm here to say at the tail end, I have some serious problems with how the report came out.

COUNCILMAN NUTTER: I can appreciate that. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions from Members of the Committee?

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: I'm glad that Councilman Nutter pushed you a little bit to clarify exactly the rules. We all live with rules around here. You have them too, I see. But did you ever ask to be able to present your dissenting opinion, even though you were prohibited? Did you ever suggest, Counselor, that you could do this and were you told no?

MR. STEIN: I made no formal request

of the whole Commission. I did make some informal inquiries and it didn't appear that there was any likelihood that there would be an actual printing or publication of my dissent.

COUNCILMAN RIZZO: If I asked you to provide to the Chair that opinion, would you be able to do that?

MR. STEIN: Well, yes, I could. What I attempted to do is I've distributed -- and it may be on your desk or come to your desk -- my views as they were published in various newspapers in op ed columns which generally reflect, although in a very shortened way, my views.

COUNCILMAN RIZZO: I heard you say that. But if in fact we asked you to provide to the Chair that opinion, would you be able to do that?

MR. STEIN: Yes, I think I could.

COUNCILMAN RIZZO: Could you do that?

MR. STEIN: Yes.

COUNCILMAN RIZZO: I appreciate

that.

President Verna, I think that that dissenting view should become part of the record when it's presented.

COUNCIL PRESIDENT VERNA: Certainly.

MR. STEIN: Thank you.

COUNCILMAN RIZZO: Thank you.

Thank you, sir.

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

Mr. McPherson, who is our next witness?

MR. MCPHERSON: Phillip Lord, Tenant Action Group.

COUNCIL PRESIDENT VERNA: I believe the Members of Council do have a copy of Mr. Lord's testimony.

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

MR. LORD: My name is Phillip Lord. I'm executive director of the Tenants' Action Group of Philadelphia. Tenant Action Group -- we call it TAG -- is a 30-year-old tenants' rights organization. I also had the privilege of being on the advisory board for the Tax Reform Commission. We educate and organize tenants in order to improve rental housing. That's our goal. We are interested in this report for several reasons. One is than tax reform can help alleviate the tax burdens that are passed on to tenants. It can provide incentives for landlords to make repairs and it also can reduce the tax burden in general for low income persons, which is important. It's for those reasons we've come forward today.

We'd like to say that it was difficult to respond to this report, in part because in looking through it there was -- we couldn't find any reference to residential tenants in the report. There are several references to homeowners, but there's no reference to residential tenants, who are 40 percent of the population. So the impact of this report on tenants is not totally clear to us. But there are a couple of aspects that we want to comment on.

We're very interested in the land

value taxation. We think that might be a benefit in the sense that there's a lot of dis-incentives for landlords to make repairs and if there's a land value taxation at least increased taxes won't be a disincentive for improving rental property. We're concerned that there will not be dis-incentives. So the land value taxation may be a good idea for improving the situation here.

We think the wage tax reduction should be targeted, as was testified several times before. We believe that it's not a lot of money for the individual, even though it may be important to the City in terms of dollars, that the major impact will be felt by people in the lowest income brackets. Those people really should get the benefit of that reduction. So our concern is that particularly low income tenants have more money to spend on their rental costs and that might be facilitated by a targeted wage tax reduction.

Finally, we've also raised some concern regarding the inclination to use real

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estate taxes instead of wage taxes to fund City services. We're concerned that an increase in real estate taxes will result in a pass-through to tenants. Now, there may not be an increase, but in fact if it does happen, that results in increased rents. Increased rents affect the attractiveness and affordability of living in Philadelphia. The businesses that are coming in are going to bring in employees, perhaps. These employees are not all going to be looking for home ownership opportunities. Many of them are going to be looking for rental opportunities, particularly because they're coming here briefly or for the first time. We think that trying to reduce wage taxes in deference to increasing real estate taxes or at least placing a bigger burden on that may be a misdirected policy for that reason. So those are our concerns.

We'd like actually more analysis to be done about the impact of this whole proposal on tenants in Philadelphia, who are, like I said, 40 percent of the population not reflected in this proposal or in the resulting policies that might come out of it.

COUNCIL PRESIDENT VERNA: Thank you. Was Shelly Yanoff with you?

MR. LORD: She was unable to stay, so her testimony is in writing and submitted to you that way.

COUNCIL PRESIDENT VERNA: Was it submitted to the Chair? Because I don't have a copy of it and I would like the stenographer to have a copy of it.

MR. LORD: She left copies.

COUNCIL PRESIDENT VERNA: Are there any questions for this gentleman?

Thank you very much.

Mr. McPherson, who is our next witness.

MR. MCPHERSON: The next witness is Al Taubenberger from the Greater Northeast Philadelphia Chamber of Commerce.

COUNCIL PRESIDENT VERNA: Good afternoon. Thank you for your patience. Please introduce yourself for the record and proceed with your testimony.

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MS. MCMANAMAN: Good afternoon. My name is Rosemarie McManaman. I'm Chairperson of the Greater Northeast Chamber of Commerce, which represents 1,000 member businesses in the Greater Northeast Philadelphia region. I'm grateful for the opportunity to testify today to what our organization believes is an issue of paramount importance, not only to our members, but to all citizens of the City of Philadelphia, tax reform.

The Greater Northeast Philadelphia Chamber of Commerce was proud to hold one of the 15 seats on the historic Philadelphia Tax Reform Commission, which as you know was created by Philadelphia voters by a four to one margin. Our President, Alfred W. Taubenberger, served as one of the two vice chairs on the Commission, as well as a member of the three of the four working groups. Mr. Taubenberger's efforts paid personal dividends for our chamber. After his experiences on the Commission he returned to us energized and educated about the immense challenges before us. We believe that Philadelphia cannot enjoy economic prosperity without serious and substantial tax reform. Doing business as usual is no longer an option. Unless the City can effectively reduce the high overall levels of taxation, our future as a competitor for business dollars is uncertain. As all of you know, economists agree that local taxes have a significant impact on economic growth. For this reason, taxes have their strongest impact on local communities. This is what our members have told us. Philadelphia tax structure is oppressive. Our chamber is composed of many so-called mom and pop businesses. These are small business owners who are both excited and frustrated by the challenges of doing business in Philadelphia; excited by the prospect of utilizing their talents to grow, expand and profit in respective businesses; frustrated by a tax structure that is complicated and onerous. Our members are well aware that Philadelphia is one of the highest tax cities in the nation. We are well versed on the negative impact that raising taxes has on economic prosperity.

First and foremost, our members would like to see the complete elimination of the so-called business privilege tax. This tax is particularly difficult for our membership since it requires them to pay a tax on their gross receipts, whether they have made a profit or not. Many of these small start-up businesses do not realize profitability until their third year, if they can stay in business that long. And please allow me to go on record in opposition to even the name of such a tax. The Greater Northeast Philadelphia Chamber of Commerce and, I am sure, many others do not accept the view that it should be a privilege to do business in Philadelphia. While this may not the literal meaning of the term, the connotation is unmistakable. Instead, let's work to foster an entirely new and fresh business friendly attitude within the City. We can start by changing the name of the business privilege tax until its eventual demise. In fact, we agree with the Philadelphia Tax Reform

Commission's recommendation 23, incrementally eliminate the business privilege tax by fiscal year 2015, and quite frankly, the sooner the better.

Second, we need more information and education about Philadelphia's tax structure. Small business owners do not have the time it takes to address complicated tax problems without the benefit of a coherent, consistent source of information. We agree with the Philadelphia Tax Reform Commission's recommendation 2, establish a taxpayers' advocate. Now, the baker on Castor Avenue and the florist on Frankford Avenue and the tailor on Academy Road and the deli owner on Bustleton Avenue, all of them will know exactly where to go for help with their tax problems. Right now our membership has told us horror stories of inadequate customer service, snappy or incorrect answers to their questions or confusing forms with no reference or contact telephone numbers.

Lastly, our Chamber not only recognizes the seriousness of the problems, but the difficulties in implementing solutions as well. Tax reform may be something all of us agree upon and yet none of us believe it can or should occur overnight. However, we accept that by reducing local taxes will have a significant positive impact on our local economy, than to sit idly by while our businesses close shop and our residents flee to the suburbs is both reckless and irresponsible.

Philadelphia is a great City with a wonderful history and unique traditions. One of the best ways to market our City is by promoting a new business climate, and the first step to creating this new business climate is through tax reform. The Greater Northeast Philadelphia Chamber of Commerce urges to accept this challenge, and as we have done since our founding in 1922, we stand ready to assist in their efforts.

Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions from Members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you again. You were very patient today.

MR. TAUBENBERGER: I'm Al Taubenberger, President of the Northeast Philadelphia Chamber of Commerce and Vice Chairman of the Philadelphia Tax Reform Commission.

Really, on the top 10 reasons for tax reform it's the creation of jobs, jobs and jobs because quite honestly, a good job at a good wage is better than any government program coming out of either Harrisburg or Washington. But our tax climate is so poor that it really drives folks away. Really, all you have to do is really take a look at the facts. I'm going to just quote a couple things out of the report itself.

Philadelphia has an unusually high reliance on business and personal income tax. Among the nation's 20 largest cities, only three taxed the net income of corporations; New York City, Philadelphia and Detroit. And

Detroit's 1.2 percent corporation income tax is being phased out with complete elimination scheduled for the year 2009. Philadelphia is the only major US City to levy a tax on both business, net income and gross receipts. The gross receipts portion of the business privilege tax is between six and nine times the average rate leveled in suburban Philadelphia, depending on the industry. It does vary a little bit. But quite honestly, the local income tax rate levied on residents exceeds 1.5 percent in only three of 240 municipality jurisdictions surrounding Philadelphia. Among the top 20 largest cities in the country, only eight levy local income tax; 4.3 is Philadelphia's local income tax rate for residents. It is the highest in the nation. Among other major cities with local income tax, the median rate is 2 percent, less than half of Philadelphia's current tax.

Philadelphia's tax on non-residents' income currently is 3.88 percent. It's higher than any other City in the United States. The next highest local commuter tax is 2.25

percent, and that rate is imposed in Dayton, Ohio and Youngstown, Ohio, all within Ohio.

This sort of atmosphere is so poor that no one would think to come here for sure. And those that are already here are certainly looking to leave. And not always the largest companies, but very, very small companies.

There are three in our Chamber that I'd just like to point out that started in Northeast Philadelphia. Because the spirit of entrepreneurism is here in this City, no question about it. Letter B Mailing Company, they mail out bulk mailing and letters and so and so forth, mostly for advertisement purposes and fund-raising purposes. They started in a basement. As soon as they were up and running they moved to Bensalem. The Russian Market newspaper, formerly on Bustleton Avenue, employs about eight people. They saw the tax structure here. They're now in Feasterville. Mickey Bear (ph), he has an insurance company, Bear Associates, one of the former presidents of our Chamber, been in Philadelphia for years. He is now in Bucks

County. And a personal friend of mine, A.L. Verna Company -- no relationship, I understand -- but still formerly in South Philadelphia for 85 years importing garlic, nuts and dried fruits took their company to Vineland, New Jersey. That's 20 jobs, and that is a shame. It is absolutely a shame.

COUNCIL PRESIDENT VERNA: Do they still have a business -- is it Delaware Avenue, Councilman?

MR TAUBENBERGER: A.L. Verna, they were on 2nd Street.

COUNCIL PRESIDENT VERNA: Second and where?

MR. TAUBENBERGER: I think right below Federal. He's a personal friend. He sits next to me at the Philadelphia Flyers. I asked him long ago if there was a relationship --

COUNCIL PRESIDENT VERNA: We're not related, but I do know the gentleman and I thought they were still in the City.

MR. TAUBENBERGER: No. They are now in Vineland, New Jersey saving significant tax

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dollars. If you ever would like to have him speak to you, they will be glad to do so and tell you why they left. It's really economics and dollars.

COUNCIL PRESIDENT VERNA: Thank you.

MR. TAUBENBERGER: That is all. That's my testimony.

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

Again, you've been here all day and I want to thank you for your patience today and all the work that you did on the Commission.

MR. TAUBENBERGER: It's our pleasure and our duty. President Verna, thank you for holding these hearings.

COUNCIL PRESIDENT VERNA: Gabe Bevilacqua. Good afternoon. Thank you for coming in.

MR. BEVILACQUA: Good afternoon, Council President Verna. It's my pleasure to testify today. I do have extra copies of my testimony with me. I'll leave them on the table in case others are interested.

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COUNCIL PRESIDENT VERNA: We have them.

MR. BEVILACQUA: Thank you. Council President Verna and Members of City Council, I offer my thanks and appreciation for this opportunity to testify on tax reform. On behalf of the 13,000 member Philadelphia Bar Association, I thank you for your leadership and your commitment to our City.

The Philadelphia Bar Association has been an integral part of the Philadelphia community for 202 years now. Indeed, it is hard to imagine Philadelphia without Philadelphia lawyers. And we wear the title, Philadelphia lawyer, proudly, as does our Mayor, various Members of City Council and so many other distinguished Philadelphians. We see ourselves as partners with the Mayor and Council in helping to ensure a bright and prosperous future for our great City and its citizens. We commend the Mayor and Council for your continuing commitment to the courts and the justice system. Today, we are here to talk once again about taxes. It has been

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observed that the power to tax, attributed to United States Chief Justice John Marshall involves the power to destroy. And he added the power to destroy may defeat and render useless the power to create. Though Marshall uttered these words in 1819 they remain particularly relevant to tax policy generally and to Philadelphia's tax situation today. Taxes can choke and destroy economic growth and taxes can actually prevent the creation of businesses and jobs.

Misplaced or unbalanced taxation can preemptively strike at the heart of our local economy. Taxes levied had in one area or tax breaks selectively granted effect every other segment of the economy. That's why it is important to take a broad view of local tax policy and look at everything in context. Wage, net profit, real property, business privilege and other taxes must be viewed in the aggregate. So it is not my intention today to go into minute detail regarding the recommendations of the Tax Reform Commission. I will simply reiterate that generally we support those recommendations. We understand that any tax legislation will involve many details and technical considerations as the legislative process unfolds. Accordingly, the members of our Bar Association's tax section are available to assist in any way that they can as this process moves forward. For now, we continue to urge the City to restructure its tax system.

Studies have time and again shown that the City's tax structure is one of the principal reasons why businesses leave Philadelphia, do not expand here or never locate here. A recent study by the Pennsylvania Economy League came to this very conclusion. These studies are confirmed by our own anecdotal experiences, as well as those of our clients. In dealings with our business clients in the region, lawyers have repeatedly heard businesses express their concerns about the City's tax structure, and we understand those concerns. Regrettably, the current tax structure actually encourages lawyers to follow their clients out of the

City. And over the past 15 years, our surveys show that Philadelphia law firms have been opening satellite offices in surrounding counties at an accelerating rate. Yet incredibly the area's major law firms, including many national and regional power houses, have continued to maintain their headquarter offices in the City. Clearly, the firms would rather not leave. They would rather remain Philadelphia lawyers. But as the City's tax structure continues to drive businesses and workers out of the City, how much longer can this last?

One study shows that a Philadelphia family of four earning $40,000 annually can save $816 per year by moving out of the City. That's significant. This worker migration also limits the available talent pool for employers. We urge 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 effectively taxes partner income at a combined rate of at least 6.7 percent, but taxes compensation paid to employee owners of businesses operated as corporations or sole proprietorship at rates ranging 3.9127 percent for non-residents to 4.5 percent for residents. If the proposed slot machine legislation passes and wage tax rates are reduced, the disparity between how partners in a service firm are taxed and how employees of a corporation are taxed will grow even larger. This discrimination against service partnerships and the extremely high 6.7 percent rate of tax is a major factor in the large shift of service sector jobs from the City to the suburbs. Let me emphasize that given today's computer and networking technology, the fax and the modem and the computer, law firms and other service firms no longer need to be located in the City. They are highly mobile and can work virtually anywhere.

Due in large part to the City's tax structure as it applies to partnerships, many firms have in fact left the City, either entirely or in part by expanding suburban offices. It is difficult to determine the extent to which new firms have chosen to locate in the suburbs rather than the City as a result of the City's tax structure.

A study released in January 2003 by the Central Philadelphia Development Corporation explains that Pennsylvania suburbs have enjoyed a robust 34 percent rise in professional service jobs between 1990 and 2000. The study goes on to note that Philadelphia added no new commercial office buildings in the 1990s. By contrast, the Pennsylvania suburbs have added 12 million square feet of space, the equivalent of 10 Liberty Place Towers, surpassing Center City in total space in the process. Had 12 million square space been developed in Philadelphia the City would have received approximately $64 million per year in real estate taxes, $150 million a year in new annual business and wage taxes, and would have generated between 156,000 and 240,000 more hotel room nights per year in business travel. If Philadelphia had added just half the amount of office space, the City still would have realized over $100 million annual in new tax revenues.

The problem faced by professional service firms stems from the City's taxation of partnerships relative to its taxation of other forms of business entities. Many professional service firms operate in partnership form for various reasons. Significant tax and non-tax restrictions exist to limit their ability to convert to non-partnership or corporate form. In light of such restrictions and faced with onerous taxation by the City, firms have, as the CPDC has recognized, explored alternatives such as relocating outside of Philadelphia. The City has suffered and continues to suffer as a result.

As you may know, the Philadelphia business privilege tax, or BPT, applies to that's conducted within the City, regardless of form of organization. For example, corporation, partnership, sole proprietorship, LLC. The BPT consists of two tax bases; a tax on gross receipts and a tax on net income. With regard to the tax on net income, taxpayers pay at the rate of 6-and-a-half percent on income attributable to business done within the City. By regulation, the City's Department of Revenue has directed that businesses conducted in partnership form may not deduct payments made to partners even where partners perform a significant level of service on behalf of the partnership. However, businesses formed as corporations, certain LLCs or sole proprietorships may deduct payments of compensation made to employees and owners, i.e., shareholders. No apparent policy supports this treatment. For the reasons we encourage the Council to consider the inequity presented in this situation, and resolve to propose to the City the allowance of a deduction by partnerships of payments made to partners who participate in the operation of their businesses.

The top 22 Philadelphia law firms employ about 8,500 in Philadelphia, pay nearly $44 million annually to the City in taxes.

These same firms pay nearly $70 million annually to lease 14 percent of all the office space in Center City.

I'd like to emphasize those numbers. The top 22, only the top 22 Philadelphia law firms, lease 14 percent of the office space in Center City. Most of the law firms in this City are small and medium sized. You can do the math yourself. Consider that our membership is almost 60 percent solo and small firms, not the top 22 law firms. And consider that these firms also lease space in Center City, and you can see that the legal services sector accounts we believe for between 25 and 30 percent of the lease space in Center City. The City's tax structure impacts these small and medium-sized firms, as well as the large firms. Taxes effect everyone; small business, large business, families, laborers, professionals. It makes no sense to pick one group or one class or one segment against another. The power to tax involves the power to destroy business, jobs and economic vitality or the power to create a growing, vital economically vibrant City and region. Philadelphia must now choose. And on behalf of the Philadelphia Bar Association, I want to thank you and say once again we resolve to work with you and provide whatever help we can as Philadelphia addresses these important issues.

Thank you, Council President Verna.

COUNCIL PRESIDENT VERNA: Thank you. Your testimony was very informative. Again, I appreciate your coming in.

At this time the Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Madam Chair.

Counselor, thanks for coming here today. The legal profession, from what I understand, is not the only profession that is experiencing what you described, parts of companies leaving the City, satellite offices. I know of corporations in the City, that on a Friday afternoon, the Mayflower van backs up and moves a floor of a corporation to Bala Cynwyd, to Paoli. Many of these companies that say their corporate headquarters are here, the minute that they employ or promote a manager of a particular unit within that company, they empower them in many cases to move their operation, whether it be a real estate department or a purchasing department from Philadelphia to an office suite out in Paoli. It's happening regularly here in the City of Philadelphia.

My question to you is -- let's just use a number. Twelve lawyers, a firm decides to open a satellite office. Do they employ two more lawyers or do they take two of the 12 and relocate them outside the City? What is it scenario that you described? Are they a hiring additional people or just relocating and we're losing that tax base here in the City?

MR. BEVILACQUA: Councilman Rizzo, it's my experience that what they're doing is relocating lawyers from Center City to their satellite offices. Let me say that I'd like to make two points in this regard. One is the velocity of this change is accelerating. It

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was something that was tenuous and explored very timidly in the late '80s and the early '90s when the satellite offices for all of the major Philadelphia law firms were established in the neighboring suburban counties. That timid approach to relocation no longer exists. We are seeing an acceleration, almost a business plan of expansion in the counties. It's very important to recognize that once you break that threshold and you begin that exodus, it accelerates. It's clear to me as chancellor of the Philadelphia Bar Association looking at our institutional law firms, the 22 largest law firms, establishing these offices. These offices are very profitable and they're all growing and they've all moved into new and expanded space. But they move whole departments out of Philadelphia. I know one firm very intimately that moved their corporate department out of Philadelphia. Now, can you imagine? Now, this is the business nerve center of a large Philadelphia law firm now out in Berwin, not in Philadelphia any longer. The firm still thinks of itself as a Philadelphia law firm, but the facts are that the legal services industry is not immune from what's happening to businesses generally and to individuals generally.

COUNCILMAN RIZZO: This is something that I've been concerned about for a long time. I've even said to the Commerce Department they really have to start focussing because little companies in themselves are leaving Philadelphia in the disguise of a corporation. The one that I know of, the first 50 employees left on a Friday night and they reported to their new location in Paoli on Monday morning. No one noticed that move because it was hidden in a major corporation. And what occurred, the employees of another department within that said, well, if they went to Paoli, why can't we? So about two months later 25 more people of a, as an example, purchasing unit went to Valley Forge. Two months later 25 more. No one realizes that that building that I'm discussing has vacant space in it today because 200, 300 people within just the last year have left Philadelphia. But no one is paying attention to that piece of business retention. These young executives live in the suburbs in many cases. They want the shortest commute possible so they establish their operation in the suburbs because -- it was described earlier I think by Governor Schweiker -- the technology today doesn't care whether you're in Costa Rica or India or Valley Forge or Paoli. And we really need to do something to prevent that flight that I just describe and you described.

MR. BEVILACQUA: I wholeheartedly agree. And let add one other observation on behalf of the Philadelphia Bar Association. We work through committees through our sections. The analysis is not my analysis. This is the considered judgment of the Association's members expressed through the tax section and the deliberation of our board of governors. So this is not a personal statement of my own, but it is really a cry for help from the legal services community in this City.

COUNCILMAN RIZZO: Thank you, sir.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Are there any other questions?

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam President.

Good afternoon, Mr. Bevilacqua. I'm going to attempt to ask a question and try to get it out correctly. In your testimony you speak to the partner income rate at being 6.7 percent and you also state that but the City taxes compensation paid to employee-owned owners of businesses operated as corporations or sole proprietorships at a rate which is the minimum -- or the maximum -- City wage tax. I'm just not clear. Does that mean that if you as an attorney or a firm are representing clients who -- you have a case that is a non-Philadelphia case, is that what you're talking about here, that the tax for the

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purpose of whatever your compensation was for the purpose of representing that person, assuming that client was a non-Philadelphia resident, you're showing that as income.

MR. BEVILACQUA: My point here is that there is no deduction for an unincorporated association for the payments made to the members or the partners in that association. I think the question of where the money is earned, if it's earned in Philadelphia, whether or not it's for a client that's a national client headquartered in Seattle, it's still taxed in Philadelphia. And the real point of the testimony is that this disparity between partners and shareholders, because of the limitations on liability and other limitations, lawyers have not fled to a different form of business entity. They have maintained their partnerships and unincorporated associations. And so being taxed at 6.7 percent without the ability to deduct that payment is really creating an inequity which is driving partnerships to consider other alternatives.

COUNCILMAN DICICCO: Are you familiar with any role of the recommendations of the Tax Reform Commission and do any of their recommendations address this issue?

MR. BEVILACQUA: The recommendation with respect to the elimination of the business privilege tax we wholeheartedly address. Yes. This is a separate issue, but eliminating the tax really cuts ugly tree at the base.

COUNCILMAN DICICCO: But absent elimination of that tax, what would be your recommendation?

MR. BEVILACQUA: We would certainly urge Council to consider -- I mean, there is no policy reason to allow deductions for shareholders for law firms that are in a corporate form and not for unincorporated associations. That's something that can be addressed as an interim solution.

COUNCILMAN DICICCO: Has there ever been any recommendations to this Administration or any other Administrations about this issue and developing a different form, if you will, or a way of taxing or reducing this tax that you know of?

MR. BEVILACQUA: I'm not aware.

COUNCILMAN DICICCO: I would appreciate it if you had some recommendations that you would submit them to the Chair in the form of possible legislation, if that's okay.

MR. BEVILACQUA: We're happy to work with you.

COUNCILMAN DICICCO: I think it's something we need to look at.

COUNCIL PRESIDENT VERNA: Definitely. And I'm just wondering if the Commission considered that at all.

Mr. Schwartz, can you approach the table, please?

I'm certain that you did hear Mr. Bevilacqua's testimony. Was this discussed at all during the Commission consideration?

MR. SCHWARTZ: Well, I can further check because I did not go to all the meetings of the business committee where this would have, in fact, been discussed. I think the general thrust was to pick out the tax changes that we thought would make the most difference in the City and have the most dramatic impact and acknowledging that they will cost money, not to include everything that might in fact benefit people in the City in terms of reducing taxes. And I have a feeling that the answer will be here, that with a proposal to eliminate the business privilege tax and the proposal to move quickly for single sales factor this year, that they felt that was what would have the biggest impact.

I'll give you another example of something we didn't do that's come up. We did not propose lowering the real estate transfer tax, because, again, we felt that this would cost more money for a marginal impact. Now, I sat on a committee just the past couple of months where there was somebody there who was very concerned about that particular omission on our part. So I'd have to go into more detail as to whether they looked at it. I will say that all of the committees were quite thorough, and the business committee was particularly thorough. And so if it's not there, it's because they looked at it and they may have thought if all other things could happen, we could do that. But in fact the most important thing was the elimination of the business privilege tax in that sequence and a couple of the other things having to do with partnerships that also made it into the report. We're sorry, but we didn't do everything.

COUNCILMAN DICICCO: It wasn't meant to be critical. We were just concerned whether it was brought up.

MR. SCHWARTZ: Again, I'm not on the business committee. I would be astonished if something that was a serious concern in the business tax system were not raised in that committee. I can check with Stewart Weintraub, who chaired it very ably. So it never came to a serious discussion in the group because that was the job of the committees to kind of filter out what was there. And then of course we did have three months -- we issued the preliminary recommendations in August. We had another

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shot in September. There was a public hearing about it and we went all through the City. This was something that really never came up in a way that it really jumps out at me as some of the other things would.

COUNCILMAN DICICCO: I think, Madam President, what was probably discussed -- and obviously not having sat on the Commission -- is the general consensus that we need to do something with the business privilege tax. And in this case, since it's a specific entity, business entity, meaning the legal world that we have in Philadelphia, is that I think the time it will take us in the best scenario to begin those gradual reductions, entities such as the legal profession may not be willing to stick around that much longer because they have the ability -- again, this isn't critical of the Commission by no means -- is that we need to look and see if there's a specific type of tax recommendation reduction that we can do that would address this very issue.

MR. SCHWARTZ: I have to acknowledge

-- Brett is here. He also was on that committee. I have to acknowledge with the business taxes --

COUNCIL PRESIDENT VERNA: I'm sorry. I don't mean to cut you short, but it's my understanding that this was addressed by the Commission.

Councilman Nutter, I believe you have the report in front of you.

MR. SCHWARTZ: Recalling this, we do in fact have a provision that permits companies in partnerships to deduct the cost of their employees, which is currently not there, but Brett was on that committee and would be able to speak more clearly on that issue.

MR. MANDEL: The recommendation to allow partnerships to deduct payments to partners is an integral part of the Tax Reform Commission recommendations. We would initially start off with allowing a 50 percent deduction, phase that in over five years until it becomes 100 percent deduction. And then of course the entire business privilege tax would be eliminated over 10 years.

MR. SCHWARTZ: I wasn't sure whether this was the same thing.

COUNCILMAN NUTTER: Is that recommendation number 19?

MR. MANDEL: If someone hands me a copy of the report, I'll be more than happy to show you exactly what page.

MR. SCHWARTZ: Brett has memorized most of this, but some of the numbers of the recommendations still confuse him.

MR. MANDEL: Indeed, recommendation number 19 on page 59.

COUNCILMAN NUTTER: That's one of the bills.

COUNCIL PRESIDENT VERNA: Mr. Bevilacqua, were you aware of that?

MR. BEVILACQUA: I was.

COUNCIL PRESIDENT VERNA: Why don't you take a copy of his testimony.

MR. MANDEL: I'm sorry. I believe that does address his issue. At 100 percent it completely eliminates the differential between the time that it started to phase in at 50 percent and at 100 percent obviously there would still be a differential as the gap closes. In fact, this was a recommendation that came to us from the Bar Association and we were thrilled to put it into place.

COUNCILMAN NUTTER: And that's one of the 13 bills that were introduced?

MR. MANDEL: Absolutely.

MR. SCHWARTZ: I'm glad we cleared that up.

COUNCIL PRESIDENT VERNA: I'm happy that we questioned that. Very good. Thank you.

Any more questions?

COUNCILMAN NUTTER: For Mr. Bevilacqua, one, thank you again for coming in. I don't know if I received a copy of your testimony, but there was a statistic that you gave -- I don't want to mess it up -- did you say that the legal community represented like 14 percent of the leased space in Center City?

MR. BEVILACQUA: It's more significant than that, Councilman. The 22 top Philadelphia law firms account for 14 percent of the leased space in Center City. Our membership is approximately 60 percent solo and small firms. So we extrapolate that the numbers here in terms of the legal services sectors' leases in Center City is anywhere from 25 to 30 percent.

COUNCILMAN NUTTER: One, that is obviously significant, to say the least, that one industry would represent that much of the office space. And the Bar was very, very helpful in 2002 with regard to Bill 92 restoring the wage tax cuts. And I would love to have an opportunity to talk with you further out of this environment. I guess I would only encourage you -- and I know you know this -- I mean, the legal community plays a quite significant role, not only in its professional work and how you service any one of us that might need the service, but the legal community has a wide range of relationships with many Members of this Council, and I would strongly encourage you, certainly as the chancellor and all of the other leadership, to make your voices heard

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whenever the debate specific to the bills comes about. I think that this is an environment in which friendships and relationships beyond hello and good-bye and how is your day hopefully would compel many members of the Bar to talk with us as elected officials and the Mayor in a way that conveys a seriousness and commitment to getting something done, and that message is conveyed in the strongest possible terms in the way that I know the Bar knows how to communicate with people.

Many of us take this issue very, very seriously and I think it's time for all of us to roll our sleeves up and try to maintain relationships and friendships. But some serious work needs to be done. I think that the presence of the Bar Association and its members -- I know everybody is busy and they're working, they're serving clients and all of that, but when we get into the meat of it, I think an hour or two possibly spent over here at that time would be very, very helpful.

MR. BEVILACQUA: Well, you have my

commitment to do everything that I can as chancellor to inform and educate, not only the large firms that I know are following this issue, but all of our members, how important this is for the economic well-being of the City that they all love.

COUNCILMAN NUTTER: Thank you.

Thank you, Madam Chair.

MR. MCPHERSON: The next witness is Joshua Vincent from the Center For the Study of Economics.

MR. VINCENT: Good afternoon. I'm Joshua Vincent. I live in the City of Philadelphia and I also am the director of the non-profit foundation in the City. We just signed a five-year lease to stay in the City, so we're in it for the long haul.

I'd like to thank Councilwoman Tasco for introducing this resolution. Some of our work in land value taxation, most of our research has been in District 9 and we've done an intensive study of North 5th Street, and I just want to thank you for this.

As the director of the center, I've

worked and testified in front of the Philadelphia Tax Reform Commission since its inception by City Council and passage by the voters. I'm here to urge the thoughtful but expeditious adoption of the program hammered out by the PTRC, over a year's worth public meetings, hard work and analysis. The arguments and discussions at PTRC meetings in the community and at their offices were very wide ranging. They covered every aspect of the local tax structure that could be changed. Representatives from all parts of our City participated, rich, poor and in between, from Center City to Mount Airy to North Philadelphia and there was a real sense of excitement, hope and optimism that at last the voices of all Philadelphians would be heard as one.

The PRTC's recommendations encourage business and enterprise while at the same time protecting our most vulnerable citizens. The recommendations balance desperately needed services with the recognition that freeing labor and capital to work is the only option for a City that competes at a disadvantage with the suburbs, Delaware, and New Jersey.

The concern about services is noble. I had the privilege of assisting Channel 6 on a presentation that was filmed on Monday night in a story about real estate tax delinquency. We assisted Channel 6 and Ed Goppelt of Hall Watch also assisted Channel 6, and I can say that if I can find some of the worst tax delinquents in the City by driving around in my Dodge Neon, then so can the City. If only the City would act. The tens of millions of dollars that are being lost annually, I believe can more than replace any revenue loss by the PTRC plan.

Now, my field of expertise rests in one part of the PTRC's recommendation, the land value tax. The land value tax would be implemented gradually over a decade's time. It would serve as a proven buffer for poor, working and middle class homeowners if increased tax rates on property to a place other taxes were implemented. It would finally end the punishment regular people get for fixing up or building homes and small businesses. And I ask everybody to think about it. A KOZ for everyone, not just the big dogs, and for that the PTRC is to be exist. Now, land value tax could of course be rescinded at any time, but it wouldn't be, and I don't think there's any longer a justifiable reason for not giving this program a chance.

Essentially the land value tax -- I will repeat very briefly what I've been saying many times over the past three years. It's a program that will down tax buildings and up tax land. If we're going to rely more on the property tax, then it has to be imposed in such a way that people that do for the City are rewarded and not punished and those that do not do for the City are given an incentive to do something.

Essentially that has been the message of the land value tax. I'm very pleased that the Philadelphia Tax Reform Commission saw fit to listen to experts and elected officials from all over Pennsylvania that have actually used this program, have seen that it works, have seen that it brings development back into center cities, Harrisburg being the best example, Allentown being an up-and-coming example. The land value tax provides tax relief for those neighborhoods and those homeowners and those tenants that are most in need of consideration.

Want to thank you very much for inviting me.

COUNCIL PRESIDENT VERNA: Thank you. We appreciate your coming in to testify.

Are there any questions of this witness?

The Chair recognizes Councilwoman Tasco.

COUNCILWOMAN TASCO: Thank you very much.

Are you familiar with the City's Revenue Department? They have staff going door-to-door to the various businesses checking on their taxes and, I guess, license.

MR. VINCENT: Actually, no. As far as businesses go, I was looking at North 5th

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Street, and we were looking at the tax delinquency records that are now available to the public. We did see places that were in arrears just on property tax. I don't have access to the other taxes. Five or six years in some cases. That's all I really know about it.

COUNCILWOMAN TASCO: If one of the problems we have is collections, even if we go to the land value tax, what does it mean if we don't collect the taxes?

MR. VINCENT: Interestingly, the Tax Reform Commission did their own report on what would happen to currently delinquent properties and what would happen if there was a switch to land tax, and I don't have that chart with me or that mini study with me. I know that Mary Brown, who is a staff economist for PTRC, did such a study, and the impact is surprisingly small. I will make sure to get that to you by late this afternoon to your office.

COUNCILWOMAN TASCO: The impact is small up or down or not at all?

MR. VINCENT: The impact would be there would be more tax liability not collected if we go to a land value tax for certain types of property. But of course the argument and the experience in the other Pennsylvania cities is that overall collections increase because if you stop emphasizing the building for your tax, people start appealing their taxes less, and so you actually get more revenue by de-emphasizing buildings. That's been the experience of the Pennsylvania cities that used this.

COUNCILWOMAN TASCO: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions of this witness?

(No response.)

COUNCIL PRESIDENT VERNA: Again, thank you very much for coming.

MR. MCPHERSON: The next witness is Mr. Fred Murphy from the Center City Residents Association.

COUNCIL PRESIDENT VERNA: Good afternoon.

MR. MURPHY: Thank you for having me

here. I am here representing the Center City Residents Association. We had done our own study of the tax system. We started it before the TRC was formed and I was involved. I basically wrote that report. Just to give you a sense of my interest in this, I also served on the advisory board for the Tax Reform Commission.

Now, the first question is, why taxes. We have to ask, why are we doing this. It's really part of our collective responsibility as a civil society. We who live in Center City have accepted our responsibility for this, otherwise we might have moved to the suburbs, taking our jobs and incomes with us. So we're not here as anti-tax. We're here in terms of responsible taxes. And how we frame the issue at CCRA was we're concerned about the efficiency of taxes, the cost to collect, the ease of enforcement, compliance. These are important issues. The equity, are they fair to all parties? What is the tax incident? Does this create a culture of cheating? And then the economic distortion, the location decisions, the investment decisions, and the effect on growth and prosperity.

In terms of tax efficiency, the real estate transfer taxes are quite efficient except for potential side payments. The wage tax is efficient to collect. But what's terribly inefficient is the personal property tax. That's now gone. But then there's the school income tax, which has probably a very low compliance rate. The business privilege and net profits tax have compliance problems because of the way in which the way companies can operate invisibly in this City.

So in terms of tax equity, what are the equitable City taxes? Well, I'll leave that a question mark. But we observed a lot of inequities. The housing assessments are inequitable. The wage tax winds up being inequitable, even though it's a flat tax, because it drives so many people from the City, and people who have incomes and can afford to move have chosen to not to pay it by moving out. Special abatements and tax

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expenditure deals are examples of inequitable arrangements. And our members experience something when they to the housing reassessment process, the appeal process, and they found that basically it was a group of old palls handing out deals to people who were willing to show up, and it was really an unfair process.

The power to impose high taxes equitably is now gone because technology has given people and organizations the flexibility to leave the City, and what I see as a business school professor, leave the country.

Now, economic distortion is a

Significant factor in designing taxes. Almost no tax creates distortions at low levels; however, the magnitude of city taxes has turned the City into the hole in the economic donut. What's not distorting is a land value tax, because that's just a willingness to pay for an existing item, and so the value is discerned by just market transaction. What is distorting are wage taxes, real estate taxes that include the value of improvements, sales taxes, and as we heard earlier, the business privilege and net profits tax.

Now, the goal of tax reform from our perspective should be to grow the City economy, which means provide jobs for current residents, attract new residents and also what's interesting and forgotten in this, but through good tax reform, you can increase the revenues from middle and upper income taxpayers while lowering the tax burden on current residents, especially the poor.

Let me give you an example. Because I live and work in the City, my City taxes are 20 percent of my take-home pay. And you essentially get one day a week out of me. This calculation is very simple because of deductions for 401K plans, medical co-pays, and all of this, the actual share of our paychecks that we take home has gone down. And the effect of that is that we get essentially half our paycheck. We're getting four-and-a-half percent wage taxes and the bump up in the real estate taxes has been

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significant too, so the combination is 20 percent of my paycheck. That's a big number.

Now, as I was involved on the Tax Advisory Commission, I read the e-consult report, and one of the key findings is that the City regains any lost tax revenues in just a few years and the stimulus to growth adds jobs, increases the population and everyone gets a tax cut, including the poor. Now, what's interesting and left unsaid in the report, but follows from their model, is that by doing the tax cuts, the City collects more revenue from middle and upper income taxpayers and the poor pay less. It's a product of the model

The analysis makes sense when you look at the income distribution patterns of the residents in the City and the residents in the suburbs. The City is the holding point for the poor residents who can't afford to move out. The kinds of increases that that model points to can only come from one group, the middle and upper income taxpayers.

What's important is that there are

all sorts of income distribution effects to taxes. The City winds up getting more tax revenue the higher the family income. The cost of each taxpayer or each family declines with family incomes because these people are more able to take care of themselves. You reach a break-even point at a reasonable income level, and what you want to is, you want to grow the middle and upper income taxpayers where you make a profit. And that's what tax reform will do as proposed by the Tax Reform Commission.

So in sum, a critical point of the Tax Reform Commission is that the populace who are saying don't cut the taxes are actually cutting off their noses to spite their faces. The tax cuts actually provide more revenues. This is one thing that Jonathan Stein never understood in the discussions that took place in the Tax Reform Commission.

Now, where can the funds for the tax cuts come? Hopefully, the state will do its thing. But most importantly it can come from reductions in City expenditures.

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I'm a professor at Temple University in the business school. I teach how to manage operations. When I use examples in class of what not to do, I use my experiences with City government. In truth, if you believe we have the most efficient and effective City government in the world, there is no room for a tax cut. But I ask anyone in this room who believes this to raise his or her hand.

So what we concluded in the CCRA report and is carried over from the deliberations of the TRC is that the current system is inefficient, it's unfair and corrupting and has wounded the City economy.

We conclude that some taxes can be eliminated because gains are small and the collection costs are large. This actually happened with the personal property tax. The methods of collection can change to lighten the time burden on taxpayers. Literally this past year when I had some consulting income and was filing my business privilege taxes, I couldn't figure out what to do. I had to call up and ask someone there. There is truly no information that helps taxpayers properly fill out their forms.

And so you can't just shift taxes around without serious cuts because the current tax system is a cancer in the City.

And another important aspect is that cutting taxes is not about taking money from programs such as child services to appease the rich. From my perspective, a child born 10 years from now is as real as a child born five years ago. That child just doesn't have a name. Without tax cuts now, there will be future services for that child born 10 years from now. The real choice is between keeping inefficient services now and providing for a future child born into need, which we could then provide for if we had the lower tax rates, the better revenues and higher employment for everyone.

My conclusion is that the Tax Reform did a thorough, responsible job. Take their advice and implement their plan.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you

very much, Professor Murphy.

Does anyone have questions of the professor?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you very much.

Our next witness is Josh Sevin. Good afternoon.

MR. SEVIN: Good afternoon. Thank you, Madam President. Thank you Members of Council. My name is Josh Sevin. I'm an economic development consultant by profession and also a board member of a civic group called Young Involved Philadelphia.

YIP, as it's known, is a three-year-old grassroots non-profit that aims to increase civic engagement among young Philadelphians and to facilitate reforms to help create a better Philadelphia. It's funny. I was remarking as I came over here, I was here about two years ago testifying on the same topic, and it made me think even though young is part of the title of this group, none of us are getting any younger, as these hearings may be kind of familiar. And that actually kind of goes to the theme of what I wanted to speak about today.

I'm not going to speak to policy or anything technical. Again, you've been at plenty of hearings and I'm sure the folks in this room have either looked over the actual Commission report or have had staff do so because it's really a quite thorough document.

I hadn't planned it this way, but I'm going to start my remarks this afternoon on a more personal note. I spent much of this morning at Pennsylvania Hospital with my father, who has been experiencing heart problems. His heart rate has been almost twice what it should be and there's a team of doctors and concerned family members working to get it under control. Thankfully, after a successful procedure this morning, he's going to be okay, but going through such a scare inevitably makes one ask some very big picture questions. How much time do I have left to do the things that matter, to do the things that need to get done? What have I been letting slide? What am I putting off today that I might regret tomorrow? And while usually brought about by moments of crisis, these are the kinds of questions that we should be asking ourselves everyday.

And so, for the Members of Council that are here, I put this question before every one of you. Are you going to pass up the most promising opportunity for meaningful tax reform that this City will see for a long, long time? Because as you review the ambitious and promising set of proposals that emerged from the hard work of the Tax Reform Commission, each of you on Council must take the time to recognize just how important an opportunity and responsibility that you have before you. It will not come again for another generation.

Now, how can a claim like that be made, that this is your one shot for about a generation? Well, take a look at where we stand after years of sustained public focus on this issue. All of you have been involved in it. Over the past decade we've had an unprecedented amount of smart research and thought put forth about the nature of the problem and the need for tax reform. The glib call to cut taxes without addressing budgetary needs and realities, but reasoned explanations about how we can restructure our tax system, while maintaining collection levels in order to stem economic decline and encourage growth.

This in turn has sparked an unprecedented amount of public discussion and concern about the issue, not something we usually kind of excel in this City, but it really has happened around this issue, leading to an overwhelming citizen vote in 2002 to create the Tax Reform Commission. And then when it first met, I think really pretty much no one thought that the array of stakeholders appointed to the Commission would have ended up recommending such an ambitious and new onset of reforms, let alone by a vote of 14 to one. But what the Commission went ahead and did was put its head down, studied City tax issues extensively, deliberated intensively and ended up really providing an inspiring example of how such a diverse group representing so many different interests can reach consensus on such a complex issue. It's really an mazing foundation upon which Council can and should build.

So here we are in 2004. No more studies. No more election year delays. You've just been handed a workable negotiated solution by a thoughtful representative group of citizens appointed by the Mayor and this Body. Now is the time for true leadership on City Council. If you have questions or concerns about the Commission's recommendations, don't be satisfied with just criticizing. Don't just throw your arms up in the air and say the problem has been around for too long and it's too hard to reach a workable solution. The Commission has disproved that. Members of this Body should follow the Commission's example, deliberate and then legislate.

It's kind of a shame, I guess, the testament of who from Council has actually been here these past two days because a lot of this message, it's meant for all Members of Council, and in some ways I think I'm kind of preaching to the choir here talking about the real importance of the issue right now and the need for leadership. But that really is a message that needs somehow, whatever the forms of communication are or aren't on this Body right now, to reconvey to the rest of this Body. Because to speak the brutal truth, the members of YIP and other young Philadelphians have more time remaining in their tenure than the Members of this legislative Body. And every day that you postpone tax reform that is in the best interest of the health of Philadelphia, the harder you're making it for those who follow you. You have a great base to work on here. I really urge this Council here to really tackle it.

Thank you very much for your time and your attention.

COUNCIL PRESIDENT VERNA: Thank you for your testimony.

Does anyone have any questions of our witness?

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(No response.)

COUNCIL PRESIDENT VERNA: I do hope your father has a very speedy recovery. Thank you for coming in.

Our next witness.

MR. MCPHERSON: Our next witness is Madeline Shikomba.

COUNCIL PRESIDENT VERNA: Please give your name for the record.

MS. SHIKOMBA: Madeline Shikomba. It's spelled S-H-I-K-O-M -B-A. I'm a Philadelphia resident and I have been a life-long resident.

I was surprised when I read the article in the Philadelphia Inquirer regarding the proposal made by the Reform Commission. I congratulate them on making some needed reforms, requests for needed reforms, and I praise them for some of it, such as quarterly payments for real estate tax, and they said provide incentives for people to pay their taxes early.

The thing that caught my attention, that bothered me very much, which I have a problem with, was where it says they want the adoption of assessment practice principles directing the Board to assess property at 100 percent market value and implementing a property tax buffering program. Sounds nice on the front end. But in the back end where I come from, assessing me at 100 percent of my property value will force more and more people in my income bracket out of this City.

Right now in my neighborhood, which is Southwest Center City, property values have skyrocketed through the roof. If I didn't already live there, I couldn't even afford to buy there. And you're saying assess me at 100 percent of my property value? I couldn't afford to stay there. I wouldn't be able to afford the taxes because I'm a senior citizen on a fixed income. Inflation right now is wiping out my income so fast it's ridiculous.

This City is one of the highest cities in terms of taxes, between the City and the state and federal government, of which I contribute my fair share for over 34 years or more working time, has not benefited me one bit except in terms of services which I am entitled to receive.

This gentleman over here talked about the tax system. This tax system has never favored me or people in my income bracket. It has always favored the rich from the time of inequity. Inequity from that time until now, the rich have always been favored when it came to taxes. You talk about building the pyramids and the skyscrapers. The majority of people who built those things can't even afford to rent an office in there. They alone can't even afford to find a place to live. Who does it benefit?

I have an article here right now concerning the skyscraper they want to build. Who will pay for it? The skyscraper at 17th and JFK Boulevard hinges on getting a huge tax break. This is being declared a Keystone Opportunity Improvement Zone, thus freeing its prospective tenants from most City and state business taxes for the foreseeable future. Now this is supposed to help revitalize the economy here.

The developers have been paying con games with you politicians for years. They get tax breaks. As soon as the tax breaks are ready to expire, they're getting ready to leave the City and cause a crisis, as they call it. And what's available in the City? Oh, we don't want them to leave. So what do you do? You give them more tax breaks. And so they stay. Why not? Tax break after tax break. But who pays for those tax breaks? They're not paying anything. It comes down to me and to all the other working poor out here. We pay. We subsidize their living so that they can live in a skyscraper on 17th Street. Comcast don't need my money. They're making enough. But I need my money, but you keep taking more and more out of my pocket so you can subsidize their skyscrapers, subsidize their rebates. It's about time you stopped that. Give me a break.

Don't assess me at 100 percent of my value then call yourself setting up a buffering zone. A buffering zone to benefit who? It ain't going to benefit me. It's

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going to benefit those who already got the money. I'm tired of it.

I have another article in here about who pays when it comes to the tax benefits, written by Cecil Johnson called, Perfectly Illegal. It states, "Americans who have spent the most money paid less of it in taxes than most Americans." That is, the rich pay less in taxes than we do.

Case in point. Somebody makes $600. 10 percent out of their income is $60. That leaves them $540. What about Bill Gates? 10 percent out of his. So he loses a billion dollars. He's got $9 billion left. I could afford to live off of that, but I can't afford to live off $540. So you say, well, he paid more than me. Well, he's got more than an I do. We've got to look at where people are coming from. They're not paying their fair share. I'm subsidizing Bill Gates. The more he makes the less I get.

So I'm asking you, when you come to looking at this here property tax, you give us consideration. Stop chasing us out of the

City. More and more houses are becoming vacant. Why? Because people can't afford to stay in them. And who's replacing them? They got a new phrase now, affordable housing. Another name for that? Urban removal. Affordable housing is $103,000. Who can afford that? Not me. So I call it urban removal. That's pushing the poor folks out. So you push us out to become imported labor into the City for the rich. I'm tired of it. You and City Council have got to start helping us. We need your help. We put you in office. The rich may have donated money to your political things so you can run for office, but it's our votes who put you in there. We're asking you to listen to us for a change.

Secondly, I do favor a cut in the City wage that the Tax Reform Commission has asked for. That's great. No problem with that. But again, I'm getting back to real estate taxes. Please help us. Stop building the palaces and the castles and the skyscrapers for the rich and start thinking about the lowly poor.

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Thank you.

COUNCIL PRESIDENT VERNA: Thank you, Madeline.

Are there any questions of Ms. Shikomba?

(No response.)

COUNCIL PRESIDENT VERNA: Madeline, I think Mr. Schwartz would like to respond to some of your comments.

MR. SCHWARTZ: It is to put on the record what our recommendation is in relation to the market value issue, because a lot of people read that and assumed that we were recommending a 30 percent tax increase in effect.

The recommendation is in fact to move to a system where people would see the market value of the property. But we fully understand that in order to do that without creating this huge tax increase, there would need to be a negotiation between the Mayor, the Council and the Board of Revision of Taxes to lower the tax rate to 70 percent of what it is now. And if we do that, there's still going to be some interesting developments, because as we know, if assessments are widely out of alignment it will have different impact on different people with the lowest income people in that circumstance, even if these disparities continue, will benefit. Because as you've seen from the research that was presented to you, the lower income people are the ones whose real estate taxes are the highest.

Now, the buffering proposal was made in the context of what happens when assessments increase. It had nothing to do with the 30 percent marketing. There again it was an attempt to get tax relief. If somebody is living in an area that begins to have a hot real estate market, such as we had in Center City a couple of summers ago, then they're going to get assessment increases that will be difficult to handle all at once. So we talk about buffering that increased payment over a three-year period, not just in one year.

To come back to the basic point that was started that really got me up, apart from

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all the comments, was in fact that we propose moving to market value so that people can see what the Board of Revision of Taxes says their property is worth.

Let me just make a side comment. I was just talking to somebody the other day who said, well, their property was valued at $100,00 -- I'm making the number up -- and she said, that's about 70 percent of what we think it's valued at. I looked at her and I said, that's exactly what they've done. But the fact that you don't know that works against you. Because if you see that, then you're going to think you're getting a break from the Board of Revision of Taxes, even if you're not, and you don't appeal. So we make that recommendation in the interest of clarity and truth, but it only works fairly to help people if at the same time the Council and the Mayor agree to lower the tax rate to roughly 70 percent. So that needs to be clear. I don't think it was clear from the way the newspapers reported it.

MS. SHIKOMBA: I've never seen taxes

lowered in my life since I've been here. I've seen it go up and up. And seeing the clear value of my house is not helping me to pay the taxes. So you spread it out over three years. What's to say in three years I can still pay it?

MR. SCHWARTZ: Well, as I say, all I'm talking about is what in fact the recommendation -- in fact, I will go so far, since it's our recommendations, we would oppose merely moving to market value without changing the rate back down. That's not what we're recommending, period, whatever has happened in the past with taxes. That's not our recommendation. Our recommendation is to move toward honesty and clarity and what people understand and reduce the tax rate accordingly. If we can't do that, then of course we've got a problem.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo for a point of information.

COUNCILMAN RIZZO: Mr. Schwartz, I think it would be helpful to explain it.

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You're not breaking new ground here. This is something that's done as close as New Jersey. Part of the process each year is the adjustment of the rate based on the need. So I believe that it would be helpful if you would explain that this is how it's done.

MR. SCHWARTZ: Yes. I think that in fact we learned that we're an exception.

COUNCILMAN RIZZO: We are the exception?

MR. SCHWARTZ: We are the exception. We make it much more complicated and confusing for people.

COUNCILMAN RIZZO: I believe we would not have as much delinquent taxes if people could pay quarterly because it's more palatable to pay on a quarterly basis than it is to get a tax bill -- and I have to commend the Revenue Department.

I thought last year it was a coincidence when I paid my taxes, real estate taxes, prior to the discount. The check cleared in two days, so somebody is doing something right over at the Revenue

Department. Because similarly, I paid the tax -- what's today, Wednesday? I dropped the check in the mail on Monday and it's cleared today, so someone over at the Revenue Department in association with the post office is doing a good job of moving those checks through the Revenue Department. They're clearing quickly.

Nancy Kammerdeiner, congratulations on getting those checks cashed.

MR. SCHWARTZ: That's good. But I've just really come back to say the specific recommendation that we're discussing was to lower the rate as we give people honest value.

Let me just add one other thing. The land tax, which we're not going to get into in any detail here, our view is that the land tax in fact will reduce the absolute tax burden on low income homeowners and homeowners in general, and then pass that tax burden on to speculators and others who own vacant property and are doing nothing with it. So that will provide another source of tax relief and reduction on the real estate side to existing homeowners. And on the Controller's web site, there's a whole tax calculator that shows you how this works. And people living at the level that we're talking about here would gain some benefit from that.

MS. SHIKOMBA: I'm sorry. I would like to agree with you, but I really don't. The reason being that if you look -- Even if you reduce it down to 30, you still pay more than a tenth.

MR. SCHWARTZ: Well, that's true, but that's a different situation. If you also have rising and escalating property prices in a neighborhood, then obviously assessments go up and people pay more. But let me tell you --

COUNCIL PRESIDENT VERNA: That's what's happening in Madeline's area. The prices are skyrocketing.

MR. SCHWARTZ: Okay. I understand. You're getting whopping increases. But let me tell you something. Even in those circumstances, what we're proposing would in fact make it more likely for people to appeal.

If my property values go up from $100,000 to $150,000 as a result of sales, and I know what the sales are in and around the area, and I know they're going for $150,000 or $160,000. Now, I get my real estate tax bill and I look down and the real estate tax bill says that my property is worth $105,000 or $110,000, whatever 70 percent is of $150,000. Now I'm looking at this and saying, well, my God, the Board of Revision of Taxes thinks my property is only worth $110,000. Obviously, its sales prices are going for much higher than that. So I don't appeal because I'm afraid to go down to the Board. They're going to see -- you know, if you believe it's full market value, they're giving me a break.

If on the other hand, they put the value at what it's supposed to be worth and you really do believe that the property that you're in is not necessarily going to be saleable at the rates that some of these others are, then that's the reason you go down there and make an appeal. You say just because these folks were able to get $150,000

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now for their property because they've put improvements in, doesn't mean that we can. So it is precisely to benefit the people who are facing skyrocketing property assessments that it's important to have the Board of Revision of Taxes put on that form what they think the property is worth and not some number so far below it that people think they're getting a break.

COUNCILWOMAN TASCO: But they base the value on the last property sold, and that's what happens.

MR. SCHWARTZ: I know. But they also then just take 70 percent of that. What you're describing is grounds for appeal.

COUNCILWOMAN TASCO: The thing is, how do you protect -- why should her property go up -- because it's really gentrification.

MR. SCHWARTZ: I'm understanding that. Obviously we've talked here about the downside, if you will, of economic development as the property values go up and people who are living on fixed incomes and elsewhere have a difficult time with that. No question that's a huge problem. On the other hand, the question you have to ask is, do we keep the City in a state of economic depression in order to keep people's property values low? That's the dilemma that we've got here.

In terms of being able to get equity and fairness in those, the other recommendation we make, which I strongly favor, was the idea of a taxpayers' advocate working at the Board of Revision of Taxes on behalf of the taxpayer. Because most people have no idea how to appeal, what in fact would be adequate grounds for an appeal, so they just stay away. But if there were somebody at the Board whose sole responsibility was not involved in making the assessments, not involved in making these judgments, was involved in helping residents understand what they can do to appeal, that will encourage more people in fact to take advantage of whatever is there for them.

But I don't mean to back away from the real dilemma. I raised this several times, and it is a dilemma. If Philadelphia begins to skyrocket economically, as happened in Center City, there's no question at all that what you're calling gentrification happens. Absolutely not. The issue then is how do we help people in both circumstances with the housing issues, in which I've had a little bit of experience, so that we get the benefit of economic growth without destroying a lot of homes and people in the process.

MS. SHIKOMBA: I'd like to respond and say that the economic depression will end because -- one of the channels had a thing on about how many millions of dollars you're missing in real estate taxes for people down in Florida who ain't paying their taxes.

MR. SCHWARTZ: You're right.

MS. SHIKOMBA: If they paid their taxes like I pay mine, we wouldn't be in this economic depression that you're talking about. Also, if people stop getting these rebates for not paying taxes and they build these skyscrapers and they don't have to pay for 15 years, who do you think is making up that? I am. That's right. I don't know about you, but I know I am.

MR. SCHWARTZ: Well, we all are.

MS. SHIKOMBA: If that's the economic depression you're talking about, we need to stop giving them all those incentives to build this stuff and start collecting taxes from people who aren't paying their taxes. We wouldn't be in this depression we're in now.

MR. SCHWARTZ: Well, I think yesterday I made the point that our very first suggestion for this year is to get really tough on people who have not paid their taxes. I absolutely agree. One percent increase produces $20 million. That pays for the whole reduction program that we're anticipating in a year. If you could do it all, that would be $100 million. If we collected 100 percent of the taxes that were owed to us, every year that would be $100 million more. I agree absolutely with that.

The tax breaks are offered because they presumably benefit the City. Our basic stance on that is that this piecemeal approach to offering incentives has all of the problems you've just heard. It generates tremendous resentment. It may help an individual group of people, but it's costing the rest of us.

We heard from many people who came before us in the community hearings who made it very clear that they resented the fact that they lived in Philadelphia 30 or 40 years and they weren't getting a 10-year write off of their taxes, and here somebody living next door to the guy who just bought his house, and he is. So we are definitely proposing to move away from this cherry picking approach to it all and having a tax system that works so well that you don't need this economic incentive, and then deal with the problems associated with that. But they are going to be less serious than the problems we have now.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Maybe I didn't make myself clear. You indicated that you needed the cooperation of Council, the Mayor, the Board of Revision of Taxes to go to 100 percent of market value. Why couldn't it be part of the process? In New Jersey, part of the process is each year the law requires an adjustment of the rate after the --

MR. SCHWARTZ: It can be. And that's what's called budget based. That's what we propose. That is precisely what we propose.

COUNCIL PRESIDENT VERNA: Excuse me.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Just for the record, the bill that was actually introduced that I co-sponsored with Councilman Nutter says that the BRT cannot move to 100 percent valuation without Council changing the rates. It's in the legislation.

MR. SCHWARTZ: That is absolutely reflecting what we propose.

COUNCILMAN RIZZO: What I'm understanding -- and I'll address the Chair -- that part of the process annually would be to adjust the rate?

MR. SCHWARTZ: I think there are two steps.

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COUNCIL PRESIDENT VERNA: Isn't there an Act 46 issue also?

COUNCILMAN GOODE: With?

COUNCIL PRESIDENT VERNA: The bill as is?

COUNCILMAN GOODE: We have to make it revenue neutral because of Act 46.

MR. SCHWARTZ: There are two issues here. One is the immediate recommendation to move to 100 percent market value, which is a specific recommendation reflecting the low valuation now. That is the recommendation covered by the Nutter/Goode legislation.

Then down the road there's also the question of what happens on a year-to year basis as a result of rising property taxes. Now, the budget-based system that Councilman Rizzo is talking about is used elsewhere where the Board of Revision of Taxes, the City's finance people and the Council get together and they say, here's what we need to raise. And if it looks like assessment increases are going to generate enough revenue without -- you can reduce the real estate tax rate accordingly. That's not an easy thing to do in a complicated city. But it is what we recommend. I don't know whether you're going to be able to do that this year, but it's certainly what we recommend, and in part gets at the complaint that every time the taxes go up, the poorest people in the City pay the highest burden, which is absolutely correct.

COUNCIL PRESIDENT VERNA: Thank you.

Thank you, Madeline.

Do we have anyone else to testify on this resolution?

Approach the witness table. Good afternoon. Thank you for coming in. Please identify yourself for the record and proceed with your testimony.

MR. SULLIVAN: I'm Dan Sullivan. I'm the director of the Henry George School and Birth Place Museum at 413 South 10th Street. I can talk for hours and hours, but I'm from Pittsburgh where they give you three minutes and then the traffic light turns red and the buzzer starts buzzing and it gets louder and louder.

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COUNCIL PRESIDENT VERNA: We do that periodically too.

MR. SULLIVAN: I just wanted to say that in general I think this is a very good bill. I would have done some things a little differently here and there, but probably if you ask 10 people, you'd have got 10 little sets of differences.

The things that impress me about what happened is that you had 15 people representing 15 constituencies all sitting down at a table. And the normal process for taxes is that lobbyists come individually and they come to Council and they say you have to do what's right for me and my constituency. At this process, they had to sit across the table from each other, and the labor guy had to explain to the Chamber of Commerce guy why the Chamber should take a hit so labor could get a break, or why the African American group should take a hit so somebody else -- and they just worked and worked together on this. And because all this constituencies were across from each other, I think that has a lot to do

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with why the overall package works.

The process you're up against is that now that that's done, you're going to have individual people with their individual concerns. And some of the them are going to dislike it a lot. And how you handle it has a lot to do with whether they will accept it and whether they will respect you, whether they disagree with you or not.

In Pittsburgh this was handled very adroitly. I was involved in this for 25 years. But when I first started I knew nothing about politics and taxes and everything. And there was a Councilman Cohen who later became a Congressman who got this through. It was one of those things where he would rather have a unanimous vote for a compromised package than a 6-3 override on the Mayor's veto vote for what he really wanted. And that as a political thing is a very important thing to do, to try to work out some things that you can get a very overwhelming majority so people don't make it into a political football.

I don't want to get into the economics of it and I'm not as much an expert on the legal aspects as I am the economics of it. I don't want to try to get into that here. I did want to say we did seminars, and there's 20 seminars on here and 19 of them pertain to land tender and land taxation. I am at the service of every Councilmember. I'll even give you details about what I think is wrong with the package or what could be changed to accommodate a group that's sorely distressed when they see it the way it is.

I think it's a very good package. Given political processes, I'm amazed that the Association of Realtors is asking for a land value tax. It's almost like the theater owners asking for an amusement tax.

COUNCIL PRESIDENT VERNA: Did they have that in Pittsburgh, and if they did, was it successful?

MR. SULLIVAN: It was economically successful for a very long time in that we had a great deal of development and economic growth when we had it. They got rid of it because the county did a very bad assessing job and the City -- Philadelphia is lucky because the City and the county are the same entity.

In Pittsburgh the real estate developers dominated suburban politics, where here the people who are outside of Philadelphia are outside the county and they have less clout than they had in Pittsburgh. But the reassessment was done by a private outside firm who was a computer firm. They were very good at computer analysis, but they didn't start out understanding real estate. They understood computer analysis and hired some real estate people. The problem with that, I sum it up that art can hire science, but science cannot hire art. So had they used a company like Colay (ph) or Trumble (ph), which had been doing real estate assessments before there were adding machines, and then took on computer expertise to enhance its results, they would have probably come out with a better result.

It's very important to get uniform

land values from place to place, regardless of what the building is on it in order to make this work well. Philadelphia is doing something -- in a way they're doing it the hard way because you probably could have just slid through a slight shift to land value tax each year and ignored the assessments, which is what we did in Pittsburgh. But in Pittsburgh, the land to building ratio got to be considerable and the assessments were very bad. And when they reassessed they were very bad in a very different way. And it caused shock. So the assessment buffering proposal that the Tax Reform Commission put forward is a very good proposal. The idea of doing the assessments, not necessarily before you start to shift, but doing them as you start to shift and not letting one thing just languish while we play with the other thing is a very good idea.

The people who will be most upset with this are the people who have collected a lot of old building who didn't expect this and their taxes are going to go up. My philosophy has always been, land tax kind of sends you a message to use it or sell it. And so one of the olive branches that I always suggested offering to the Rappaports of the world is, since we are giving you the stick, how about this. How about if we abolish the deed transfer tax and make the building permit fee a deposit so when you've actually built the building, you get your permit fee back. And that means the land tax has to be a little bit higher. But since you're taking the taxes off of ordinary homeowners and productive businesses and putting it on these people who are not using their land, then this is a good olive branch to say to them, okay, we're not doing this to punish you. We're doing this because we want Philadelphia to become more vibrant and we want your land to get back into use. So we're going to take away the tax that you would have paid for selling it to someone who will fix it up or for fixing it up yourself. That's a minor thing. It's more of a nice gesture than a big piece of money. That's something that if Council wanted to play with it and say, let's see if there's anybody that wasn't accommodated by the Tax Reform Commission, that's a possible variation.

The important thing, though, is if I were on Council I might have my pet idea. One of the people on the Tax Reform Commission had an idea about changing the wage tax, and he voted against this because his pet idea didn't go through. Well, I happen to agree with him. I happen to agree that exempting the first $5,000 like the state does is a very progressive thing to do. But the fundamental impact of this thing is so important that if I didn't get my deed transfer tax cut or I didn't get my $5,000 wage tax exemption in the package, I would still support it. I said to the people in the Tax Reform Commission, if the state does give you the authority to exempt the $5,000, I think you should take it. But one of the reasons I think that they didn't go for that was that would tie it up, waiting for the state to act. I get the sense Philadelphia has dangled on many things waiting for the state to act. And they just said, no, we're going to put a package that anything in here that requires help from the state, if we don't do that, we can still do the rest of the package. I think that's a very important concern.

COUNCIL PRESIDENT VERNA: Your testimony has been very interesting. Thank you so much for coming in.

The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Don't hold your breath for anything from the state when it comes to some of those issues. I'd appreciate you commenting on something.

When I first bought a property outside of Philadelphia it was very pleasing for me to know when I made the transaction that I didn't have to pay the real estate transfer tax. I'm talking about New Jersey. Is there any statistics on exactly how that encourages growth, home ownership? I don't remember exactly what it was it, but I believe it was either I didn't have to pay any of the transfer tax or it was just a percentage.

COUNCILMAN DICICCO: Point of order. About New Jersey, the transfer tax is paid by the seller as opposed to the buyer. Just for your information, about two years ago or maybe three years ago I introduced legislation that would have set up a similar mechanism here, did not get enough support and the bill basically died, although I've had some conversations recently with the Real Estate Association and they're looking at it again. I don't want to bore you with what my philosophy was and why I think it would benefit, but we did attempt it here. We couldn't get the bill out of Committee and it died.

COUNCILMAN RIZZO: The observation I had, it wasn't personal, but I've had people tell me that they were able to proceed with a deal economically.

COUNCILMAN DICICCO: The purpose of my legislation was it meant in some instances -- I don't know what the exact percentage is -- often times people, especially people who

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are low income, have a difficult time raising the necessary funds to get to a settlement. And if you shift the burden to the seller, it makes it that much easier for the buyer. If it's a seller who is moving out of the City, what do I care if they're paying the full transfer tax because they're going anyway. But if you're a seller who is then moving up, staying in the City and you're buying a home that is more expensive, when you do the calculations as I had laid out in the legislation, you actually save money by staying. But the way it is now, you're almost penalized for selling your home and moving into a home that's more expensive, if you choose to stay in the City of Philadelphia.

COUNCILMAN RIZZO: I hope you are going to pursue that, Councilman DiCicco, because it makes sense. And I don't know whether you have a comment on that, but I believe it would be a positive change to the way we do transfer tax here in the City.

MR. SULLIVAN: The economic reality is that no matter who pays it on paper, the seller pays it. The reason for that is that the buyer looks at what he can afford. If you can sell a house for $100,000 and you abolish the transfer tax you can sell it for that much more.

Say the buyer has to put 20 percent down on $100,000. He has to raise $20,000 plus closing costs, and the deed transfer tax is part of that. Well, he's only 20 percent down, so every dollar in closing costs is five dollars less he can pay for the property. Especially in poorer neighborhoods, the buyer is not looking at long-term growth or anything. He's just saying, this is how much money I can raise. This is how much nice a house I can get. The deed transfer tax comes out of his front money, which is what limits him. So you take $1,000 out of his front money at a 20 percent loan, you're reducing $5,000 what the seller can get for the house. So it's really in the seller's interest, even without a law, if I was selling a house in Pennsylvania I would advertise that I will pay your deed transfer tax.

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COUNCILMAN RIZZO: Don't sometimes real estate brokers negotiate because they don't want to reveal that they've reduced the price of the home, especially if it's new construction? They will assume in many cases the transfer cost and show the property selling at a value so they don't get picked apart on people trying to do deals. I've heard that done regularly where the sellers sometimes assume this transfer of taxes.

MR. SULLIVAN: Your guess is probably better than mine. One thing I know is that we did the study in Pittsburgh -- and I haven't done one in Philadelphia -- but homeowners pay far more in deed transfer tax over the life of their home than they would have had to pay in additional property tax to pay it that way. Part of that is a lot of property transfers without you seeing it.

When the US Steel Building sold in Pittsburgh they got a law passed saying -- what they did was they sold the corporation that owned the US Steel Building so that there was no deed transfer. But legally the

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government could say, well, that is a deed transfer in kind. And they get a law passed that now you can collect that. The problem is that you can only collect that if you realize it. Since corporate transfers are not registered here, quite often a property will transfer because the corporation that owns the property will transfer.

In that case -- this is in Pittsburgh -- the US Steel Building is owned by the 600 Grant Street Corporation because that's their address, and that corporation changes hands over and over. And unless somebody is reading the real estate section of the newspaper and notices that it happened, you don't get the transfer tax.

With the smaller corporate properties, the change, nobody gets the transfer tax even though you're legally entitled to it because you don't have a way of tracking that. So the deed transfer tax falls disproportionately on small businesses and homeowners, and it tends to avoid corporate holdings.

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COUNCILMAN RIZZO: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions from Members of the Committee.

(No response.)

COUNCIL PRESIDENT VERNA: Thank you so very much. We appreciate your testimony.

Do we have anyone else to testify on this resolution?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, the Committee will stand in recess until the call of the Chair.

Thank you very much.

(Council adjourned at 3:25 p.m.)

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

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of February 25, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE OF THE WHOLE

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Lisa C. Bradley, RPR